

Project no.

513705

Project Acronym

CEEC AGRI POLICY

Project title

**Agro economic policy analysis of the new member states,
the candidate states and the countries of the western Balkan**

Instrument Specific Support Action

Thematic Priority Scientific Support to Policies

**D12.2 – Second 6 monthly report
STUDY ON RURAL VITALITY
Second report for CEECAP project**

Due date of deliverable: 05.2006

Actual submission date: 05.2006

Start date of project: 01.05.2005

Duration: 24 Months

Organisation name of lead contractor for this deliverable :

University of Exeter

Revision Final

Project co-funded by the European Commission within the Sixth Framework Programme (2002-2006)		
Dissemination Level		
PU	Public	X
PP	Restricted to other programme participants (including the Commission	
RE	Restricted to a group specified by the consortium (including the Commission	
CO	Confidential, only for members of the consortium (including the Commission Services)	

Acknowledgement

This report forms part of the deliverables from a project called "CEEC AGRI POLICY" which has been awarded financial support by the European Commission under the 6th Framework Programme.

The project aims to establish a network of experts involved in agricultural policy analysis and rural development in the New Member States, in the Acceding Candidate Countries and in the countries of the Western Balkan. More detailed information on the project can be found at www.agripolicy.net.

DOCUMENT HISTORY

see country reports on www.agripolicy.net for full list of authors

Table of content

Chapter 1: BOSNIA HERZEGOVINA	4
Chapter 2 BULGARIA	14
Chapter 3 CROATIA	19
Chapter 4: CYPRUS	27
Chapter 5: CZECH REPUBLIC	32
Chapter 6: ESTONIA.....	38
Chapter 7: HUNGARY	48
Chapter 8: LATVIA.....	53
Chapter 9: LITHUANIA.....	59
Chapter 10: POLAND.....	68
Chapter 11: ROMANIA.....	75
Chapter 12: SERBIA MONTENEGRO.....	82
Chapter 13: SLOVENIA.....	95
Chapter 14: SLOVAKIA	108
Chapter 15: TURKEY.....	108
REFERENCES	114
ANNEXES	124

Chapter 1: BOSNIA HERZEGOVINA

Introduction and background

An outline of rural credit facilities

Over the last few decades Bosnia and Herzegovina has passed through several different periods in terms of overall economic and political circumstances. These periods could be roughly defined as follows: the pre-war socialist period with a centrally planned economy (prior to 1990), the war period with no economic activity but outstanding damages to the whole economy and institutional infrastructure (1992-1996), the post-war period (1996 – 2004) characterized by reconstruction and the availability of soft loans and grants from donors, and the period since 2004, when the country's status in the World Bank changed from that of a post-conflict to a transition country. Issues related to rural credit facilities changed over the time and were reflection of general political and economic situation.

In the former Yugoslavia there was a special fund, called the Fund for Development of Under-developed Republics. Being relatively less developed, Bosnia and Herzegovina was a beneficiary of this fund. From these funds, Bosnia and Herzegovina created its own fund for the development of undeveloped municipalities. These funds were allocated either on favourable credit terms or on a grant basis. As undeveloped municipalities were mainly rural ones, they could apply for and get these funds to finance investments in rural areas. This practice was interrupted in the late 1980s, with the dissolution of the former Yugoslavia.

During the war Bosnia and Herzegovina suffered and experienced enormous damage to its economy and infra-structure. According to World Bank estimates, agricultural production was reduced to one third of the pre-war production level; systems for food processing, distribution and trade infra-structure, the stock of agricultural machinery (where losses are estimated at 80%), livestock assets, irrigation systems, barns, warehouses and other farm facilities – all were almost completely destroyed or significantly damaged. In such a situation, the first priority was to reconstruct the basic conditions for the survival of the rural population rather than to develop rural regions as such. Thus, the years immediately after the war were characterized by many programmes and projects being implemented in rural areas with social, rather than commercial and developmental, characteristics. Bosnia and Herzegovina was, at that time, completely dependant on international funds while domestic banks were in the process of privatization and had no funds available for rural credits. During this period the main financial sources were the World Bank, the EU, IFAD, FAO, USAID, GTZ, SIDA, and many other governmental and non-governmental organizations.

One of the most important projects implemented during that time (1996-1998) was the Emergent Farm Reconstruction Project. The total Project budget was 42.4 mill USD, of which the EU Commission grant was 6.9 million USD, IFAD's soft loan 7.3 million USD and the World Bank's soft loan 20 million USD. The main components of the Project

were reconstruction of agricultural machinery (32.3 million USD) and of livestock fund (14.4 million USD). The main beneficiaries were farmers from the regions where more than 50% of the agricultural facilities had been destroyed, those who used to have livestock and machinery before the war, or those who were refugees or displaced persons. Credits were given to the farmers under the following conditions: for machinery – 10 years repayment period, 2 years grace period, and 2% interest rate; and for livestock - 5 years repayment period and 2% interest rate. In the post-war period similar projects with a humanitarian character were implemented across Bosnia and Herzegovina.

Nowadays, Bosnia and Herzegovina still does not have a clear selective development strategy for rural areas, neither has it a selective credit policy that would follow such strategy. This means that the rural population, enterprises and entrepreneurs face credit conditions and credit lines no different to any other business or person in the country. The lack of favourable credit lines that are tailored to the specific characteristics and needs of agriculture is among the most often mentioned obstacles to the development of the sector. Bearing in mind that agriculture is the main income source of the rural population in Bosnia and Herzegovina, agricultural credits are crucial for rural financing. Although establishment of a specialist agro-bank has been advocated by experts for years it has not been established yet.

Still, it cannot be said that there has been no improvement in the sector. Most commercial banks in Bosnia and Herzegovina have gradually developed special credit lines for agricultural producers and/or small and medium enterprises. The Government of the Federation of Bosnia and Herzegovina have founded the Federal Investment Bank that offers special a credit line tailored to agricultural production and this is available through the network of commercial banks. Furthermore, a certain number of micro-finance institutions have been established with different credit lines intended for different population groups or individuals. However, saving-credit associations that could be important facilitators of rural financing still do not have a legal framework for establishment, as the law on these institutions hasn't been adopted yet in either of two entities of Bosnia and Herzegovina.

Major credit and rural policy developments in 2005

Agriculture, ever since the end of the war, has always been mentioned as one of the most important and strategic economic activities for Bosnia and Herzegovina, both by state officials and by local and international experts. According to the Dayton Agreement, and the Constitution of Bosnia and Herzegovina that was derived from it, there was no Ministry of Agriculture at state level. Therefore, different agricultural policies have been applied in the Republika Srpska and in the Federation of Bosnia and Herzegovina, which has been the reason for the different economic positions of farmers across the state as a whole. Experts from both entities have frequently emphasized the need for the establishment of a common Ministry at state level, but this idea has never been realized as there is no political will for it. Awareness of the need for a common state Ministry of Agriculture was raised further following the publication of the “Functional review of the agricultural sector in Bosnia and Herzegovina” (2004) financed by EU. One of the key

recommendations of this study is that a “common ministry of agriculture and rural development is the main condition for any further important progress towards EU integration and for the development of rural regions in Bosnia and Herzegovina”. As the result of this raised awareness, a political consensus on a common ministry has been achieved during the last round of negotiations between the political parties and this issue is expected to come before Parliament in near future.

During last few years, improvements have been made in the sense that agriculture got concrete, financial support, and not only verbal support, in relation to the issue of agricultural credits. Thus, in the Republika Srpska, from January to November 2005, 1.4 million EURO (12.2% of total amount paid for incentive measures) were allocated for reimbursement of the interest paid on agricultural credits. Ministry of Agriculture of the Federation of BH allocated a significantly lower amount, 75,000 EURO (only 1% of the total budget) for agricultural support. But, as the Federation BH has another level of governance, cantons, this kind of support was financed by each cantonal Ministry of Agriculture according to the available funds and according to the significance of agriculture for the canton concerned.¹

In both the entities of Bosnia and Herzegovina, in 2005, special departments for rural development were established within the Ministries of Agriculture. But modest human resources in these departments, as well as the budgets allocated to them, unfortunately suggest that these departments will probably not play an important role in rural development related issues in the near future.

Currently, designing the mid-term strategy for agricultural sector development is taking place. The draft has already been written and will soon be distributed to all key stakeholders. This draft includes a certain number of recommended measures that could contribute to ‘rural finance’ issues. According to the draft strategy, the adoption of a law related to the establishment of saving-credit associations is predicted by the end of 2006. Rural finance in Bosnia and Herzegovina has already suffered because of the lack of such a law. Thus, an on-going project, financed by IFAD, “Livestock and rural finance development”, failed to place 3.5 million USD intended for rural finance through SCA as there was no legal framework for these institutions, and consequently the rural areas of Bosnia and Herzegovina lost valuable funds due to the lack of an appropriate legal framework.

Access to rural credit – uptake and issues

Rural areas in Bosnia and Herzegovina were always to a certain extent neglected as there was no strategy or policy that would be sensitive and recognize special limits and needs of rural areas. Even before the war, when a fund for the development of under-developed regions existed, agricultural producers, the poor rural population and private

¹ For example, Ministry of Agriculture in Tuzla Canton allocated 400,000 EURO for this purpose in 2005, which resulted with placement of 4 million EURO of agricultural and food processing credits.

entrepreneurs and enterprises were not able to benefit from it, as it was intended only or mainly for state-owned business. During the war, rural regions suffered at least as much damage as urban ones, but reconstruction of these regions was significantly slower, and, although these regions have so far been within the focus of the large national and international funds, the average living standards and the social and economic infrastructure is still poor; and the implemented projects appear to have had a social and humanitarian focus rather than a developmental impact. According to the World Bank's estimates, 55% of the total B&H population live in rural areas. Due to enormous war damage on economic infra-structure, the high unemployment rate and the poor educational structure the rural population is now even more reliant on agriculture than it was before the war. On the other hand, it is clear that the perceived high risk factors related to agriculture prevented lenders from providing the needed finance and credits for this critical sector at the beginning of the post-war period. The lack of credit lines tailor-made for agriculture and other rural businesses is probably the most often mentioned obstacle and missing link in the development of agriculture, and has been identified as a crucial issue by both national and international experts and specialists. To improve this situation, in 2002 the EC initiated a rural credit line with a grant estimated at up to 5 million EURO, to establish rural finance in BH through a project called "Seed Capital and Credit Facilities" aimed at various beneficiaries such as refugees, internally displaced persons, farmers associations and cooperatives. This, and many other valuable projects, gradually improved the situation and provided remarkable help for the rural population, but they remain as the only successful projects while a permanent, systematic, legally framed rural finance policy, supported with sound policy measures, is still missing. By the time a sound rural finance policy is introduced the rural population, agricultural businesses, other rural businesses and entrepreneurs will have credit sources and terms which are identical to those available to their urban counterparts.

At the moment, one comforting fact is that the whole of Bosnia and Herzegovina is well covered with banking institutions and micro – finance institutions and their branch offices, so at least rural areas have physical access to existing credit lines, and can be properly informed about them. According to a recent investigation of the World Bank Group (in 2005) into the ease of doing business, 155 countries were analysed and ranked in 10 indicators of which the indicator 'getting credit' – was one. Bosnia and Herzegovina's overall ranking was 87, and in the 'getting credit' indicator its rank was 9! The basis for evaluation were indicators such as legal rights for borrowers and lenders, and factors such as the scope, access and quality of credit information through public registries and private bureaus. This means that legislation in the banking sector in Bosnia and Herzegovina is appropriate and the banking sector can serve as a solid basis for possible future measures related to rural finance policy.

Availability and performance of rural credit facilities

Assessment of short-term credit sources

Bearing in mind that there are no agricultural or rural credit institutions that deal exclusively with agriculture and other rural businesses in Bosnia and Herzegovina, there

are two sources from which rural individuals, collectives and enterprises can get short-term credits under the same conditions as any other applicant. One of these sources is the commercial banking sector, and the other is the micro-finance institutions.

The banking sector in Bosnia and Herzegovina has been successfully privatised, according to World Bank Country Brief (2006). Currently, there are 10 banks in the Republika Srpska² and 24 banks in the Federation of Bosnia and Herzegovina³. Most of the banks are private or dominantly private-owned (75% in FBH and 100% in RS). In 2005 banks in RS placed 744 million EURO in credits, out of which 25.5% were short-term loans. About 75% of this amount was placed in the private business sector. Banks in the Federation of Bosnia and Herzegovina in the first nine months of 2005 (status 30.9.2005) placed a total amount of 2.5 billion EURO, out of which 21% were in short-term credits. The share of the private business sector of the total placed credit was 43.9%, but there are no available data on credits for agriculture or other rural economic activities on entity or state level.

Most commercial banks in Bosnia and Herzegovina offer short-term credits aimed at the financing of working capital, but only one of them has a special short-term credit line for agricultural producers (ProCredit Bank). This bank operates across the whole territory of Bosnia and Herzegovina, so potentially all citizens have access to it. Credits of up to 10,000 EURO are given for working capital over an 18-24 month period, the monthly interest rate is 0.9%, with one co-signer (up to 2,500 EURO another agricultural producer can be co-signer). The application procedure is simple and very quick. In most of the commercial banks in the whole of Bosnia and Herzegovina there are short term credits intended for the financing of working capital for small and medium enterprises and micro-businesses. These credits amount to up to 50,000 EURO, the repayment period is up to 2 years, in most of the cases there is no grace period (except in the Federal investment bank) and the interest rate varies from EURIBOR + 3% up to 13%. Only two banks in RS that have tailored special credit lines for SMEs do not require collateral for these credits.

The micro-credit sector in Bosnia and Herzegovina had a significant role during the post-war period in poverty reduction and support to the small and medium entrepreneurial developments among the socially endangered population that has no possibility of obtaining financial resources from the traditional banks. Since 1996, Bosnia and Herzegovina facilitated the development of this financial sector through the Local Initiatives Project (LIP) supported by the World Bank and through the support of the international non-governmental organizations. The main role of micro-financing institutions lies in the fact that they serve the clients who do not have collateral and have low income or no income whatsoever. In the period from 1996 until today 14 micro-financing organizations have been established. According to data of AMFI (Association of Micro-finance Institutions in Bosnia and Herzegovina) micro-credit organizations are

² Banking Agency of the Republika Srpska, report, (status 20.01.2006),

³ Banking Agency of Federation of Bosnia and Herzegovina.

currently serving app 130,000 of active clients and are managing credit potential in the amount of 150 million EURO.

MFI in Bosnia and Herzegovina relies mainly on funds from different international and local governmental and non-governmental organizations and institutions (WB, EU, USAID, GTZ, Federal investment Bank and so on). The network of MFI covers the whole territory of Bosnia and Herzegovina and they offer credits that amount 250 – 15,000 EURO for agricultural producers and cooperatives, rural groups and individuals and entrepreneurs under following conditions: repayment period from 12 to 36 months, grace period from 6 – 9 months, with interest that varies from 0.7% up to 3% on monthly basis. No business plan is needed in most of the cases, and when such a document is needed employees of MFI are available to help. No collateral is requested, only co-signers. Application and evaluation procedures are very quick so the money can be at applicant's disposal within few days.

Assessment of medium-term and long-term credit sources

There are no available official data at state level about the total amount of medium-term and long - term credits placed in agriculture or other rural activities and business. The total amount of long-term credits placed in 2005 in RS was 559 million EURO, while in the Federation of Bosnia and Herzegovina the equivalent amount was 3,874 million EURO (respectively 6.9 times higher than in RS) for just the first three quarters of 2005. The share of private business subjects within the total credit beneficiaries was 42.5% in RS and 43.9% in FBH, while the majority of long-term credit funds were allocated for credit finance for citizens rather than for investment.

Practically the only source of medium and long-term credits for rural activities are those in commercial banks intended for agricultural investment finance and for small and medium enterprises. Almost all banks have such long-term investment loans, and all funds from international donors and creditors go through the commercial banks as well.

The only credit line that is explicitly aimed at rural finance is the KfW fund credit line, called 'Credit for financing in rural areas' placed through Raifeissen Bank d.d. Sarajevo. The target group for this credit line is small and medium enterprises with less than 50 employees involved in one or more of the following economic activities: food-processing, food and agricultural transport, the distribution and marketing of agricultural commodities, dealers of agricultural and food processing inputs from rural regions and any other economic activity in rural regions. Credit is given under the following conditions: the credit amount is between 2,200 – 46,000 EURO, the payment period is two years with a 9 months grace period for agriculture and 6 months for other activities for working capital, and 5 years with 9 months of grace period for agriculture and 6 months for other activities for investments. Interest rate is EURIBOR + 6%. Sound business plans and collateral is requested.

Conditions for long-term credits in commercial banks for agriculture are: amount from 10,000 to 250,000 EURO, a repayment period of up to 8 years, a grace period of up to 2

years, an interest rate of between 6% and 11.5%. All commercial banks require a business plan and collateral for long-term credits.

Long-term credits for SMEs are given under following terms: a credit amount of between 5,000 ERO and 380,000 EURO, a repayment period of between 3 and 10 years with a 6 – 12 months grace period, and interest rates varying between EURIBOR + 4% up to 8%. Business plans and collateral are requested.

Besides these credit lines, it is important to mention the Federal Investment Bank (FIB) and its credit lines as being the most important source of credit finance for the agricultural sector. The FIB was founded by the Government of the Federation of Bosnia and Herzegovina. The FIB has a special credit line financed from financial means collected from levies, aimed at providing long-term investment credits for agriculture. The beneficiaries are farmers, cooperatives and agricultural enterprises from the Federation of Bosnia and Herzegovina. The credit amount depends on the purpose of the loan, and the interest rate is between 8% and 10%. The repayment period is from 18 months to 7 years. What makes this credit line unique is its sensitivity to the biological characteristics of agricultural production, particularly plant production. This is reflected through a grace period that no other bank in Bosnia and Herzegovina offers. The grace period in the FIB credit line is from 6 months up to 36 months (for fruit and wine growing). Apart from agricultural investment credits, the FIB also has investment credits for SMEs under following terms: amount up to 1 million EURO, payment period up to 84 months, grace period up to 9 months and interest rate equivalent to EURIBOR + 5%. All credits from the FIB credit lines are distributed through 18 commercial banks in the Federation of Bosnia and Herzegovina.

As already mentioned, the long term IFAD Project “Livestock and rural finance development” is currently being implemented in Bosnia and Herzegovina (2002-2008). The total Project budget amounts to 25.5 million USD (9 million USD for RS and 16.5 millions USD for FBH) and its main components are: the development of livestock production and entrepreneurship, the reconstruction of rural infrastructure and rural microfinance development. The third component has not been implemented due to the lack of an appropriate legal framework. Within the component reconstruction of rural infrastructure 51 micro-projects were implemented in FBH (total amount 3.46 million EURO) and 26 micro-projects were implemented in RS (total amount 1.21 million EURO). Project Coordination Units from both entities estimate the number of this component’s beneficiaries at 95,000 rural inhabitants. Furthermore, in this project there is a credit line for livestock and agricultural machinery acquisition and small and medium enterprises development. Funds are placed with clients through chosen commercial banks under the following conditions: a repayment period of four years for livestock, 3-5 years for machinery and up to 7 years for SME, grace period 6 months for livestock and up to 18 months for SMEs, and an interest rate of 6-7%. Own participation to the level of 10-15% of the total credit is required for machinery and SMEs.

Assessment of the adequacy of credit sources

In evaluating the available credit sources, the ease of obtaining credit and the adequacy of the credit terms need to be analysed separately. For short – term credits, agricultural producers are very satisfied with the procedure for getting credits from micro-finance institutions, it is simple and very quick, and for most of the poor rural inhabitants this is the only credit they have access to. Business plans are required only for larger amounts of credit, and in most cases there is no need for collateral. Personnel from MFI are willing to help with a business plan and in most cases are familiar with agriculture and other rural businesses. They also inform the rural population about existing credit possibilities, even in direct contacts they themselves initiate. However, the interest rate for this type of credit is typically far too high for agriculture, and the cost of access to borrowed capital is much higher in MFI than in commercial banks. Furthermore, instalments are repaid monthly regardless of seasonal factors, so the only advantage of MFI for small rural businesses is the easy and quick procedure for obtaining short- term loans. These comments apply equally to short – term credits for entrepreneurs as well.

When it comes to medium and long – term credit, the situation is even worse. The only permanent source of this form of credit is the commercial banks – the application procedure is more complicated, a lot of administrative work has to be done, a detailed business plan has to be submitted, and adequate collateral is needed (at least in most cases, see section 2:1) all of which tend to make investment credit lines inaccessible for most of the poor clients in rural areas. Being registered as business entities, entrepreneurs and small and medium enterprises are in a somewhat better situation. Even so, interest rates for long – term credits are too high for both agricultural producers and other rural businesses. The efforts of the government in Bosnia and Herzegovina to subsidize interest for agricultural credits is welcome, but is far from being enough to meet the needs of the sector. As funds are not enough for all credit applicants in the sector there is an opportunity for corruption, and many farmers claim that they all do not have the same chance to be subsidized.

Maybe the most important shortcoming of the existing credit facilities is the lack of medium and long – term credit lines that are tailored to the specific economic and biological characteristics of the agricultural sector. For example, except for the Investment Bank of Federation, there is not a single bank that offers a grace period long enough for fruit-growing investments.

As the micro- business sector records expansion and so draws the attention of lending institutions, although there are sufficient credit lines available, again these are typically designed with no sensitivity or understanding of needs of the rural business sector. For loans to farmers, rural entrepreneurs or other rural businesses banks do not yet have an agricultural specialist or a rural business specialist available for clients; instead, they rely on generalists (mainly economists) who do not usually know enough about nature, and the problems, disadvantages, risks and needs of agriculture and related economic activities. In 1998, USAID Business Department, being aware of this problem (since at that time the USAID agricultural credit line was placed through commercial banks)

organized training for the banks that deal with agricultural credits in order to educate them and make them familiar with these issues. However, that was a sporadic initiative and banks in Bosnia and Herzegovina have not in practice attempted to train personnel as agricultural or rural credit specialists.

It should be noted that, within the EU PHARE Project implemented in 2000, extension service offices were founded throughout Bosnia and Herzegovina. Among their other tasks and assignments, employees of these offices are in charge of helping farmers with designing business plans and providing other advisory services when applying for credit finance.

To summarize, there are no credit facilities in Bosnia and Herzegovina exclusively designed for providing appropriate credit finance to agricultural and other rural businesses. Typically, the existing credit lines are too expensive and they are inadequate for the current level of development of the agriculture and rural business sectors in Bosnia and Herzegovina.

Evidence of credit market failure

There is no published evidence of credit market failure in Bosnia and Herzegovina. The reported repayment rate for credit finance placed so far in Bosnia and Herzegovina is reported to be between 95-98%.

Overview and prospects

In July 2004 the status of Bosnia and Herzegovina under the World Bank's definition officially changed from post-conflict to transition economy. While the country was being treated post-conflict, great deals of funds were allocated, as grants or soft loans, to the reconstruction and development of the whole country including its rural areas. Nowadays, the rural economic sector, and particularly agriculture, has to fight to get access to the appropriate credit finance for recovery and development. There is a common agreement among all national and international experts that the lack of availability of adequate credit funds is among the most serious obstacle for future agricultural development. Currently there is no selective policy where rural areas are concerned, neither is there a selective (specialist) rural credit sector. Credit facilities for rural finance are not adequate, the cost of credit finance is too high and the procedures for obtaining it often complicated. Commercial banks do not have sufficient understanding of the specific needs and problems of agriculture and other rural activities, and government's efforts to alleviate the problem are not sufficient. Foreign governmental and non-governmental sources still play a very important role in the rural credit and micro – credit sector. There is a growing awareness among both experts and authorities that something has to be changed. The draft mid-term strategy for agricultural development has now been finished and it proposes two measures that could have a crucial importance for the rural finance sector. One suggestion being considered is the establishment of an agrarian bank which offers soft loans for agriculture; another is the proposed adoption of a law allowing credit – saving associations. With the establishment of the Department for Rural Development within the Ministry of Agriculture, this has been favourably evaluated by foreign experts.

If this draft strategy is adopted and implemented Bosnia and Herzegovina has a chance to create credit lines tailor-made for agriculture, and consequently to create a solid foundation for the establishment of a rural credit sector as the precondition for long lasting and sustainable rural development.

Note: There are no statistics on rural indebtedness available so there is possibility of including a summary of the situation within it this report.

Chapter 2 BULGARIA

An overview of Bulgarian rural credit and micro-finance

Over the transition period the availability of investment and working capital was one of the major constraints in agriculture. This could be attributed to factors both in agriculture and credit system. In agriculture the small-scale semi-subsistence production units which emerged after 1991 with the liquidation of the old structures from the socialist period, had low incomes and were not regarded by the banking system as reliable borrowers. Further, the newly established production co-operatives typically had unclear property rights and an inexperience level of management, so these were in the same position.

The other factor negatively affecting short and long term credit flows in the agricultural sector was the bankrupting of the banking system in 1996-97, which was followed by its slow recovery under the rules of the currency board, and stricter regulation.

To reduce the negative impact of this transition period a state system of credit preferences applying to both short and long term credit sources was used. In the first year of the transition lower interest rates were used, mainly for short term credit although the legal framework that established the mechanisms for this support, the first Law for Protection of Agricultural Producers (LPAP), actually did not impose any restrictions as to the credit period. The main reasons why the mechanism was not used for subsidising investment credits at the beginning of the transition period were (a) the unstable macroeconomic situation and (b) high inflation, which together prevented farmers from getting investment credit. After the new Law for Protection of Agricultural Producers was introduced the mechanism for low interest rate credits was implemented, and also in respect of investment credits.

Under the new LPAP an institution responsible for the application of a support policy for farmers – the State Fund for Agriculture (SFA) – was created. It announced and implemented yearly programmes providing lower interest rate short term credit, as well as its priorities for using the support for investment credits and the requirements for using these programmes. With respect to investment credit these priorities have been as follows: agricultural machinery and equipment, breeding and productive elite animals, construction of buildings for agricultural activities, planting of permanent crops, land purchasing, etc.

Another source of finance for agricultural activities was founded in the beginning of the 1990s as the Federation of Private Rural Mutual Credit Association (PRMCA), established under the PHARE programme project. The financial resources of PRMCA amounted to 10.5 mln. EUR and provided mainly short term credits for working capital for their members.

Another alternative source for short term credits which started its activity during the same period was the System of Warehouse Receipts introduced by the Grain Storage and Trade Act introduced in 1998.

Since 1998 started the process of economic growth in Bulgaria finally began (Table1). The banking system was almost entirely privatized and the majority of the local banks were bought by larger banks and banking groups from EU countries. In this way the banking system in Bulgaria was stabilized in terms of expertise, management and resources.

Table 1⁴ Dynamics of some of the macroeconomic indicators of the Bulgarian economy for the period 2001-2004

Indicator	2001	2002	2003	2004
GDP- mln.lv	29709	32335	34547	38008
GDP/capita	3754	4109	4416	4885
Unemployment-%	17,9	16,3	13,5	12,2
Inflation	7,4	5,8	2,3	6,1
Investments	6694	7220	8503	8315

The agricultural sector has also stabilized since the end of the 1990s, while the process of accession gradually made agricultural policy more stable and predictable. The structural reforms performed in the first half of the 1990s resulted in a more or less stable dual structure of Bulgarian agricultural sector, with a small number of large farms, which cultivate the majority of land, and a huge number of small semi-subsistence farmers. Agricultural production was stabilized and agricultural and food trade flows were gradually moved towards the EU. As a result of the stabilization of both the agricultural sector and the banking system, credit inflows to the agricultural sector have gradually increased over the last few years.

Table 2⁵ Credit for the agricultural sector provided by the banking system (mln.lv)

	2001	2002	2003	2004
Credits – leva and foreign currency – mln.lv	164,5	167,4	263,3	376,2
%	100	102	160	227
Credits – leva	137,7	121,2	203,2	258,7
%	100	88	148	188
Credits – foreign currency	26,8	46,1	60,1	117,5
%	100	172	224	438

⁴ “Statistical yearbook 2005” – National statistical institute, Sofia 2005

⁵ “Annual report 2005” – Ministry of Agriculture and Forestry, Sofia 2006, p.79

During the last few years it may be observed also that there has been a substantial increase in the volume of financing with the System of Warehouse Receipts (Table 3).

Table 3⁶ Short-term credit provided by the System of Warehouse Receipts

Marketing year	Receipts – number	Received credits – mln.lv.
1999	5	0,6
2000	391	7,2
2001	426	7,2
2002	1 036	12
2003	275	5
2004	674	23,4

An important source of long-term (investment) loans is the SFA. Long-term credits from the SFA are structured within three programmes: “Animal breeding”; “Crop production” and “Agricultural machinery”. The numbers of credits advanced to agricultural producers and the value of these credits are given in Table 4.

Table 4⁷ Credits received from the SFA for the period 2002-2004 (in mln.lv.)

Year	“Animal breeding”		“Crop production”		“Agricultural machinery”	
	Projects	Credits-mln. lv.	Projects	Credits – lv	Project	Credits - lv
2002	44	1,98	37	8,01	29	4,76
2003	442	10,05	123	15,50	223	10,58
2004	298	6,23	119	14,51	132	6,29

The current conditions of the investment loans from the SFA are:

- maturity – 12-96 months
- grace period – 3-48 months
- annual interest rate – 6%

The other credit activity of the SFA is the supply of subsidized short-term credits. These credit lines are of only modest scope and are targeted mainly at grain crops. In 2003, for example, the subsidized credit lines applied to the purchase of fertilizers for wheat, maize and sunflower production. They covered 1694 contracts with subsidy of nearly 9 mln. Leva. In 2004 the short-term credits were 12,389 mln. lv and again are targeted for wheat and maize production, specifically for the purchase of mineral fertilizers and certified seeds. There is a clearly observed tendency for a decrease in short-term subsidized credits and an increase in direct subsidies. The share of credits in the financial resource

⁶ Annual report 2005” – Ministry of Agriculture and Forestry, Sofia 2006, p. 80

⁷ “Annual report 2005” – Ministry of Agriculture and Forestry, Sofia 2006, p. 81-83

of the SFA for supporting agricultural producers was 50% in 2002; 21% in 2003 and 17% in 2004.

The other source of short-term credits is credit co-operatives, although the financial resources they have available are very limited. However, credit co-operatives did gain ground in Bulgaria during the 1990s following the financial crisis in 1995-96, and the introduction of the currency board the imposition of strict financial regulations on the country's banking and financial sectors. One of the consequences of the crisis was that credit co-operatives were very strictly controlled (for example they were not allowed to receive deposits) as they were considered to be easily used as "financial pyramids". With the stabilizing and activating of the banking system the problem with the shortage of short-term credits is already less severe, and the recent attempt at establishing new credit co-operatives will probably again be unsuccessful.

In the pre-accession period an important source of credits was the SAPARD programme, a specialized programme for supporting agriculture and rural areas in candidate countries. In Bulgaria this started in 2001 and gradually the funds inflow to the agricultural sector and to rural areas in the country from SAPARD increased (Table 5).

Table 5⁸ Finalized projects and paid subsidies in Bulgaria from SAPARD for the 2001-2004

Year	Number of finalized projects	Subsidies - mln. lv
2001	9	1,852
2002	97	26,506
2003	288	70,124
2004	448	135,225

The credit needs, and access to the two categories of credit, for Bulgarian farmers are quite different and the problems they meet in terms of credit supply are also different. For the large farms, operated by farmer-entrepreneurs, access to credit is no different to that available to business units in other sectors. They can easily receive credits from the banking system, and also receive credits from suppliers, especially agricultural machinery suppliers, and they are also winners from the subsidies provided by programmes like SAPARD and the SFA.

The situation with the small but commercially-oriented and semi-subsistence farmers, however, is very different. The recent study by the World Bank⁹, based on a countrywide survey and covering 490 farming households and 71 farmer-entrepreneurs, shows a very different picture. As much as 85% of the surveyed farmers had never taken loans and the proportion in this category for subsistence farming reached 91%. The survey did not

⁸ "Annual reports 2001,2002,2003,2004,2005" – Ministry of Agriculture and Forestry, Sofia

⁹ "Bulgaria: Survey on Rural Development Needs", The World Bank, April 2004

distinguish which category of the surveyed had not applied for credits, but it is unlikely to be wrong to guess that they are subsistence and small commercially-oriented farmers. We can find support for this conclusion in the answers given to the question “Size of credit required”, which 89,2% of the interviewed market-oriented farmers answered that they need loans within the size band ‘up to 6500\$’ for long-term credits; this level is obviously insufficient to fund major investment in agricultural production on large units. As concerns the reasons for failure to obtain credit, most of those interviewed stated in first place a lack of collateral (44%) with only 7% citing the difficulties in drawing up a good business plan.

Chapter 3 CROATIA

Introduction and background

An outline of rural credit facilities

A functioning rural finance system is essential to the development of rural areas as it provides the necessary finance to farms and SMEs. However, the application of the OECD definition of rural areas to Croatia shows that Croatia exhibits a high degree of rurality. Because of these results, our analysis is based on two aspects: agricultural credits and credits to SME's in general.

The financial sector in Croatia constantly grows and develops in quality and quantity terms.

Today, it is a highly competitive and innovative market that has already reached EU standards. Commercial banks (mainly in foreign ownership) are the major players in the financial sector. Credit policies are mainly oriented to households and the share of household loans in total bank financing is 49.6%. Networks of the banks' branches bring financial products to almost every corner of Croatia.

During 2005 there were 1047 bank branch offices in Croatia. Considering the number of branches and the number of Croatian inhabitants, there are 4.243 inhabitants for every one bank branch office in Croatia. During the first six months of 2005, the number of ATMs increased by 6.8% so, at the end of this period, there were 2.043 ATM machines. Despite the fact that the financial market is highly competitive, credits to agriculture are still scarce. Banks lack experience in dealing with small farmers. Loan collateral and high transaction costs, low profitability of farms, and high risk, represent the main constraints. Apart from commercial banks, there are savings and credit cooperatives, but they are small and have a relatively low importance in rural finance.

In order to improve the supply of agricultural loans, the national government (alone or with local authorities) intervened heavily in the past. The SADA¹⁰ Account of the Ministry of Agriculture and Forestry was a classical example of an inefficient subsidized and directed credit program. Scarce budget sources were granted to family farms on the basis of social rather than economic criteria. Approval criteria were not transparent and no monitoring was carried out. As a result, debts rescheduling, restructuring and sometimes writing-off have been undertaken.

Nevertheless, recently, in the process of agricultural policy reform, the model of capital investments, (one of the reform's pillars), has been established (in 2002). It is aimed at encouraging the development of business relations between commercial banks and farmers. The model can be described as the assigning of irretrievable capital from the budget of the Republic of Croatia.. Apart from agriculture, SME's (including those

¹⁰ Special credit account for development and reconstruction of agriculture

operating in rural areas) have taken the advantages of financial support and privileged credit conditions.

Other aspects of the rural financial system, like insurance, leasing of agricultural machinery and trade finance, are scarce. The demand side of rural finance markets is also burdened with problems. The rural population is mainly engaged in agricultural activities. Farms are small and fragmented and non-specialized. The Farmers' population has unfavorable demographic and educational features. Farmers have insufficient information and lack a focus on training in rural finance, and at the same time the supply of consultancy services in rural finance is lacking.

Major credit and rural policy developments in 2005

Recent developments in Croatian relations with the EU enable Croatia to use the pre-accession programs for structural and rural development (e.g. Phare, ISPA, SAPARD). The most important activities in Croatia were connected to the SAPARD program. These new circumstances give rather high chances to invest in agriculture and the rural economy, helping structural problems to be solved and competitiveness to be improved in production that lags behind European averages. The selection of the projects should start soon, after the SAPARD agency in Croatia is accredited. The interest of the farmers and entrepreneurs is great. Commercial banks also have interest in such a project because the selection process will help diminish the risks.

In order to improve farms' competitiveness in the process of EU accession in the year 2004, policy makers have initiated incentive programs for investments in agriculture (so called Operational plans). To date, two programs have been launched, one for establishing perennial crops and another for cattle production¹¹. Programs for pig and vegetable production are prepared. Programs are financed through the state owned bank, the Croatian Bank for Reconstruction and Development (HBOR). The Croatian agency for SME's is also involved as a guarantee provider. These programs are also subjects of governmental subsidies through the Capital Investments Model. This model of capital investments for commercial agricultural holdings was established in 2003. It included the assigning of irretrievable capital from the the budget of the Republic of Croatia. Through this measure the Ministry of Agriculture, Fishery, Forestry and Water Management takes part in financing investments for which financial institutions approved credit.

Constant scientific research, training and/or consultancy services for farmers, rural enterprises or banks in Croatia unfortunately do not exist, although the interest and needs for such services are pressing. Analysis related to rural credit is often part of policy papers that cover a broad range of rural development issues. As a result, during the last year, according to the author's knowledge, no scientific papers about rural finance in Croatia, or analysis, were produced.

¹¹ Operational Plan of Implementation of Program of Development of Cattle Production

Access to rural credit – uptake and issues

The supply of agricultural loans in Croatia is much weaker, compared to total credit offer. Agriculture rarely appears in strategies of commercial banks in Croatia. That is the result of a generally strong credit demand that enables bank concentration on less risky investments.

Insufficient farm and business management skills, the lack of viable investment opportunities and feasible project proposals, inadequate institutional support services (research and new technologies, extension service), collateral issues, plus poor agricultural input, equipment supply, market information systems and market structures, make farmers face serious difficulties in having access to loans. Therefore, they are forced to finance themselves on their own resources.

According to the Farm Survey¹², traditional “fear” of farmers to use and apply for credit is evident. Also, farmers have insufficient information and knowledge on sources and conditions of credit. Rural finance infrastructure is still poor, together with an inadequate supply of bank credit. Farm Survey results show a low access to production credit. Out of 892 farms only 205 farmers decided to use credit in order to finance their farm production in 1999. The average credit amount per farmer was Kuna 78,000 (table 1- Appendix).

The unresolved legal and organizational status of family farms makes them unattractive to financial institutions. Therefore, banks prefer to lend money to legal persons¹³ in agriculture. Farmers and other entrepreneurs in rural areas share one important feature that keeps them away from external sources of finance, and this is the lack of business ideas and entrepreneurial spirit.

The issue of loan collateral deserves special attention in rural finance. Bank collateral requirements are high and expensive for borrowers and, on the other hand, they often don't give sufficient protection to banks. A basic paradox hampers the use of collateral in Croatia (Kraft, 2001). Banks require high levels of collateral because they know that foreclosure is difficult to attain, and more collateral is required from clients that are considered a greater credit risk. In particular, banks use collateral as a major element in their lending decisions. Certainly, requiring “excess” collateral may help a bank to cover the extra costs related with long waiting periods for court decisions. However, apart from using collateral as a screening measure, to keep away unwanted clients, it is not clear what is accomplished by demanding high collateral, if in the end eventual foreclosure is expected to fail. The main causes for this situation are the problems in the court system and ineffective court enforcement. A current inadequate legal framework, such as

¹² The Farm Survey"(1998.-2001) project aims primarily at collecting annual data about the economic situation of family farms. The survey sample encompasses 892 family farms and covers all agricultural regions in Croatia.

¹³ Legal persons = units registered in the Croatian Register of Business entities which refers to trade companies, enterprises, institutions, co-operative, associations and government bodies.)

inefficiencies in bankruptcy procedures, and a lack of financial control mechanisms, emphasize the problem of loan collateral.

Collateral problems with agricultural land are mainly related to a non-functional land market, a lack of effective land ownership registration, and to state land. As mentioned earlier, family farms in Croatia are small and fragmented. The reasons for that situation arise from: (a) inappropriate succession legislation, (b) a relatively large share of remaining state land (about 1/3), (c) An underdeveloped land market due to an ineffective cadastre and land register, and related bank loan collateral problems, and (d) fragmented land parcels and lack of adequate infrastructure (access roads, drainage systems).

Availability and performance of rural credit facilities

Assessment of short-term credit sources

The main sources of finance for farmers are:

- a) The financial sector (commercial banks, saving and credit cooperatives)
- b) Government and public government sponsored agencies
- c) Trade credits
- c) Others (international development and donor institutions)

There are 34 commercial banks in Croatia and, according to a phone survey and web-site research, 9 of them have specific farm loans in their standard credit offer. Besides these, other banks occasionally finance the agricultural sector, usually by cooperation with local government units. Commercial banks that offer specific allocated loans to farmers mainly have traditional regional economic cohesion with agriculture. For example, the richest credit offers come from banks with local importance or banks that incorporated previously farm-orientated banks. Smaller banks have developed credit lines for farmers because they are not competitive to larger banks in other credit services as, for example, housing loans. Two of the most important banks for agricultural financing are Erste banka and Croatia banka. Based on information from annual reports, during 2005 the amount of total agricultural loans of Erste banka was 237 million kunas i.e. 1.2% of its total credit portfolio. In 2004 Croatia banka granted 48 million kunas of agricultural loans i.e. 6.9% of its total credit portfolio. Savings and Credit Corporations are relatively unimportant segments of rural finance and sources of short term credits.

In Croatia there is no legal act for regulation of the business operations of micro-finance organizations (MFO). At the end of 2002 there were some government initiatives to regulate the existence and activity of micro-financial organizations, but during 2003 these initiatives were rejected by the Croatian parliament. The cause of rejection was a more stable bank system with a richer loan offer than the one in countries with developed micro-financial institutions. Because of those reasons, majority of members of Croatian Parliament Board considered MFO unnecessary. (source: Report from Croatian Parliament Board session, Vjesnik, 29th January 2003).

In a practical sense, micro- financial organizations in Croatia operate informally, as in the Savings and Loan Cooperatives (S & L). The operation of S & L is regulated by the law on S & L (2002). There were only three larger initiatives (supported by international donor organizations) that were trying to conduct micro-financing programs in Croatia. Two of them were supported by Open society institute and International Catholic Migration Commission (ICMC). They were established as Savings and Loan Cooperatives - NOA and DEMOS. The third initiative was supported and maintained by Catholic Relief Services (CRS). It was established as foreign society in Republic Croatia with special approval by Croatian National Bank. Because of legal limitations and impossibility to launch their own credits, CRS gives loans by arrangement with commercial banks.

Although it is difficult to estimate the volume of agricultural trade finance, short- term trade credit arrangements and input supplier credit are of great importance to farmers. Agricultural input supply companies are slowly reaching the former levels of trade credit as in the time of the former ‘agrokombinats’, which were, and partly still are, the main suppliers and buyers of farm products. War, economic reforms, and privatization have hardly influenced their business. Trade credit is relevant to a large number of farms in the dairy sector (65,000 farms), tobacco production (2,200 farms), and sugar beet production (10,000 farms,) while significant numbers of family farms are engaged in poultry production, and cattle and pig fattening. Cooperatives with some 50,000 members are also important providers of trade credit.

Establishing a system of warehouse receipts for grain and oil seed crops would probably improve access to short-term credits.

Assessment of medium-term and long-term credit sources

Commercial banks provide medium and long-term loans for the following purposes:

- Loans for livestock production, stable construction and equipment purchase.
- Loans for agriculture mechanization purchase.
- Loans for the establishment and maintenance of orchards and vineyards.
- Loans for vegetable growing, floriculture, mushroom-growing and beekeeping.
- Loans for buying private or state owned land.

Support for capital investments through the Model of Capital Investments can be approved for medium-term (at least two years) and long-term credits in agriculture, fishery and forestry.

Furthermore, the majority of commercial banks finance tourism sector investments. That incorporates investments in rural tourism. Besides commercial banks, The Croatian Bank for Reconstruction and Development (CBRD), entirely owned by Croatian Government, also participates in agriculture financing. CBRD credit conditions are significantly more advantageous than commercial banks but not diversely purposed. Currently, the implementation of programmes of financing cattle production and the establishment of perennial plantation is in progress in Croatia. The Ministry of Agriculture, Forestry and Water Management, The Croatian Bank for Reconstruction and Development and the

Croatian Agency for Small Business are all included in this project. The disadvantages of these credits are their restricted purposes and complicated and prolonged procedures.

To improve the competitiveness of rural areas, a wide range of programmes (grants but mainly subsidized credits) have been launched. The Ministry of Economy, Labor and Entrepreneurship subsidises different credit lines for entrepreneurs and co-operatives. Targeted groups, such as veterans of the Patriotic war, women and youth haven't been neglected in that sense.

Other ministries as well as local government are often involved. Finally, the main features of these programmes are the lack of coordination, and inefficient communication with prospective clients.

Assessment of the adequacy of credit sources

Commercial banks' credits in agriculture have an average interest rate of 8.1% (measured as an average of all agricultural loans). Depending on the purpose, interest rates range between 7% and 10 %. The highest interest rates are for the short-term credits loans aimed to the financing of sowing, whereas the credits with the lowest interest rates are long-term loans for livestock purchasing. Repayment periods depend on the financing purpose. The longest repayment period is 10 years, and these credits are very often arranged with a 2 years grace period. As capital redemption, a first mortgage, loan bill and debenture, deposit by government subvention of capital investments, guarantee of the Croatian agency for a small business (HAMAG) and credit guarantor are all used. Banks also require credit recipients to operate within the system of value added tax or to have long-term agreements to sell milk for the milk industry.

Saving and credit co-operatives provide mainly short-term loans. They lend to family farms a maximum of 20,000 Kuna, and to cooperatives between 50 to 100 thousand Kuna. Interest rates are between 8.99% and 11.99%, and the fee for credit arrangement is 3.0%. The repayment period is 3 years maximum. Operational plans loans have especially favourable interest rates of 4 per cent, long repayment periods of up to 15 years, grace periods and other privileged conditions.

Operational plan	Perennial crops	Cattle
Purposes	Investments in establishing new plantations, buying agricultural land, machinery and equipment,	Investments in buildings, livestock, equipment and agricultural land
Repayment period	Olive groves: 15 years including grace period (5 years) Investments in existing orchards: 10 years including grace period (2 year) Other investments: 12 years including grace period (3 years)	12 years (including grace period)
Grace period		2 years
Interest rates	4%	4%
Max amount of a loan	1,5 million kunas (natural persons*)	3,5 million kunas

	3,5 million kunas (legal persons**)	
Entitled to borrow	Family farms, trade companies, craftsmen, cooperatives	Family farms, trade companies, craftsmen

*- Natural person = a natural entities that perform activities in line with the law and refer to the crafts and free-lances. By the Croatian low, family farms are physical persons.

** Legal persons = units registered in the Register of Business entities which refers to trade companies, enterprises, institutions, co-operative, associations and government bodies.

Source: Croatian Bank for Reconstruction and Development; www.hbor.hr

Due to the problem of differentiating between disbursed funds for rural areas and rural activities, and those for urban areas, we analyzed them together. In the recent past and today also, the Ministry of Economy has been the main source of credits for SMEs. Their programs represent a combination of directed public funds and commercial bank credit.

In all the mentioned credit sources it seems that interest rates are not a problem. The problems are collateral, lack of business history (book-keeping data - especially for family farms), and sometimes the lack of clear presentations of business ideas through business plans.

Evidence of credit market failure

The market failures of agricultural risk sharing instruments in the transition economies of Central and Eastern Europe restrict potential for efficient risk management and consequently generate highly uncertain business environment. Agricultural insurance is undeveloped in Croatia, and agricultural statistics show a low relevance of crop insurance and a small land area covered by insurance. Actually, according to collected information, only a few insurance companies deal with agricultural insurance (crop insurance against unfavourable weather condition and livestock insurance). Premiums for crop insurance are high, and because of that most farmers do not use insurance. Apart from hail insurance, other forms of agricultural insurance products and hedging instruments are of limited supply. Additionally, risk and low profitability often constrain external fund inflows, influencing fewer investments and deteriorating a farm's income stability and competitiveness.

Overview and prospects

Some recommendations for the rural finance sector include the need for the mobilisation of savings, and providing flexible and safe savings deposit facilities for the rural population. Saving and credit co-operatives should be developed to the level that will enable the provision of quick and reliable services or even better lending terms than banks. Establishing a loan guarantee fund on a local or national level, plus establishing a functioning land market and an effective legal framework should improve the situation with regard to the need for collateral, while appropriate training programmes in rural finance for commercial banks and farmers could enable a better understanding on both sides.

The Government could give more attention to enabling and improving the existing extension service, especially in approaching EU pre-accession funds. It is also necessary to foster scientific research in the rural finance sector, on both a macro and a micro level.

Chapter 4: CYPRUS

Introduction and Background

An outline of Rural Credit Facilities in Cyprus

Until 2004 the developments in the rural areas of Cyprus were financed by the Government and by the Financial Institutions.

The Government provided grants and low interest loans to local authorities to develop the infrastructure by building roads, erecting dams improving irrigation systems, consolidating land holdings etc. Loans to individual farmers were approved by the Government and were given by the Financial Institutions with Government guarantees and with subsidization of the interest rate.

The Ministry of Agriculture, Natural Resources and Environment introduced at various periods schemes for promoting agricultural and rural development. The schemes were financed by grants and loans. Assistance in the form of grants and subsidies were given to alleviate the consequences of natural calamities (winds, hail, floods, ice) or in order to promote land consolidation.

The financial assistance to farmers was given through the Government Loan Commissioners, the Central Cooperative Bank or the local cooperative credit societies. In those cases where farmers could not provide guarantees, for example the displaced farmers, the Government provided guarantees.

In Cyprus there are four major banks and three smaller banks that provide overdrafts and loans to farmers. The four major banks are:

- Bank of Cyprus
- Cyprus Popular Bank
- Hellenic Bank
- Alpha Bank

The three smaller banks are:

- National Bank of Greece
- Commercial Bank of Greece
- Arab Bank

However, farmers prefer to deal with the Cooperative Banks, which are the Cooperative Central Bank, and the Cooperative Credit Societies that operate in almost every village. The Cooperative Central Bank is solely owned by the Cooperative Credit Societies. At present its membership consists of 428 Credit Societies and Savings Banks, 365 active

and 63 non-active due to the Turkish occupation, and 62 non-credit Co-operative Societies, totaling 490 societies. The Cooperative movement's market share for deposits exceeds 30%. It is under the supervision of the Cooperative Societies' Supervision and Development Authority.

The four major banks have trained specialists to deal with the farmers and Agro – businesses. They also have hire-purchase subsidiary companies that offer 2 – 3 years hire-purchase contracts for agricultural tractors and machinery. The credit given by hire-purchase companies costs 2% - 3% more than other credit given by banks or cooperative credit societies.

A recent study carried out by our own company for one of the major banks showed that about 40% of bank customers do business with more than one bank. Usually farmers, with the exception of some major citrus plantations, do business with the local cooperative credit society and with the Bank of Cyprus.

Agricultural loans statistics are presented in Tables 1, 2 and 3.

Major Credit and Rural Policy Development after 2004

After accession all Government support measures were incorporated in the Rural Development Plan 2004 – 2006 and the farmers had to apply to the Ministry of Agricultural, Natural Resources and Environment for subsidization of the various measures by 50% - 65% and in some case for environmental control measures by 80% subsidy. Preference was given to applications for farmers who financed the investment from their own funds. In order for the farmers to get the subsidy they had to carry out the investment, pay for it from own or borrowed funds and then apply for the subsidy.

The issue of non-performing agricultural loans has been considered by the government. There has been a political decision to help with the amount of 23 million CYP (40mln EUR). The final decision and a law are expected to be delivered in 2006.

Table 2 provides an insight to the extend of non-performing agricultural loans given by the Cooperative Central Bank. By the end of 2005, the arrears of loans account is more than 4 times the face value of the loans outstanding.

Access to rural credit – uptake and issues

The Cooperative Central Bank has since 2004 practically stopped issuing loans to farmers. It used to act as an intermediary between the government and the farmers since the money was actually provided by the Ministry of Finance. At present, the Bank acts as a regular commercial bank that also serves agricultural businesses.

Physical access to the Cooperative Credit Societies is not an issue. Their presence covers the whole area of Cyprus and cases of nearby villages each having its own society are not uncommon. A society could turn to the Cooperative Central Bank as 'a lender of last resort' if there is an extra demand for loans.

Farmers usually prefer to deal with the cooperatives rather than commercial banks as they can more easily obtain a loan and most often get better terms on their loans. Usually, the rate of interest offered by the cooperatives is somewhat lower than that of the commercial banks and the cooperatives show a greater leniency when farmers happen to fall behind schedule.

According to the Cooperative Central Bank: “The lending operations of the Bank are conducted almost exclusively with its member co-operatives and fall into three main categories:

- Short-term loans repayable within a period of up to 1 year, for the financing of purposes such as crop cultivation, purchase of fertilisers, seeds and other agricultural requisites.
- Medium term loans issued for periods of 2 to 5 years for the financing of such purposes as capital investments in agriculture, construction / maintenance of store buildings, purchase of machinery and equipment.
- Long term loans for periods from 5 years to a maximum of 15 years, granted to co-operatives for erection of office/business premises, purchase of heavy machinery and equipment and other long-term investments or capital expenditure.

In addition to the extension of loans for agricultural development directly to the individual farmers as well as via its member Co-operative Credit Societies, the Bank is also the main provider of long term credit for financing development projects of local authorities, semi-government organisations and other utilities.”

When it comes to the issue of trade credit, farmers are usually at a disadvantage. They usually pay cash either by using their savings or by getting a loan. When it comes to getting paid they are usually “forced” to offer a period of grace that could, in some cases, be significant.

Concerning the issue of subsidies, the farmers are well informed. Both in the case of the Rural Development Plan 2004-2006 and in the case of hectare subsidies paid by the Cyprus Organization of Agricultural Payments, there has been an extended effort by the government to educate and inform them.

Availability and performance of rural credit facilities

Assessment of short-term credit sources

Due to the small size of most farmers’ holdings, the short-term credit needed by each is relatively small. Therefore, they can turn to the cooperatives and obtain the credit without an extended effort and without the need for collateral. In many cases the short-term credit is needed because they cannot secure a trade credit from their suppliers of inputs.

A new kind of demand for short-term credit arose in the past months due to the Rural Development Plan 2004. The handsome subsidies (50-65%) offered by the Plan prompted the farmers to pursue them. Since the subsidies are given after the expenditures are made, the farmers need to apply for loans (unless they have the necessary savings). In many

cases the loans approximately amount to the money the farmers get as subsidies, and thus they are repaid within a year.

Assessment of medium-term and long-term credit sources

Obtaining medium-term trade credit from businesses like machinery traders is even more difficult for farmers (with the rare exception of bigger businesses that are in the agricultural industry). Thus, medium and long-term credit must be sought from the cooperative movement or the commercial banks. This is much more difficult for the farmers to obtain and they have to do so through a mortgage. Once again, they prefer to do business with the cooperative movement. Approximately 70% of agricultural loans nationwide are provided from the cooperative movement.

Local governments do not usually provide any loans to farmers but they are usually borrowing money (mostly from the government or the cooperative movement) for rural development activities.

Assessment of the adequacy of credit sources

Farmers find it much easier to obtain smaller and short-term loans. They can usually do so at their local cooperative society. Larger and longer-term loans are harder to obtain. They most often require a mortgage and in some case a business plan. Rural businesses that wish to obtain loans from either the Cooperative Central Bank or commercial banks need to present a thorough business plan.

Most cooperative societies have been more like a family business. They were owned by family members or friends. This hampered their development, as the new employees' greater asset would be their relation to the owners or managers. This has gradually begun to change (especially in the larger cooperative societies) and well educated, and in some cases, specialized employees were hired. In these cases, the older employees/managers' experience with agricultural industry coupled with the younger employees' education and specialized knowledge provide for a higher standard of business. Commercial Banks do employ specialized personnel for this sector of their business.

The government aided displaced farmers in obtaining credit by guarantying the loans. In addition cooperative societies did not have to pay any mortgage fees or other fees that had to do with bureaucratic procedures. This has stopped since July 1st 2003. Currently, any part of a cooperative society's profit that comes from transaction between members is exempt from corporate income tax.

Evidence of credit market failure

As indicated in Table 2 there is an increasing amount in the arrears section of loans of the Cooperative Central Bank. This is despite the fact that the Bank has stopped issuing loans to farmers. This could be interpreted in two ways. The more straightforward approach is that the farmers can not repay the loans but the second possibility has to do with their willingness to repay them. This unwillingness to repay the loans could come from their

belief that the government could step in and repay them (either in part or in full). This demand is likely to be met as explained in section 1.2. Most of the farmers' non-performing loans are from the local Cooperative Credit Societies and from older loans by the Cooperative Central Bank. The non-performing loans to other commercial banks are much less and commercial banks are pressing more for their repayment.

The farmers' need for medium or long-term loans is usually met by collateral. Since the value of land has been appreciating significantly during the past five or six years, they often have enough wealth to get the longer-term loans.

Programs by the Ministry of Agriculture and Natural Resources have been abandoned since the beginning of the Rural Development Plan 2004. All the necessary measures were incorporated in the Plan's Axes. The current debate is on the areas of focus for the 2007-2013 Plan.

The government used to provide loan guarantees for some farmers (mostly the displaced ones). This is no longer the case but more farmers are able to provide collaterals due to the increase in their land's value. Despite this, the demand for loans may be expected to drop in the next years due to the shrinking of some agricultural sectors such as the citrus fruits and banana growers. Cheaper imports lead to farmers exiting the sectors and thus to lower credit demand.

On the other hand there is a trend of a decreasing cost of credit during the past few years. Interest rates in Cyprus have dropped by several percentage points and are expected to decline even more in the following years in an attempt to converge with the ECB's rates. Currently, the rate in Cyprus is 4.25% compared with ECB's 2.5%.

Chapter 5: CZECH REPUBLIC

Introduction and background

An outline of rural credit facilities

During the nineties the structure of the banking sector in the Czech Republic (CR) went through a dynamic development. After 1989 there occurred in the CR a change of economic system from central planning towards to an economy based on the market. Banking was the first sector of the economy where far - reaching changes began to be made to bring about a dual-mode banking system.

The Czechoslovak national bank was split into three parts: one part (the Czech National Bank, or CNB) continued to serve the basic function of a central bank, while credit and deposit operations were provided by the Komerční banka a.s. Prague and in Slovakia by the Universal Loan Bank Bratislava. As well as these, Agrobanka Praha initiated activity as well as providing a regional system of Agrobankas that financed agricultural enterprises. The Investment bank IPB (Investiční a poštovní banka, a.s.) undertook the financing and provision of credit for construction, later changing its activities to providing all sorts of banking operations, linked to capital banking.

Gradually private banks were established such as the Credit and Industrial bank Prague, Inc., Pragobanka, Inc., Union bank, Inc. etc. As well as these new banks there were also savings banks operating, such as CSOB (Československá obchodní banka, a.s) and Živnostenská banka a.s. trade bank. On December 31st 1992 there were 37 Czech banks and 8 external banks operating and their number was still increasing. At this time state based specialized banks also arose, including the Consolidation Bank, other state banking institutions, the Bohemian and Moravian Guaranty and Development Bank, Inc. and the Czech Export Bank, Inc.

During this period the banks faced enormous risks, which were connected with a ignorance of economics techniques, especially in particular credit risks. This inevitably led to the gradual bankruptcy of several banks and general economic problems affecting all Czech banks. At this time the regulator of the banking sector in the Czech Republic – the Czech National Bank - began to put in place a Consolidation Programme (CP I) and subsequently in 1996 a second programme was put into place (CP II).

Development of the Czech banking sector 1990 – 2006

	January 1990	December 1992	December 1995	December 1998	31.1.2006
Total number of banks	5	37	55	45	36
of which					
-Foreign banks	-	8	12	13	15
-Affiliates of foreign banks	-	3	10	10	12

Source: CNB

After 1990 in the CR further financial institutions, namely Cooperative loan offices, Credit cooperatives and “Kampelicky” were also founded. The CNB announced that in 2002 there were 97 monetary financial institutions (banks, money market funds, saving and credit cooperatives). However, by 2004 the number of banks had declined to 78. On January 28th 2006 there were 64 functioning institutions providing credit services (banks, funds monetary market, that means funds money market or mutual funds, saving and credit cooperatives). This number also includes finance houses providing credit to entrepreneurial clients in agriculture. At the same time in the CR there coexisted roughly 101 – 105 firms providing insurance credit, but it is not known how many actually helped entrepreneurs in agriculture. The names of significant banks which grant credit to the agricultural sector are Volksbank CZ, GE Money, and GE Capital etc. (note that this is not a full list of banks).

Major credit and rural policy developments in 2005

In 2005 the financial and income situation of agricultural businesses in the Czech Republic significantly improved. The accession to the CR into the EU and both national and European subsidy policy was of significant importance for the corporate environment. The biggest share of subsidies is concerned with the improvement of entrepreneur economics (roughly 60 %), along with environmental improvement, restructuring and modernising agricultural company production.

Nevertheless it is necessary to stress that the transformation of agricultural economies connected with the extensive shift in the ownership and structure of holdings that began in 1990 is still not finished (for example, complex land adjustments are still in process). A significant break-through in the administration of mortgage credit and agricultural land collateral came with the state programme "SOIL", which was announced by the Czech government at the beginning of the 2004. The aim of this programme was to enable the farmer to purchase the land from private individuals. The programme is now within the framework of the Support and Guarantee Fund for Farmers and Forestry (SGFFF), which finances the interest payments for long - term credits. At the present time 90 % of the land used by agricultural enterprises is rented.

Another significant factor, which indicates the improving situation in Czech agriculture, is the decreasing indebtedness of agricultural entrepreneurs (see the following tables).

Development of entrepreneurial subject indebtedness in agriculture 1995 – 2004 (%)

Year	Cooperatives	Trading companies	Body corporate	Physical person
1995	54.70	64.70	57.60	34.60
1998	59.90	43.40	53.30	20.30
2000	53.00	38.40	46.20	19.26
2002	51.50	40.85	46.33	17.15
2004	48.98	39.86	44.25	15.83

*Note: rate of indebtedness =foreign capital/total capital*100*

Source: FADN

In 2004 the indebtedness of agricultural enterprises, in all the monitored groups, did not exceed the recommended limit of 50 %. In 2005 economic growth in the CR continued the positive trends of the previous year. In the middle of 2005 the interest rate fell to a historical low of 4.027%. Although in the second half of the year monetary policy was tightened up, there was only a slow increase in interest rate.

Interest rates charged for loans (%)

Indicator	2002	2003	2004	2005
Credits of non financial companies total	6.240	5.306	4.749	4.204
of which	5.180	4.267	4.353	3.845
- short-term (to 1 year inclusive)				
-medium-term from 1 year to the 5 years inclusive	6.830	5.826	4.684	4.175
- long-term (over 5 years)	6.543	5.593	5.386	4.718

Source: CNB, CSO

Favourable conditions in interest rate movements had a significant influence on the utilisation of credit in 2004 as well as in 2005, with the dynamics of credit allocation in agriculture, game keeping and fisheries recording significant growth in 2004 by 12.6 %, while in 2005 moderate growth of 4 % was seen in contrast to the growth of the whole economy in 2005 by 15.2 %. The reason could be seen in significant investment increase in national economy.

1.3 Access to rural credit – uptake and issues

Small and mid-sized entrepreneurs in agriculture face significant problems of obtaining credits from financial institutions. There are many causes for this, from the most important are: a lack of personal capital, the uneconomic management of firms, obsolete production capacity (restitution) with high costs of production, changes in external conditions (accession to the EU). As well as economic problems farm business managers have also to solve the environmental problems of how to limit damage to the environment and nature. In spite of favourable conditions connected with the interest rate the farmers very often are not able to fulfil other criteria which are determined by individual banks.

Availability and performance of rural credit facilities

It is useful to begin by explaining the definition of credit status which is the final balance of a client's account, i.e. opening balance plus utilisation of new credit minus charges for earlier rendered credit.

Since 2002 the status of general credit and claims in agriculture, game keeping and fishing has shown marked growth. In 2005 compared to 2002 the increase reached 26.3 %. In 2002-2005 investment credits composed an average 65 % of the total.

Assessment of short-term credit sources

In the last four years short-term credits formed on average 22 % of total credits. Despite the favourable conditions in the movement of interest rates having a significant influence on the utilisation of credits in 2004, for 2005 the volume of short - term credit in agriculture, game keeping and fisheries decreased by about 10.0 %. The reason for this decrease can be seen in the optimum results of the cereal harvests in 2004 and 2005 as well as the significant improvement of conditions for the export of animal products to the EU 25 after the CR's accession to the EU. The increase of direct payments, as well as subsidies to the agrarian sector within the framework of the EU structural policy, also had a significant effect.

Status of short - term credits and assets (up to 1 year) in agriculture, game keeping, Forestry and fishing in the CR on December 31st (Million CZK)

Year	Credit on circulating money, export, import	Fixed assets loan	Credit on temporary shortage sources	Other credits	Total short - term credits
2004	2 545.4	528.3	72.8	1 761.9	4 908.4
2005	1 966.4	461.3	62.9	2 490.6	4 418.4

Source: CNB

Assessment of medium-term and long-term credit sources

The development of the Czech economy in 2004 and 2005 can be characterised as stable with the exception of the growth in economic efficiency. This exception is shown in the increase in medium term and long - term credits in agriculture. Compared to 2004, medium term credit in 2005 increased by about 9.1 % and long-term credit by about 7.5 %. The increase of general credits is significantly composed of medium and long-term loans for the purchase of fixed assets. Nevertheless it is necessary to state that in 2005 compared to 2004 a significant growth of total credits was not recorded, namely only about 4 %. The same figure in the year 2004/03 was about 12.6 %.

One reason for this was the significant increase of the total cost of CR agri-food sector support in 2005, which includes the growth of direct payments, support within the framework of the EU structural policy on the basis of the Operational Programme for agriculture and further national subsidies and measures.

Status of medium - term credits and assets (1 year – 5 years incl.) in agriculture, game keeping, forestry and fishing in the CR on December 31st (million CZK)

Year	Credit on circulating money, export, import	Fixed assets loan	Credit on temporary shortage sources	Other credits	Total medium - term credits
2004	2 986.2	3 116.2	19.9	256.7	6 379.0
2005	3 017.9	3 617.6	32.1	294.6	6 962.2

Source: CNB

Status of long - term credits and assets (over 5 years) in agriculture, game keeping, forestry and fishing in the CR on December 31st (million CZK)

Year	Credit on circulating money, export, import	Fixed assets loan	Credit on temporary shortage sources	Other credits	Total long - term credits
2004	161.0	9 457.4	-	823.0	10 441.4
2005	183.8	10 627.0	-	415.6	11 226.4

Source: CNB

Total credit in agriculture, game keeping and fishing sectors, as a proportion of total credit in the national economy, was approximately 1.9% in 2005.

Assessment of the adequacy of credit sources

Basic characteristics (indicator) indices of the Czech financial sector are shown in the following table. Basic indices of financial sector in period 2001 - 2005

	2001	2002	2003	2004
Adequate capital on risk assets (%)	15.4	14.3	14.5	12.6
Classified credits (% of total credits)	20.8	15.8	11.2	10.8
Outstanding loan (% of total loans)	13.4	8.1	4.9	4.1
Liquid assets (in % of total assets)	20.8	32.5	35.9	32.8
Return of average assets after taxation (%)	0.7	1.2	1.2	1.3

Source: MMF

Evidence of credit market failure

Since 1st May 2003, there have been some significant developments, which have protected the parties in the Czech credit market. The CNB set up the Central Register of Credits (CRC), with the aim of sharing information about liabilities and the credit worthiness and record of clients that comes from the long term monitoring of credit registers abroad, especially in the EU.

Overview and prospects

Despite favourable conditions in the last few years with low interest rates and a greater range of possible sources of credit finance, entrepreneurs in the agricultural sector still

face impediments when obtaining credit. The problems facing farm business managers are not only concerned with the search for technical solutions in the production process, but also include finding acceptable sources of credit finance, both in volume and structure.

The most important causes of disappointing growth in farm and other rural businesses are as follows: a shortage or total lack of own capital, the uneconomical management of firms, obsolete production capacity due to the restitution process, the high costs of production and significant changes in external conditions. Moreover, farm and rural business managers must try to solve the problem of how to reduce environmental damage caused by farm production and processing, as well as dealing with the economic challenges.

Chapter 6: ESTONIA

Introduction and background

An outline of rural credit facilities

National rural credit facilities

In 1993, the Government established the **Agriculture and Rural Life Credit Fund (ARLCF)**, which has been the main source of credit for agriculture and rural life. The highest interest rate is 10 %. The loan portfolio of the Fund is 30 million Euro, and every year the state has given 16 million EUR to the budget. In 1998, long term loans worth 6 million EUR and short term loans worth 4,4 million were given, of which 71,5 % were given to the agricultural sector, 7,7 % to the industrial sector and 8,5 % to the forestry sector.

The **Rural Credit Guarantee Fund was established in 1997**. This institution concluded co-operation agreements with 7 banks. The institution is entitled to secure loans by up to 60 % of the total amount of the loan. Today the amount of collateral is 9 million EUR. and, if necessary, this number can be increased to nearly 30 million Euro. One half can be used for securing agricultural loans and the other half will be for the support to rural entrepreneurs. The amount of the collateral per entrepreneur can be up to 160,000 Euro.

In 1996, interest rate subsidy payments were started in co-operation with ARLCF. Interest support has been paid to the interest calculated on agricultural sector investment loans of the previous year. Estonia's territory has been divided into three zones, taking into account the soil quality grade and the principle of regional approach. In the most underprivileged zone interests on loans are up to 7%, but not more than 9 percentage points are compensated. On the other hand, in the most privileged zone, interests on loans are up to 9% but not more than 7 percentage points are compensated.

International rural credit facilities

SAPARD

Numerous background investigations were conducted in the course of preparation of the Plan to identify the main problems in each sector (agricultural production, food industry, rural activities, and rural infrastructure). The four main measures to be applied under this Plan were formulated on the basis of these investigations. These measures, which are an integral part of the agricultural and rural development policy (2002-2006) of the Republic of Estonia, cover:

- Investments in agricultural holdings
- Improving the processing and marketing of agricultural and fishery products
- Development and diversification of economic activities.

- Development and the improvement of rural infrastructure

These measures will be assisted with Technical Assistance measure.

Additional measures will also be introduced at a later phase in the Plan in following areas:

- Renovation and development of villages (from 2002)
- Agri-environment (from 2003) and
- Forestry (from 2003)

The co- financing rates for several measures are 15-50 % of all investment costs determined by SAPARD rules. Generally, farmers and rural entrepreneurs covered 15-50% co- financing costs, using for this purpose medium or long-term bank loans.

World Bank Agriculture Loan

The loan project No 3983 EE (loan of DEM 22 million) was launched in 1995 with a 19,1 million Euro total budget. The actual use of the loan funds began in summer 1997. By the end of 1999, after the first half of the total project duration, 11,9 million, including 6,9 million Euro of loan resources had been used. The project lasted until end of 2001.

The project consisted of five components – land reform, rehabilitation of land amelioration systems, environment protection, advisory service and food and veterinary inspection. The project involved subdivisions of the Ministry of Agriculture, the Ministry of Environment (land reform and environment protection) and the Ministry of Finance (payments). A Project Steering Committee and an Implementation Unit have been set up in the Ministry of Agriculture.

The simultaneous implementation of several sources of financing, system decentralisation, limited-resource project management (three-member project implementation unit at the Ministry of Agriculture) and inter-institutional co-operation (three Ministries) have provided a valuable experience.

Major credit and rural policy developments in 2004

Please note: The RDF report for 2005 will not be ready until July 2006 and therefore these data cannot be analysed here.

For Estonian people the year 2004 was a year of important changes due to the merger of Estonia and the European Union. Several laws and regulations handling entrepreneurship were changed and completed at the joining. Also the activity of the Rural Development Foundation (RDF, hereinafter referred to also as “the Foundation”) was regulated more precisely in the frames of the Rural Development and Agricultural Market Regulation Act, and the European Commission accepted the need of the Foundation’s activity, as a supporting organisation of rural entrepreneurship, in the conditions of the economic space of the European Union. The changed circumstances must be considered for

planning the further activity of the Foundation. In 2004 the re-arrangement of the activity of the Foundation was started.

The main goal of the Foundation's activity is to assure a better access to financial resources that are needed for development of the economic activity, to the agricultural producers and to the other entrepreneurs operating in the rural area, including for involving the financial aid of the European Union through bridge financing, to improve thereby the environment of the entrepreneurship and to create more beneficial living conditions in the rural area.

In spring 2004 a project of the long-term development plan was completed by the Foundation, which was also discussed by the Council. The composition and complementation of the development plan is a continuous process, which will also be continued in 2005, and which assures the stable development of the Foundation. The main positions of the development plan were used as the basis also for the composition of the activity plan of RDF for 2005. The main goals of the Foundation are derived from the following documents:

1. Rural Development and Agricultural Market Regulation Act;
2. Articles of association of RDF;
3. Activity plan for 2005 of RDF;
4. Development plan of RDF until 2010 (not approved yet).

Considering the goals of the state and rural development plan, we can divide the objectives of the activity as follows:

1. Improvement of the environment of the entrepreneurship (and living environment);
2. Development of the human resources;
3. Improvement of the reputation of the rural lifestyle.

Besides these listed goals the Foundation has tried to be a flexible partner for the people living in the rural areas and for the rural entrepreneurs, and to be a bridge in solving several problems with which the state and the Ministry of Agriculture were faced, for example, the administration and disbursement of the damages that originated from the crop failure.

The Foundation's activity to achieve its goals can be divided into five sub activities:

1. Lending activity;
2. Issuance of guarantees;
3. Disbursement of relief funds;
4. Development activity;
5. Other activities according to the Articles of association.

By planning the activity of the Foundation, we consider it to be important that our activity takes place on a self-supporting basis, i.e. that the income earned by the Foundation covers all the costs connected to the activity.

Access to rural credit – uptake and issues

The purpose of the Foundation is to implement the state measures of the arrangement of the rural life and agricultural market for the balanced development of the agricultural yield and products, for providing the consumer with a food with quality, for profitable production of the agricultural products, for development of other business activities in rural area, and for guaranteeing the satisfying living standard of the people in rural areas. The activity of the Foundation in lending, guaranteeing and supporting is regulated by the Rural Development and Agricultural Market Regulation Act. The Foundation acts as a financier by granting credits to rural sector entrepreneurs directly and through lending institutions, such as commercial banks, leasing companies, and savings and loan associations. The funds distributed by the Foundation are given for specified purposes.

At the time of the composition of this report there is no obligation for the Foundation to return the funds to the state budget once the banks and rural entrepreneurs have repaid the loans granted. The rural entrepreneurship loans issued by the Foundation are:

1. Loan to the entrepreneur acting in rural area;
2. Operating capital loan for joint supply and marketing activity of the agricultural manufacturers;
3. Loan for development of the activity of the savings and loan associations;
4. Investment loan for purchasing the land needed for manufacturing.

The guarantees issued by the Foundation are:

1. Loan guarantee for an entrepreneur acting in a rural area;
2. Lease guarantee for an entrepreneur acting in a rural area;
3. Factoring guarantee for agricultural manufacturers.

From the supports the Foundation issues the information supports, and other state supports, deriving from the state budget and other laws and decrees. The information support is a financial aid, with which the costs of such activity will be covered either partially or wholly, and whose purpose is to propagate the agricultural and rural life information with a goal to assist the favoring of the agricultural manufacturing, the increase of its environment-friendliness, and the assurance of the sustainability of rural life.

Availability and performance of rural credit facilities

Assessment of short-term credit sources

Short-term loans are distributed mainly by commercial banks.

Details of the Working capital loan granted for joint activities of agricultural producers for supply or marketing purposes.

Purpose of the loan

To support joint activities of agricultural producers for supply or marketing purposes (fertilizers, chemicals, plant protection products, fuel, seeds, feeding stuff, etc)

Target group

Legal persons (entrepreneurs and companies which are registered into the business register) registered in Estonia whose owners' equity is in accordance with the law and whose main activity is to foster agricultural producing and its members/shareholders are defined as agricultural producers.

Criteria

The loan amount is 31 955 up to 255 647 Euro

The loan period is one year. Interest rate is 6 % per year.

Securities

- 1) Immovable property (a mortgage established on land that the client intends to purchase);
- 2) Buildings, fixed assets and other movable property
- 3) Guarantees
- 4) Other securities accepted by Foundation.

Requested documents

- 1) A list of shareholders or partners at the time of application;
- 2) The decision of competent body for loan application;
- 3) The decision of competent body for preparation of securities;
- 4) The last audited annual report (if it exists); auditor's report annexed to the report;
- 5) The balance sheet and income statement of the quarter preceding submission of the application;
- 6) An overview of undertaking previous activities and future plans.

Assessment of medium-term and long-term credit sources

The Rural Development Foundation (RDF) grants loans to farmers and other entrepreneurs in rural areas for different purposes and terms. RDF issues two types of loans (loans for purchase of land and loans for bridge financing of non-profit organizations) directly to applicants. Other loans are issued to customers by co-operation partners: banks, savings and loan associations. The interest rate is fixed in all RDF's loan contracts.

Loan for land purchase

Long-term, low interest loans with long repayment holiday periods enable farmers and other entrepreneurs to buy land for farming or for other business activities outside Estonian bigger cities – Tallinn, Tartu, Narva, Kohtla-Järve and Pärnu.

Target group

The target is Agricultural producers - sole proprietor, legal person, association of natural persons (entrepreneurs and companies which are registered into the business register), or a state or local government agency whose agricultural enterprise (economic entity) is located in Estonia and whose permanent activity is the production of agricultural products.

Requirements

- 1) Cash instruments to buy land must be invested outside Estonian bigger cities – Tallinn, Tartu, Narva, Kohtla-Järve and Pärnu.
- 2) The minimum loan amount is 3196 Euro, and the maximum shall not exceed 75% per cent of the price of the immovable to be purchased.
- 3) The loan period is 25 years and the annual interest rate is 6%.
- 4) The cost-sharing by the recipient of a loan shall be at least 25 per cent.
- 5) The applicant has no tax arrears for which no payment schedule has been established.

Securities

- 1) Immovable property (a mortgage established on land that the client intends to purchase)
- 2) Additional security buildings, fixed assets and other movable property
- 3) Other securities accepted by RDF

Requested documents

- 1) A list of shareholders or partners at the time of application
- 2) The decision of competent body for loan application
- 3) The decision of competent body for preparation of securities
- 4) The last audited annual report (if it exists); auditor's report annexed to the report
- 5) The balance sheet and income statement of the quarter preceding submission of the application
- 6) An overview of undertaking previous activities and future plans

Loan for bridge financing of a non-profit association

RDF's newest loan product is targeting to bridge finance non-profit associations

The applicants of the loan must be registered in the Agricultural Registers and Information Board (ARIB) approval to be granted with subsidy in the framework of National Development Plan.

RDF's loans help customers to complete their investment project before they actually receive the subsidy.

Purpose of loan

The purpose is to bridge finance the projects connected with rural development, which are supported by EU structural funds (EAGGF, ERDF, and FIFG) or by other EU programmes (Interreg, Phare etc).

Target group

Non-profit associations registered in Estonia

Where the Applicant has been granted with subsidy in the framework of National Development Plan, Rural Development Plan, or other measures.

Criteria

- 1) The Minimum loan amount is 639 Euro, the maximum amount is 63912 Euro
- 2) The loan amount cannot exceed the subsidy amount
- 3) The minimum interest rate is 3,5% for one year. For longer loans the interest rate is 6%

Requested documents

A Subsidy confirmation letter.

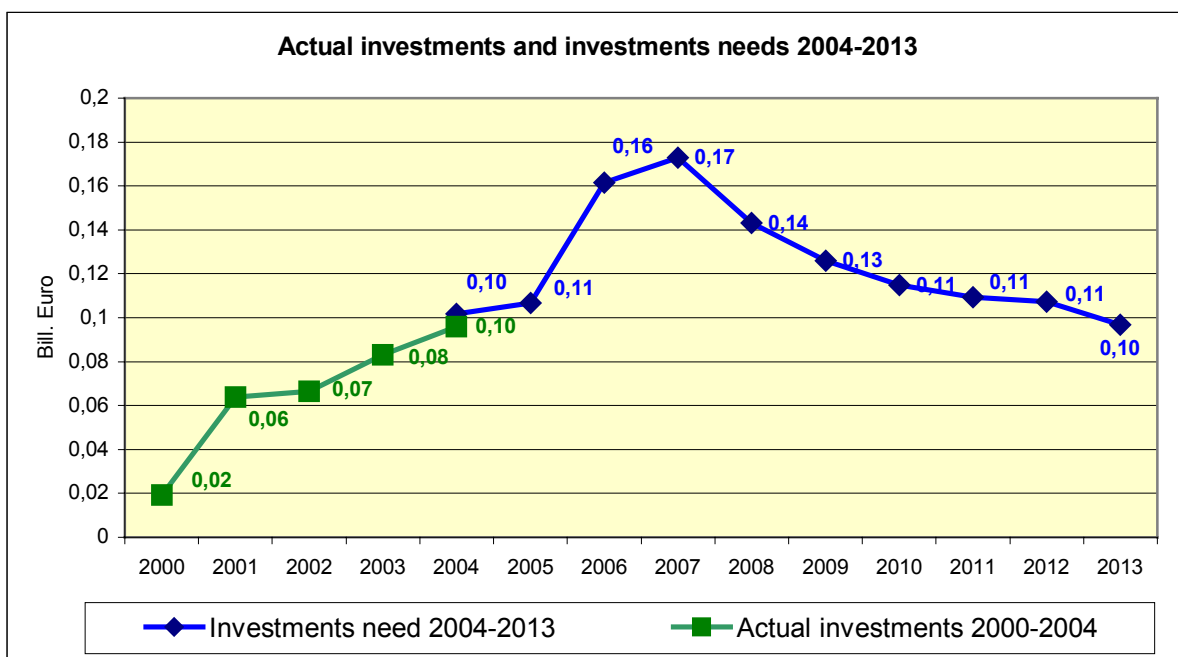
A Description of the non-profit association's project.

Additional Securities

- 1) A mortgage of immovable property
- 2) Guarantees
- 3) Buildings, fixed assets and other movable property
- 4) Other securities accepted by the Foundation

Assessment of the adequacy of credit sources

Due to the rising of investments taking into account the 'cross compliance' requirements in 2006-2008 the loan needs are increasing.



Assessments of the adequacy of credit resources 2000 2004

After the implementation of the SAPARD programme during 2001-2005, the loans for co-financing purposes were increasing. Co-financing rate for different kind of investments varied from 25 to 50 % There is no restriction on getting credit from the RDF and commercial banks for co-financing purposes.

Assessments of the adequacy of credit resources 2005-2013

For implementation of 'cross compliance' rules Estonian agriculture will need additional credit resources in 2006-2008.

2006	0,5 bill Euro
2007	0,6 bill Euro
2008	0,3 bill Euro

Evidence of credit market failure

Bankrupt of Estonian Rural Bank take place during the stock exchange crises in spring 1998 due to the wrong investments estimations. As at 31 December 2004 and 31 December 2003 the claims of the RDF in bankruptcy and liquidation proceedings were as follows:

	31.12.2004	31.12.2003
	Euro	Euro
AS Eesti Maapank (Estonian Rural Bank)	4 808 442	5 770 278
EVEA Bank	476 756	688 212

Other claims	587 699	0
<hr/>		
Total	5 872 896	6 458 490

AS Eesti Maapank

On 17th September 1998, a claim was submitted against AS Eesti Maapank (Estonian Rural Bank) to the amount of 9 223 763 Euro, It consisted of the loan principal to the amount of 7 411 259 Euro, a subordinated loan to the amount of 1 597 791 Euro, and off-balance sheet interest and penalty receivables.

According to the distribution plan approved in December 2003 the amount of 961, 836 Euro was paid to the Foundation from the bankruptcy assets of AS Eesti Maapank (Estonian Rural Bank). The disbursed amount was transferred on 26 March 2004. As of 31 December 2004 the foundation has received 58% from the total amount of proved claims.

EVEA Bank AS

On 18 February 1999, the claim was submitted against EVEA Bank AS in the amount of 2 086 931 Euro, consisting of the loan principal in the amount of 2 044 717 Euro and off balance sheet interest and penalty receivables. According to the distribution plan approved in December 2003 the amount of 211 457 Euro was paid to the Foundation from the bankruptcy assets of EVEA Bank AS. The disbursed amount was transferred on 26 March 2004. As of 31 December 2004 the Foundation has received 77% from the total amount of proved claims.

Other claims

According to the International Accounting Standard number 39 the Foundation has changed in 2004 the methodology of loan and claim provisioning. The Foundation uses estimations for the specific provisions, i.e. the loans and claims are estimated on the individual basis. According to the section 2 of § 56 of the Rural Development and Agricultural Market Regulation Act enacted on 1 May 2004, the Foundation recognizes the prepayments to the lending institutions proceeding from the guarantee liabilities, as "Other receivables". According to the law the claim of the creditor will be transferred to the Foundation in the fulfilled amount after the debtor fulfils its obligation.

The claims of the Foundation in the initiated enforcement proceedings (seven enterprises) and in bankruptcy proceedings (one enterprise) are recorded as "Other claims". The receipt of amounts deriving from the claims depends on the realization of the assets of the enterprises and on the duration of treatment procedures.

Overview and prospects

Within the framework of bridge financing, 9 short-term loans with the total amount of 248 864 Euro were given to non-profit organisations. For the borrowers the PRIA

determined support in the basis of the Measure 6 of the SAPARD “Investment support for reconstruction and development of villages”. It is planned to expand the bridge financing of non-profit organisations in the next few years.

From the issued loans the investment loans formed 87,4 % (in 2003 the respective ratio was 85,3%). The decrease in loan turnover is caused by the fact that the pre-accession program SAPARD, and the co-financing need that accompanied it, are finished. The loan interests have significantly decreased since 1 May 2004 and the financial resources of the Foundation at the beginning of the year were too small to create a program that would be interesting for financial institutions.

According to the Rural Development and Agricultural Market Regulation Act, the Foundation has started to work out a new procedure for loan application and processing, which is planned to be approved at the Council’s meeting in April 2006.

From lending activity the Foundation receives the biggest interest income from loans, which constitute 76,9% of income from main activity.

Loans by field of activity

Agriculture	76%
Financial intermediation	9%
Forestry, wood processing	7%
Agricultural suppliers, marketing	4%
Development of villages	4%

Rural credit issues for the next years (2007 2008)

1. Additional credit needs for implementation of EU Gross Compliance rules (see 2.3.1)
2. Rural credit issues for implementing the environmental rules (landscape, ecological production etc);
3. Rural credit issues for maintaining the rural life.

Chapter 7: HUNGARY

Introduction and background

An outline of rural credit facilities

Rural credit facilities have been in operation since the second half of the 19th century in Hungary (mutual funds, saving cooperatives). During the 20th century they have played an inevitable role in rural financing, even under the socialist regime. After the political changes, since 1993 the majority of the savings cooperatives have created an integrated institution and came together under an “umbrella” bank, the Hungarian Savings Bank. In 1993 the total credit financed by the integrated saving banks for agriculture was some 2,8 billion HUF but this has continuously increased since 2000 and stands now at more than 20 billion HUF. At the same time the savings co-operatives also took part in providing credit finance to other rural businesses and institutions: small and medium sized enterprises, local government, infrastructural investments (sewage, water pipe, roads, etc.). Taking advantage of “being on-site” they usually have administered the accounts of SME’s and local governments.

Nowadays the savings cooperatives provide about 18-19% of the total agricultural and rather more than 20% of the rural financing. They are present in each second settlement of Hungary (1600 branches). Practically each of them are dealing with both agricultural and rural financing. The remaining 80% of agri/rural credit is provided by the commercial banks. In Hungary there is some 40 commercial banks existing, none of them is specialized in agri/rural financing.

Major credit and rural policy developments in 2005

It is generally accepted that farm businesses are lacking working capital. The big farms ones are generally financed by commercial banks but the smaller ones are traditionally the partners of saving cooperatives. In the last year before EU accession (2003), and especially in the first half of 2004, the new credit facilities reached their historical peak due to the special circumstances: before the accession there was the last opportunity for national investment and interest support programs. The credit portfolio within the savings cooperatives climbed up to 91 billion HUF by the end of 2004, greatly exceeding the 40 billion HUF (up 78%) of the previous year.

However, in 2005 there was a sharp decline in the volume of new credit facilities. According to government policy many of the smaller farm producers cannot take part in EU supported development programs because the minimum viability criteria is much higher than that of the old member state’s standard.

Another reason for the decline in new loans is that after EU accession it is no longer possible to provide interest support by the national budget.

Access to rural credit – uptake and issues

Before the accession the structure of the credit portfolio was rather appropriate according to international standards: the dominant proportion of the credit finance was long term

credit. In 2005 this trend has been reversed and nowadays only 20% of the total portfolio is long term in nature. This means that agricultural producers must finance their long term assets and investments partly by using short term liabilities, which is rather costly for them and also could lead to future instability if credit repayments were required.

The access to rural credit for smaller entities (producers, communities, individuals) is rather problematic because they do not have enough experience in preparing the documents for new loans, or in making business plans, etc. Although the savings cooperatives are ready to support them via their advisory services, they are mostly not able to absorb these services.

As for the agricultural producers, the smaller ones are basically excluded from EU support programs. The EU minimum viability requirement for arable land in old member states is roughly 10-15 ha (arable farming) while in Hungary this is 25-30 ha.

Another problem for them is that the decision on eligibility for support will be based on historical data of the farm, instead of taking into consideration the effect of the intended investment.

It is also a problem that the applications for support will be dealt with according to the arrival order up to the deadline date; since the smaller producers have disadvantages in preparing the necessary documents, their applications are therefore likely to be processed later than those of larger farms.

Availability and performance of rural credit facilities

Assessment of short-term credit sources

Generally the role of short term credit is very important in the financial management of farming, although this particular role has decreased in importance somewhat in 2005 due to a number of special reasons as follows:

- The use of long term credit for financing current assets seems to be advantageous for agricultural producers because of the specific nature of production (the expenses occur continuously, while the turnover just once a year). Therefore everybody strives for converting his/her short term credit into longer term borrowing.
- The EU area payment came in effect in 2005, which has improved the income status of the producers.
- Hungary experienced rather good wheat yields, and hence total production in 2005 (also in 2004) and due to the EU guaranteed prices it has also had a positive effect on the income status of the producers.
- The short term credit portfolio is very much influenced by the so called "Production Systems". These types of cooperation involve a vertical integration of

producers, based on common technological interests, and guided, advised and financed by a bigger producer. The integrator supplies the production inputs (seed, fertilizer, etc.) and technological advice for the producer and the latter pays it back via products (e.g. wheat). In these cases the integrator applies for short term credit on behalf of the joint enterprise but typically the aggregated demand is less than the sum of individual requirements. Also, the credit conditions are better for the aggregated enterprise than for the smaller producers as individuals.

However, short term credit is available for the participants in the rural financial markets without any limitations although, of course, the conditions (cover, interest, etc.) are different according to the individual applicants.

Assessment of medium-term and long-term credit sources

The availability of medium and long term credit finance is very much dependent on the accessibility of rural development programmes, whether they are financed through the national budget or EU financed. The running programs are as follows:

- Decentralized Local Governmental Development Programs
- National Civil Base Program
- Human Resource Development Operative Program
- Economic Development Targets
- Small Region Support Targets
- Spatial and Regional Development Targets
- Investment Initiation Targets
- Touristic Support Targets
- Regional Economic Reconstruction Targets
- Agricultural Investment Support
- Rural Development Targets
- Spatial Development Targets
- Information Technology and Telecommunication Development Targets

Each of the above programs can form part of the rural finance picture. The saving cooperatives are very much engaged in agricultural finance, as noted above. For machinery investment the producer needs to have at least 25% from their own financial sources and the rest can be financed by the bank. In case of land purchase, within the framework of Agricultural Investment Support 100% of the land price can be financed by the bank.

It is also rather common that the machine traders like the “Production Systems” method of financing the purchase of machinery and equipment for agricultural producers, and typically they pay it back in kind. This accounts for about 20% of total machinery sales.

Assessment of the adequacy of credit sources

At the beginning of the 1990s the lack of credit sources was widespread and rather characteristic of the post-socialist state. Nowadays the commercial banks supply a wide range of loans, but many farmers and individuals are either not able to, or are unwilling

to, access this source of credit. The biggest problem with agriculture is the currently extremely low profitability of the production process. The danger is that credit finance will not be used for business development but instead will be used to meet current expenses.

Evidence of credit market failure

According to the survey of OTIVA (National Savings Cooperatives' Insurance Fund) the rural financing activity of the saving cooperatives is a bit less risky than that of the other parts of the credit portfolio. In the recent years there were only two examples for the saving cooperatives' bankruptcy.

In very line with the historical peak in 2004 in credit facilities the Rural-Credit Guarantee Foundation provided increased support compared to previous years for enterprises to have access to lending, which was mostly demonstrated by guarantees issued for 'Europe' agricultural loans and capital replenishment loans. Considering this, there was an estimation on an increase in guarantee claims in the 2004 financial plan. The estimate was based on the assumption that accession to the European Union would increase competition which would adversely affect small and medium-sized enterprises, sole proprietors and traditional farmers representing the overwhelming majority in the Foundation's portfolio. Macro-economic analysts forecast a wave of bankruptcies as a result of the deteriorating position of those enterprises. However, such phenomena were only marginally perceived in 2004; although guarantee claims increased, turning around the trend of the pervious years, they were still below the estimated rate.

In 2004, the Foundation recorded:

- credit guarantee claims to the tune of HUF 699 million (94 cases)
- claims of counter-guarantees of HUF 489 million
- recoveries of HUF 192 million.

Although they increased both in number and in value from the previous year (compared to 60 cases and HUF 497 million), guarantee claims were still below the average claim rate of recent years.

Overview and prospects

After the EU accession there was a special moratorium on paying back borrowd capital for 1 – 2 years. This year the government has extended the moratorium because of the impacts of flood and drought for one additional year. But, in any case, the peak in the burden of credit repayment (because of the credit peak in 2004) is expected to occur in the coming years. Because of the currently very low profitability of agricultural production there is an urgent need for some kind of agricultural credit programs, otherwise the sector – especially the smaller farmers – will not be able to survive this particularly difficult situation.

The commercial banks and saving cooperatives are ready to finance the development of rural Hungary, moreover it is expected that there will be an increase in the level of the competition among them. Although the bigger commercial banks in the past have partially withdrawn from financing farms and rural businesses, this was because the partners were too small in their sense. Recently, however, in this era of plentiful credit supply, they are re-evaluating their previous views in this respect.

Even so, although the bigger banks are again willing to finance bigger rural projects, they are unlikely to pay too much attention to the smaller ones. These will remain for the saving cooperatives to pick up.

There is an important underlying question which is ‘What does the government want to do with the rural areas?’ For example, if the kindergartens, schools and health care services in small villages are seen as being in need of so called “restructuring” (which the inhabitants in question interpret as pointing to closure), they will not be able to keep the rural population in the rural areas. In that case the future of rural development in Hungary is rather questionable.

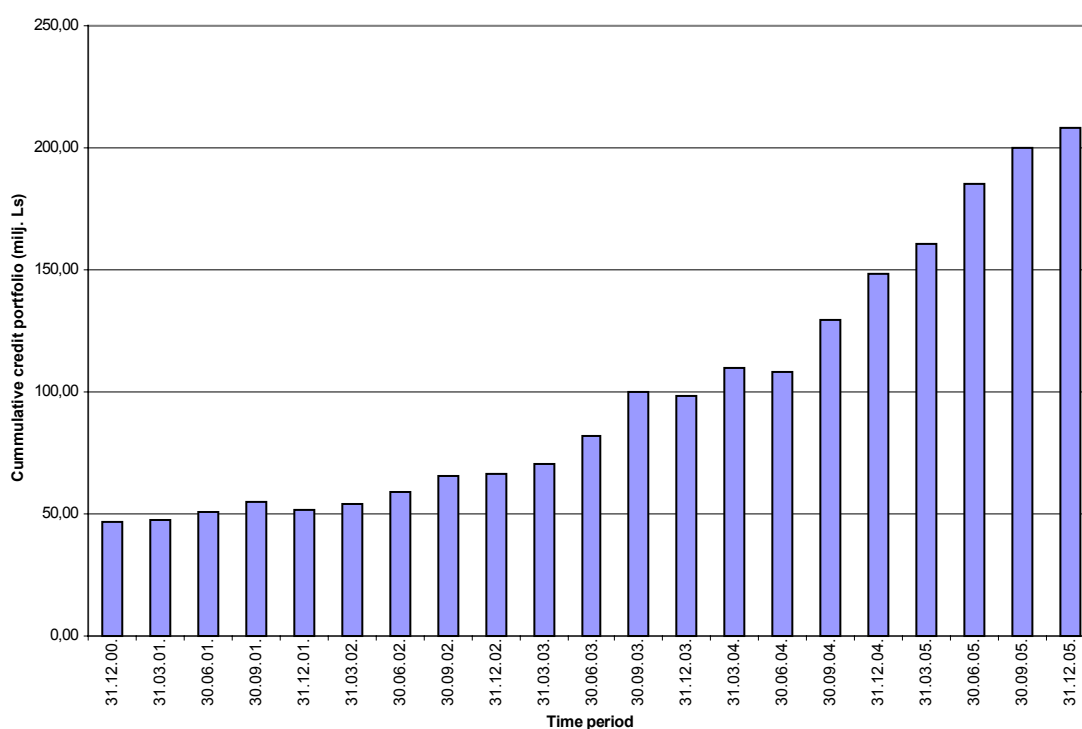
Chapter 8: LATVIA

Introduction and background

There is no available data based analysis differentiating short and medium/long term crediting in rural development/agriculture sector. Only qualitative (expert based) assessment could be performed to describe main tendencies and practices in a field.

There is rapidly developing share of agriculture related credit portfolio in Latvian commercial banking sector. Overall dynamics of commercial crediting for agriculture is represented in Chart 1.

Chart 1. Dynamics of cumulative credit portfolio (milj. Lats) in Latvian commercial banks.

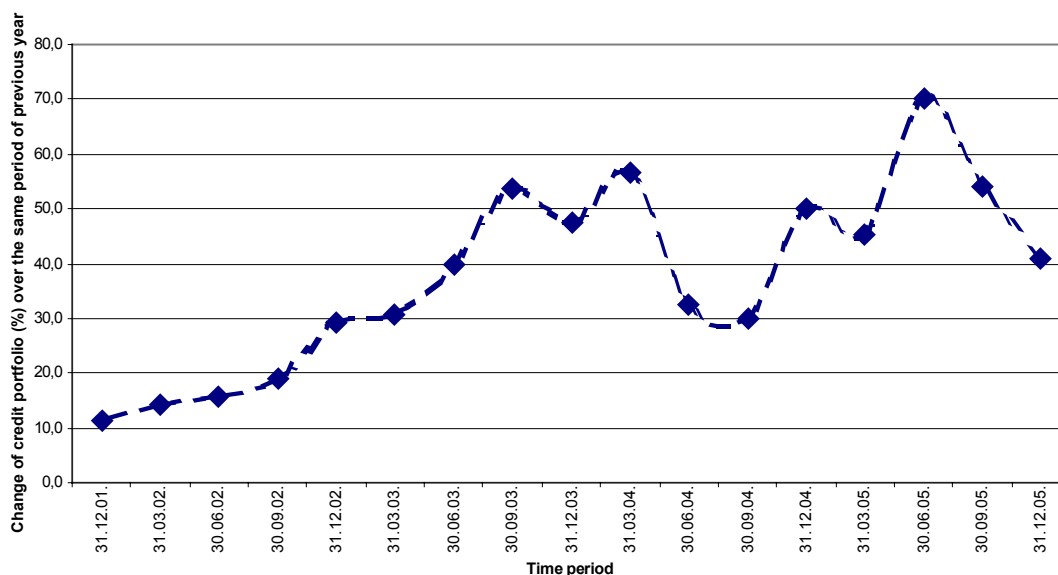


Source: Data - The Financial and Capital Market Commission; Calculations and representation – LSIAE.

To assess tendencies and main factors influencing credit based financing in the sector of agriculture there are provided data on change rates of agriculture related credits (cumulative portfolio) in Latvian commercial banks over time (Chart 2). There is evidence of important deviations from steady growth with noticeable increase of growth rate attributing to the end of year 2003 – beginning of 2004 and end of 2004 – beginning of 2005. These deviations mainly could be associated with periods of intensive absorption of pre-accession and structural funds of EU in Latvian agriculture sector. However partly these impacts are covered up also by institutional and structural changes in Latvian

banking sector. Potentially some improvements in credit procedures shortening necessary time for arrangements caused shift of seasonal function, and consecutively calculations of change rate between same periods of different years ceases to be good estimate.

Chart 2. Change rates of agriculture related credits (cumulative portfolio) in Latvian commercial banks over time.



Source: Data - The Financial and Capital Market Commission; Calculations and representation – LSIAE.

Main actors in credit financing of agriculture in Latvia are several universal banks (to be mentioned A/S “Latvijas Unibanka”, A/S “Parekss banka”, A/S “Latvijas Krājbanka”, A/S “Hansabanka”). Comprehensive role in financing of the sector plays “VAS “Latvijas Hipotēku un zemes banka” (Mortgage and Land Bank of Latvia). Being a twofold bank – *development bank* and *commercial bank*, it implements the State Aide programmes and ensures that the State Aide is not used to gain commercial benefits. In order to develop the Bank’s operations further and use the existing capacity, the Public - Private Partnership (PPP) model is implemented by attracting private capital and keeping the implementation of the existing and future State Aide programmes under State control. The Mortgage and Land Bank of Latvia that operates in accordance with PPP model is an effective instrument of the Government of Latvia for flexible implementation of the objectives of national economic development in its capacity of the Development Bank, but as a Commercial Bank it is an effective profit oriented bank that supports the Government of Latvia in achievement of the objectives of the national economic development.

While **growth rate of agriculture’s credit portfolio** remains positive and pretty high (as evident from Chart 2.) it decreased in second half of 2005. Partially this decrease could be associated with seasonal changes, but we don’t foresee return of the rate to the level of 60 – 70% per annum. As producing capacity of Latvian agriculture sector adequate to the available markets is nearly reached, supposedly there is reached also some “credit capacity” for the agriculture sector in Latvia.

To characterise development of financial markets and economic environment in Latvia, additionally there are provided data on changes of interest rates for long-term and short-term credits in Latvia (Table 1.) If in the year 2000 we observe higher interest rates for short-term credits, then since year 2002 rates for long-term credits exceed rates for short-term credits. It’s caused by changes in perception of safety of investments over different time horizons. Supposedly process of joining EU brings in business environment more uncertainties for distant future.

Table 1.

Year	Average weighted interest rate for commercial credits in Latvian banks	
	Long-term	Short-term
2000	10.3	12.1
2001	10.4	10.8
2002	8.5	7.5
2003	7.5	5.4
2004	9.2	7.5
2005	n.d.	n.d.

Source: CSB Latvia (Central Statistical Bureau of Latvia).

Summarising above mentioned there could be drawn a conclusion – in Latvia at the moment there persists well developed infrastructure for commercial and development financing of rural (mainly agriculture) sector.

Availability and performance of rural credit facilities

To assist farmers and rural entrepreneurs in finance and other knowledge-demanding issues there is established “The Latvian Rural Advisory and Training Centre” (LAAC). It serves as training and advisory institution for farmers and rural entrepreneurs.

The staff of LAAC is 220 employees. Status - non-profit limited company, owned by the State (99%) and the Farmers Federation (1%). Over 20 thousand farmers use services of the LAAC.

The National centre of LAAC at Ozolnieki includes Departments of:

- Agriculture,
- Farm Management and Financing,
- Training and Further Education,
- Information,
- Economy and Rural Development.

There are 26 local agricultural advisory offices (AAO) that offer services in agriculture in all 26 districts of Latvia.

To provide more preferential financing in support of **rural development** there is established set of specialized finance instruments. Some of them are not bank related, other are implemented through commercial banks. Brief overview of main instruments is reflected in Table 2.

Table 2. Main preferential finance instruments for support of rural development.

	Main objective	General conditions	Financial instruments and specific conditions			Overall capacity or capital
			Credits	Other investments and guaranties	Technical assistance programs	
Rural Development Fund	To guarantee credits for rural development if borrower is in shortage with his own guarantees	For agriculture only		Guarantees for commercial credits in banks having partnership contract with the Fund. Co financing - 30 – 80% of total of the credit		
Latvian Guarantee Agency	To promote entrepreneurship undertaking large part of the risk in case if prospective enterprise can't obtain the credit due to lacking of sufficient guaranties	For capital assets, buildings, machinery, as well investments in non-material assets, design, marketing, innovation		for 2 – 7 year period; Co financing not exceeding 70% of total of the credit		
Program for Support of Non-agricultural Entrepreneurship	Promotion of economic development in rural area by support of non-agricultural entrepreneurship, improving infrastructure	Entrepreneurship which isn't related to agriculture	Max - 10 thous.. LVL (could be combined between different types of support)	For guarantees – 70% of total of the credit	For grants – max 30% of the eligible costs of the project if project implementation is in the region of the special development support status	7 milj. LVL
Agriculture Long Term Investment Crediting Program	To promote creation of sustainable and competitive farms in capital intensive branches of agriculture	New buildings for agricultural production and pre-processing, hydro technical constructions for fish farming, reconstruction of buildings for agricultural production and pre-processing, purchase of the equipment and land required for these projects	Depending on the branch of agriculture - 5 – 100 thous. LVL (at 7%) for period up to 20 years			24 milj LVL
Crediting Program for Purchase of Agricultural Land	To promote functioning of the land market and more effective management of the agricultural land	Purchase of the agricultural land (non-agricultural land can't exceed 30% of total value of land, in total no more than 400 ha)	Long-term investment credits (at 4%) for period up to 20 years			2,5 milj. LVL

	Main objective	General conditions	Financial instruments and specific conditions			Overall capacity or capital
			Credits	Other investments and guaranties	Technical assistance programs	
Crediting Program for Rural Development Projects	Promotion of development of entrepreneurship outside of major cities of Latvia (Riga, Daugavpils, Liepaja, Jelgava, Jurmala, Ventspils, Rezekne)	Can be granted only once to private persons for starting their business or to small businesses having not credits in their history up to the moment	Credits at 8.5 – 13% (fixed) rate not exceeding 2000 LVL, for period up to 18 month (for currant assets) or up to 12 years for other			
Crediting Program for Small and Medium Enterprises	For support of SME-s	Need guarantees in form of immovable, deposit, securities, transportation means, equipment, machinery, warranty etc.	150 – 300 thous. LVL at rates 2,75 – 6% + EURIBOR; for period up to 12 month (for currant assets) or up to 10 years for other			

Overview and prospects

Short-term credit

Main sources for short-term credits are commercial banks. Quite widespread is also practice to provide short-term credits for agriculture making in-advance payments based on contracts between farmers and merchants, processors and manufacturers.

Medium-term/Long-term credit

Main sources of medium-term/long-term credit are commercial banks as well above mentioned specialized finance facilities.

Chapter 9: LITHUANIA

Introduction and background

An outline of rural credit facilities

As is the case with most transitional economies, the financial sector in Lithuania has faced many difficulties and there is still much to develop. Since independence, three state-owned banks and 25 commercial banks have been established. However, of the 25 private commercial banks only about 15 were still functioning by mid-1995 and only 11 are still functioning at the present time. Credit Unions were first set up in 1994 and since then 64 unions have been established.

While initially most of the banks limited their activities to short term foreign currency loans and accounts in foreign correspondent banks (MMT – does this mean foreign banks with which formal links had been established – YES), from 1995 onwards banks started to expand their lending activities and have introduced a wider spectrum of services. Due to a lack of information, inexperience, the high transaction costs of servicing small size farm loans, uncertainties surrounding collateral and expertise in lending to agricultural activities, Lithuanian commercial banks have not been extending credit to farmers and small-scale rural enterprises. The Agricultural Bank of Lithuania has been the sole source of agricultural credit, and ABL has specialized in providing banking services to the agricultural sector.

In early 1994 the EU's technical assistance program PHARE started its support to Lithuania's rural banking system initiation (in the period until 1999 approximately 2 mln. EUR were disbursed for the establishment of a Rural Banking System). Support for this development was also obtained from the World Bank Private Agricultural Development Programme (PADP), involving a 30 million EURO credit line expected to be disbursed over the period 95-97.

Partly because the World Bank loan initially was not as successful as planned in attracting the anticipated level of demand among rural borrowers, for various reasons linked to its cost and administrative structures the focus of the project shifted to the preparation of, and support for, the establishment of the Rural Credit Guarantee Fund (RCGF) the capital of which came from Government together with a 2 mln. ECU grant from PHARE. The Fund started operations in the first quarter of 1998.

The establishment of the RCGF and later amendment of its activities has a little improved the accessibility of agricultural credit, which was formerly very difficult to obtain: interest rates for commercial bank credits were very high (12-16%); only short-term credit terms (up to 5 years); and typically collateral requirements were very tight. Consequently bank loans, especially long-term ones, used to comprise only a small part of farmers' liabilities: trade credit, on the contrary, was the main lending source.

In recent years the rural and agricultural credit situation has improved and a number of developments deserve mention here. Land ownership, for persons with legal title, has been regularised, and an agricultural credit system has been established. Taken together with the development of the land market, the range of EU support for rural businesses and increasing bank confidence in them, the situation has been improving.

Today there are four main credit sources for agricultural and other rural businesses:

- 11 commercial banks;

- 64 credit unions;
- trade credits;
- municipality SME support funds.

All these sources are for agricultural as well as for other rural businesses under the same initial conditions.

The commercial banks offer the widest spectrum of long-term credit (investment) and short-term credit (credit lines, overdraft, factoring, etc.). However, although the interest rates are low enough – about 5-6% - the application procedures and the necessary collateral, together with the multitude of necessary documents, make credit-receiving still too complex for many agricultural and other rural entrepreneurs, mainly for small ones. A major problem for them is to prove the efficiency of the business and good loan repayment perspectives.

The network of credit unions is quite well developed, nevertheless they account for less than one percent of loans in the sector. Credit unions usually issue credits faster and more easily than commercial banks, albeit with much higher interest rates – about 8% (range 6%-12%). Most of their loans are provided for SMEs.

Trade credit, although the most expensive form of loans, is sometimes the only lending source available to the smaller agricultural or rural business. Usually trade credit doesn't require collateral nor complicated document processing. Credits are issued for short as well as longer term periods. The main types of available trade credit in Lithuania are: input supply credit, farm investment financing by processing companies, direct investment in downstream company, co-signing of bank loans, credit to produce farm output for export and credit to improve product quality and safety.

Some 41 municipalities (out of 60) have set up SME Support Funds. The majority of these funds are provided in the form of preferential loans, partial or full interest-rate subsidies for commercial loans, direct financial support for small investments and subsidies for training and counselling as well as for marketing activities. They usually provide small-volume credits, the procedures for obtaining them are simple, and they are accessible for all rural trade subjects.

The RCGF, which is 100% state owned, cooperates with all of the commercial banks and, since September 2005, also with credit unions. An indication of its importance in extending the availability and use of credit in the agricultural and rural sectors is shown by the statistic that approximately 54% of total lending to farmers is covered by a guarantee from RCGF. It provides guarantees for both long and short-term credits (up to 70% and up to 80% for young farmers of the unpaid credit amount). The principal beneficiaries are agricultural as well as other rural businesses. The fund also administers state aid – compensation for guarantee fees, insurance premiums and loan interest to guaranteed credit beneficiaries (for more detail information see Annex 1) – and it also performs research, provides banks with analytical guidelines (RCGF prepares reviews on agricultural specificity which become more and more interesting to banks) on the profitability of agricultural and rural businesses, and generally modifies market processes so as to lower the risk for credit market participants.

The RCGF is also accredited to administer the licensed storages compensation fund. The documented system of licensed storages will help grain producers and processors to store grain in these storages in return for medium-term loans from credit institutions. (grain producers and processing companies that have pledged stored grains to credit institutions, will be able to get medium-term loans to cover the operational expenses)

Major credit and rural policy developments in 2005

Policy measures implemented in 2005

In June 2005 the Lithuanian government approved a modification of the Rural Credit Guarantee Fund's activity rules, committing the fund to work in accordance with not only the laws governing Stock companies and Debt, but also to according to the law governing Financial Institutions. The other important change for rural business development at this time was that 'other rural activity' now includes all business activities performed in rural areas. It's also planned to change the RCGF rules modifying the order of guarantee fee payment – to differentiate it according to project risk, credit term and other factors. It should contribute to the further development of reciprocal confidence and cooperation with credit institutions.

Since September 2005 the RCGF also started to provide guarantees, for those credit unions which satisfy the stated requirements (34 unions), on the same basis and conditions as for the banks (earlier guarantees were given only for banks). Also entities which have obtained credit with guarantee are subject to other state aid measures, such as partial compensation of interest paid to credit unions, of insurance payments for impawned assets and of the guarantee fee. By reducing the lending risk for credit unions (consequently encouraging them to lower interest rates), and by compensating part of the borrowing costs. these amendments should improve borrowing conditions from these institutions on the whole.

In order to satisfy the growing need for guarantees, every year the Lithuanian government has increased the limit of state guarantees. In 2006 the government certified 360 mln. LTL guarantee limit - much larger than in 2005 (280 mln. LTL) which itself was almost double the limit in 2003.

On the private bank level the new policy towards agricultural loans is being observed. For example, the Ukio bank together with the Fund organised the consultation cycle "Money for Lithuanian countryside" in various districts of Lithuania in 2005. During seminars rural entrepreneurs and farmers were provided with information about how, and under what circumstances, it is possible to get credit for business development, how to profit from RCGF services, etc. Šiaulių bank started to work out a specific methodology for providing credit for small rural and agricultural entrepreneurs. Nord LB bank has signed an agreement with the Rural Small Businessmen and Craftsmen Association of Lithuania for preferential credits on the basis of providing an assessment-reference for an applicant's business. These activities show that the commercial banks are getting more and more interested and confident in financing the agricultural sector. As the competition among them increases, so all of these factors positively influence the increasing access to credit for agricultural and other rural businesses.

Published research or analysis related to rural credit

The most recent detailed research on Lithuanian rural credit facilities with detailed analyses and an evaluation of rural credit accessibility, was performed in 2004 (Meyers W.H., Kazlauskienė N., Naujokiene R., Krisciukaitiene I. *Rural Financial Constraints in the Framework of EU Accession of Lithuania*).

Ideas for policy development

An agricultural and rural business register has been created and contains a great deal of information on rural businesses, including personal data of the owners/employers, information

on business assets, activities, etc. These databases could be used when applying for credit, in order to simplify the procedure and reduce the number of necessary documents.

Since in Lithuania several credit unions operate which do not belong to the Lithuanian Central Credit Union (LCCU), these credit unions are not covered by the LCCU's safety instruments, such as supervision, the restoration of impaired solvency or liquidity requirements. Practical experience not only of Lithuanian credit unions but also other credit union movements shows that it is not possible to fulfil the essential supervision functions properly if such supervision does not cover all credit unions. Another shortcoming of the present situation is that the LCCU does not have any real powers to apply sanctions to credit unions. If the LCCU discovers mismanagement or even fraud in those credit unions it regulates, it may only inform the central bank or terminate the membership of the credit union in question. Practical experience shows that these powers are not always enough to ensure the safety of the whole system. Therefore these above-mentioned shortcomings of the legal framework within which Lithuanian credit unions operate should be discussed and action taken to address them in the future.

Access to rural credit – uptake and issues

It is clear that rural financial conditions and access to financial resources have significantly improved as compared to the end of 1990s and beginning of this decade, which was a kind of turning point in agricultural and rural conditions. Nevertheless the situation stays quite complicated. There is no general lack of credit resources in the domestic credit market, but small and medium firms have limited access to these resources. They rely far less on borrowed funds as compared with larger farms. The share of equity in the assets structure of such units has shown a tendency to decline, as has the equity per ha of agricultural land. During the 1998 – 2003 period these ratios declined respectively by 10% and 48% for farmers' farms (Annex 2). At the end of 2003 the ratio of equity to all assets was 85% and the ratio of debt to equity was only 9%, though this ratio has been increasing during recent years. The relatively low levels of debt may suggest a significant potential for increased investment and use of credit in the future.

By comparison, the ratio of debt to equity was 40% for agricultural companies – twice as much as for farmers' farms. The capital borrowed from banks constituted only 22% of total liabilities for agricultural companies and even less of the credits for farmer's farms. It implies that trade credit from suppliers and processors comprised virtually all of the farmer's farms credit and the greatest share of liabilities of agricultural companies. Unfortunately there are no statistics on the total scale of trade credit, but it could be implied that it amounts for about 10% of farmer's farms and about 30% of agricultural companies' total assets.

In the period of 2002 – 2005 agricultural loans issued by banks have increased more than three times (Annex 5). Growth was especially significant in long-term loans, while short-term loans stayed more or less stable (in 2005 loans for agricultural sector amounted 2% of all issued loans). Nevertheless the number of issued loans remains very low. According to the research, performed by RCGF, banks and credit unions together have issued loans to only 4754 agricultural businesses (out of 20000 commercial farms, and 226000 farms in total) by the end of 2005. Only 1300 of these businesses got loans from the commercial banks. The absolute majority of issued loans were taken for long-term investment projects.

RCGF in 2005 issued only 317 guarantees, although the overall sum (167,4 mln. LTL) may seem large enough. Encouragingly, there has been a tendency for an increase in the frequency with which loans are taken from commercial banks and credit unions. **According** to RCGF research data, 31% of surveyed agricultural companies took credits in 2003 and

already 62% in 2005 but on the other hand taking trade credits has also risen almost twice (from 35% to 70%).

Many more loans are being issued to young farmers (101 guarantees in 2005, compared with just 36 in 2004). In total, farmers got 49% of all the Fund's guarantees. However, in recent years non-agricultural businesses have been borrowing more and more (9% of all guarantees were made in respect of activities alternative to agriculture and 9% to processing companies).

Most of the credit with guarantees was given to businesses operating in crop production (60% of all agricultural producers), while among processing companies meat processors were predominant, and among other rural businesses— manufacturing was important.

Most of the credit is long-term, and taken for investment purposes (85% of all guaranteed credits). Priority was set for projects supported by EU and in 2005 they amounted 43% of all guaranteed credits for investment and in the first quarter of 2006 – only 20%. This indicates that farmers are actively taking credit for investments even without EU support and that banks get more confident in agriculture as in stable economical branch. According to bank representatives, large farms and other rural business usually have no problems to get credits as they have initial capital, collateral and experience. Small ones, on the contrary, usually ask credit having almost nothing of their own what makes credit providing too risky for the banks.

Although progress is very slow, it is evident that agricultural entities are starting to borrow from banks to increase their working capital. The other tendency is that, together with the increasing number of applicants, their submitted projects are of typically smaller scale. These findings point to a positive shift, showing the accelerating development of borrowing habits in this sector of the economy.

This tendency towards increased borrowing has influenced by several factors. One of the main was the greater extent of EU and national support. However it mainly improved credit access for large farms and businesses. Due to compensational principal of EU support (farmers regain investment resources only after the investment has been made) and small turn-over of SME, the latter cannot make a viable investment project. Other factors include: the established hypothec system enabling agricultural land to be accepted as security for a mortgage in the banks; the increased income of rural subjects after EU accession; cheaper credits as compared to previous years; and, gradually, more active and bolder farmers. It should be noted that after a banking crisis of quasi-financial institutions in the middle of the last decade an overall mistrust of all banking institutions emerged and it is only quite recently that people are gradually getting over it.

An important factor influencing credit accessibility is the role played by the RCGF guarantees. The Fund not only guarantees 70% of the loan, but also compensates the major part of guarantee fee (80%), the insurance premium for mortgaged assets (50%) and interest payments (30%; for young farmers – 40%). Very favourable conditions are set up for the purchase of agricultural land (compensated 50% of interest; 60% for young farmers). On the other hand, several bankers have complained that RCGF doesn't want to guarantee risky projects, so those that need most support are usually left out.

But even under these favourable conditions bank lending to agricultural and rural subjects remains very low. There are several main problems affecting rural credit accessibility, particularly in relation to smaller business entities:

1. Fear and reciprocal mistrust.
2. The small size of farms – banks usually don't even start negotiating with farms smaller than 50ha (which make the majority of all farms in Lithuania ineligible). A major problem is to prove the efficiency of the business and good loan repayment perspectives. These are usually not easy to justify, since they are small-scale with relatively limited turn-over and uncertain marketing conditions, high production costs due to expensive investment and operational capital. Moreover, a particular characteristic of Lithuanian farmers is a tendency to want to own all their machinery and other assets, and are reluctant to consider cooperation, although it's not worth to buying it alone. Small farms find it difficult to provide the needed collateral for a mortgage; besides, in the case of investment projects, it's necessary to have at least 10% of own assets.
3. Difficult procedures, lots of complicated documents, which are hard to fill out even for agricultural companies.

Availability and performance of rural credit facilities

Assessment of short-term credit sources

The main source of short-term credit is trade credit given by suppliers and/or processors. Trade credit comprises virtually all of the farmers' farms credit and the biggest share of the liabilities of agricultural companies. The number of agricultural companies using trade credit has doubled since 2003 and, though the majority of these companies admit that bank credit is cheaper, they state that trade credit is much more comfortable and easy to obtain. Typically, short-term credit is repaid using the crop harvested at harvest-time.

The second most popular source of credit, though much less important, is provided by credit unions. They mainly issue low value credit (2000 – 5000 LTL) for the purchase of seeds, fertilizers or animals. Credit unions do not require collateral (they use warrantors instead) and issue credit fast.

Banks offer a wide variety of short-term credit options (short-term credits, credit lines, overdraft, factoring, etc.), but only very few rural businesses apply for them. Banks require evidence of the profitability of a business, have complicated document to be filled in and also require adequate collateral. Moreover, they usually do not accept agricultural land as suitable collateral for short-term credits (agricultural machines and facilities are preferred).

The RCGF guarantees 70% of the unpaid credit amount (80% to young farmers). Nevertheless short-term borrowing from credit institutions is very laggard.

Assessment of medium-term and long-term credit sources

The main sources for long-term borrowing are suppliers/processors and banks. Almost all companies trading agricultural and machines provide leasing services. Processors' support schemes are not very popular in sectors having an excess supply of stock (e.g. the grain sector). Suppliers/processors issuing trade credits demand an interest rate of 8-9%. The source of their own funding is banks from which they get loans with much less interest (5-6%; though according to bank forecasts, these rates will increase). Farmers have to pay twice, but as it's very difficult, especially for small farms, to get a credit from the bank, they do nevertheless apply for trade credit.

However, big investment projects, especially those co-financed by EU funds, are mainly credit-funded by banks. These credit institutions have a great deal of money which could be lent to agricultural and rural businesses and their interest rates are low enough (4,9% – 5,5%), although the loans at least in the meantime are available only for big farms. Banks do not have confidence in small farms and, if the applicant's farm is smaller than 50ha, most banks probably won't even consider their application. In these circumstances the potential guarantee from the RCGF is never accessed, because the procedure of guarantee issuing requires agricultural and rural businesses to first apply for credit to the bank; only if the bank is interested can the bank itself apply to the RCGF. Apart from the general mistrust of banks, small farmers would anyway find it difficult to save up the necessary 10% of his own assets which is typically required for all long-term investment projects.

On the other hand, banks are getting more and more interested in agricultural and other rural business credit, and they have started cooperating and communicating with various rural associations. For example, the Rural Small Businessmen and Craftsmen Association of Lithuania has signed a cooperation agreement with Nord LB Bank for providing the bank with valuation-reference in relation to the issuing of credit; the Šiaulių Bank is preparing a specific methodology for providing credit to small rural and agricultural entrepreneurs; and they have begun to participate in RCGF courses about particularity of agricultural sector, etc.

The filling out of necessary documents and the preparation of business plans are two of the most problematic factors discouraging farmers and small rural entrepreneurs from applying for to a bank for credit. An absolute majority of farmers and the majority of agricultural companies have to use the services of an expensive consultant for filling out the documents (and even then there's no guarantee that this consultant will be qualified enough). Further, the issuing of bank credit can take up to several months.

The State plays an important role in credit accessibility both through RCGF and through municipality funds. The RCGF guarantees 70% of the unpaid credit amount (80% to young farmers). While in the early years of the Fund's operation, the largest share of guaranteed loans were granted for the procurement of inexpensive agricultural equipment, in the last few years there were an increasing number of larger and more sophisticated investment projects. On the other hand, it's observed that RCGF doesn't want to guarantee risky projects, so those that need most support are usually left out. The municipality funds provide reversionary and irretrievable credits. While the maximum amounts of these credits are small at 2000 – 30000 LTL, they are available for everyone and are especially popular among small farms because of the uncomplicated procedures (only a very simple activity plan is required) and the minimal formal requirements.

Credit unions issue very few long-term credits, mostly because their portfolios usually are too little to provide large investment loans.

Assessment of the adequacy of credit sources

Farmers' views about the adequacy of rural credit provision was evident during interviews with specialists from RCGF and representatives of various professional organisations (see references). According to them farmers find it very difficult to obtain credit from the banks, and for small farmers it's almost impossible. The main accessibility problems of bank credit are the collateral requirements and the very complicated document filling (involving both many documents and very detailed and complex business plans). But the banks are the cheapest source of borrowing with interest rates currently varying from 5% to 6%.

According to the representative of Rural Small Businessmen and Craftsmen Association of Lithuania every second rural entrepreneur applies to the bank. Unfortunately, there's no exact data about the volume and number of issued credits for rural businesses. The main obstacle in this sector is related to mortgage requirements (because of property ownership issues).

Most of the credits are taken for investment purposes and very few for short-term needs.

The most readily available source of credit for agricultural subjects is supplier/processor credits – simple and quick to obtain, but also the most expensive of all (8% - 10%). They provide the vast majority of short-term credit for agriculture. The repayment of this credit is usually made at harvest time in either in kind (i.e. crop yield, for processors) or in money (for suppliers).

In terms of accessibility credit unions' loans to farmers fall between the banks and trade credit from suppliers, and the interest rates on their loans are also at an intermediate level, being more expensive (at 7% - 12%) than the banks but also more complicated to get than from the suppliers. Furthermore, they can provide only small-amount loans.

Until recently commercial banks in Lithuania didn't have specialists in agricultural/rural credit. The main reason for this was that their lending portfolio included very few agricultural loans. Only one bank, the Lithuanian Agricultural Bank, actively worked in this sector but even then only until its privatization in 2002. However, the RCGF has started organizing courses for bank specialists which focus specifically on the characteristics of the agricultural sector; the RCGF also prepares and publishes a general overview of the sector with the prospects for agricultural markets.

The Government has founded the Lithuanian Agricultural Advisory Service which provides consultancy support about the use of EU structural funds, the possibility of obtaining credit, etc. but these consultants don't help directly in the drawing up of business plans for farmers and other rural businesses.

Evidence of credit market failure

According to RCGF research till the end of 2005 (in 15 years) banks have issued only 1300 agricultural loans and 3400 loans were given by credit unions. These very low numbers mainly reflect large farm borrowing which is described as relatively easy. In the meanwhile small-scale farms having less than 50 ha of land represent more than 98% of farmers and about two thirds of all agricultural land. These SME which usually have no initial capital, little turn-over, lack of experience and economical-financial knowledge cannot make a viable investment project under currently available programs. This means that a majority of Lithuanian farms and the most typical ones are not impacted by most of current financial programs or services. This leaves behind what could be a very dynamic part of agriculture and rural economy.

Overview and prospects

It is clear that rural financial conditions and access to financial resources have significantly improved as compared to the end of 1990s and beginning of this decade. Nevertheless the situation stays quite complicated. Although there is no general lack of credit resources in the domestic credit market, but small and medium firms have limited access to these resources. The major problem is lack of initial capital and small scale, which impedes grounding the efficiency of the business and good loan repayment perspectives. Therefore encouragement of micro crediting should be top priority right now.

The borrowing by large entities was substantially influenced by increased EU support. Since accession to EU SME have been also benefiting in the form of direct and compensational payments. These income support and other CAP rural development measures have already increased farmers' disposable incomes and over time it should significantly influence farms financial state which is crucial when applying for the credit.

The most available lending source by now was trade credits. They account for an absolute majority of short-term and a big part of long-term credits. Such lending tendency should endure for forthcoming years at least.

The amendments of RCGF rules in 2005 when it started to provide guarantees also for credit unions should improve borrowing conditions from these institutions. On the private bank level the new policy towards agricultural loans is being observed what shows that banks get more and more interested and confident in financing agricultural sector, the competition among them increases, what positively influences the increasing credit accessibility for agricultural and other rural subjects. This cooperation and communication has to be further developed.

Chapter 10: POLAND

Introduction and background

An outline of rural credit facilities

Prior to the political transformations in the beginning of 1990s, Poland's credit policy concentrated mainly on state-owned enterprises with a relatively easy access to credits that were often written off. In the 1970s and 1980s, the policy also related to privately-owned, mostly specialist-farms (**Kulawik 2000**). In general, however, the debt level of the private agricultural sector in the 1980s was lower than that of the state-owned farms (**Klepcki 1997**). Credits and loans were usually appropriated for investment purposes. After 1989, the economic transformations in Poland related to both the rural areas and the agriculture.

Initially, the liberation of prices for agricultural products led to the increase in agricultural income, but the successive liberation of prices for the means of production caused the situation to deteriorate, especially in that the demand for food decreased as well. At the beginning of the 1990s, farmers used no preferential forms of lending. However, the lack of means for the financing of the ongoing expenditure, combined with the protests of farmers in 1990-1991, resulted in credit lines for purchasing mineral fertilizers, plant protection agents, agricultural produce, and animal husbandry (**Kulawik 2000**). From 1991, preferential loans also involved the financing of capital expenditure aimed at adjusting farms to ecological forms of production, purchasing land, and reclaiming land by means of the purchased agricultural machines and devices (**Koziol 1997**). In 1992, the number of farms and agriculture-related enterprises that had lost their repayment capacity was at its highest (**Kulawik 2000**). At that time (mid 1992), the number of farmers with overdue debt was estimated at thirty thousand, whereas the value of the overdue debt totalled PLN 60 mln.

As a result of aid for indebted farmers, offered by the Ministry of Agriculture and Food Economy from 1991, banks withdrew certain titles of execution, exempted debtors from repaying overdue interest exceeding the basic interest rate applied by banks, postponed the repayment of credit instalments and carried out credit conversions (**ARMA 2004**). This aid, however, failed to solve the problem of debt on a systemic basis. Neither was the situation improved by the Agriculture Restructuring and Writing Off Debt Fund (Polish: Fundusz Restrukturyzacji i Oddłużania Rolnictwa (FROR)) which was established in 1992 in order to carry out tasks in the area of credit protectionism (**Kulawik 2000**). Consequently, in order to find a new solution with a view to avoiding the FROR's errors, the solutions implemented in France were adopted (**Kulawik 2000**). Based on the solutions, adequate rules and regulations were prepared in 1993, in order to establish the Agency for Restructuring and Modernisation of Agriculture (ARMA). Among the numerous tasks which were initially imposed on that institution, subsidizing the interest rate of investment credits was one of the most important.

Taking into consideration the investment activities of farms and entities operating within the widely understood agribusiness, entities creating new jobs in the rural areas should be recognised as a step in the right direction, especially in the light of the needs shared by this part of the Polish economy and the necessity to compete on the international market, including the common European market. During the entire period of the functioning of the ARMA's preferential credits, their availability for specified entities (entity limits) and investments (purpose limits) have depended on the current rules connected with individual

credit lines. Consequently, they indirectly depend on the current policy. Other important tasks of ARMA during the accession period included: subsidizing the working capital and guaranteeing the repayment of credits (**ARMA 2005**).

Major credit and rural policy developments in 2005

Poland's accession to the European Union resulted in, among other things, the adjustment of the national agricultural policy to the Common Agricultural Policy of the EU. The system of financing was also changed, which impacted the tasks of ARMA. Still prior to the accession, ARMA was a payment agency of SAPARD, handling Union funds and directing payments after the accession to the EU. The current activity of subsidizing credits was continued as well. Since 2004, 13 lines (Appendix no. 2) of investment credits (**ARMA 2005**) have been operated by 16 banks ([Appendix 3](#)).

The prospect of accession was also reflected in the credit rules and regulations. In the first year of ARMA's existence, credit-supported investments were mainly for economic purposes such as the increased scale of production, improved production quality, or reduced costs. Around the year 2000, the list of purposes was broadened with issues related to the adjustment to EU standards (e.g. the industrial dairy programme BR/15). In 2005, despite the fact that EU funds have involved the Polish agribusiness, preferential credits are still very popular. There can be a few reasons for this. It is true that funds are more beneficial in terms of finance because they are a non-returnable subsidy, but they are connected with bigger requirements for potential beneficiaries, the biggest of which is the necessity to carry out an enterprise with own money, which in the event of insufficient own capital makes it necessary to use a commercial, bridging loan. Besides, in order to use the union help, the farm must meet requirements in the area of hygiene, animal husbandry and environmental protection.

Another obstacle in carrying out business based on UE funds is a limited pool of funds for individual activities, which means that subsidies are not available for all the willing. Preferential credits also pay better in the case of investments involving bigger funds. The maximum amount of subsidy varies according to SPO's and PROW's activities, but it never exceeds PLN 200 000 for farm-related investments. Thus, according to ARMA (www.arimr.gov.pl), in 2005 banks granted 21 060 investment credits (including 21 the so-called "disaster credits") for the total amount of PLN 2 109 727 000. Apart from this, 62 769 disaster credits were granted, 62 748 of which were working capital loans with a value of PLN 804 564 000 (Appendix no. 4). In 2005, the Agency budgeted PLN 48.4 bln for subsidizing projected credits with the potential maximum amount of ca. PLN 2.3 bln (**ARMA 2005**).

Taking into consideration the value of taken out credits (investment, and disaster - working capital) the budget was met in 79%. Also, according to the Ministry of Agriculture and Rural Development (**2005**), from June 2005 to October 2005 the number and value of granted credits grew by 4.4% and 6.8% respectively on the analogical period in 2004. Rising trends have been seen with respect to the KZ, MR, NT, and GR credit lines (the symbols of credit lines are contained in Appendix no. 1). With regard to agriculture and food processing, investments based on preferential-credits aimed mostly at widening the range of goods and increasing the scale of production (38% of the credits' value), introducing new technologies (20%), improving the land structure of farms (20%), and adjusting to the EU sanitary-veterinary requirements (8%). Although the Polish agribusiness must adjust to the union standards, credits are usually taken out for economical reasons, which is understandable

taking into consideration the undercapitalisation of this sector (mostly privately-owned farms).

Access to rural credit – uptake and issues

For the last 11 years, ARMA's preferential credit lines have been the basic source of credits for the widely understood rural areas. These credits are granted to entities operating in: agriculture, special divisions of farming, food-processing, services for agriculture, agritourism and other enterprises that create new permanent jobs for the rural community. The essence of these credits is subsidizing interest rates from the state budget through ARMA. It is necessary to mention that initially the commercial interest rate of preferential credits exceeded 20% (www.nbp.pl), which was a considerable impediment to using external capital by economically weaker entities. From its inception, ARMA has launched 54 credit lines (Appendix no. 1) of different budget support (ARMA 2004) that can be divided into three groups: the highest level of support (KZ, MR, GP); industrial credits (BR) and regional credits (RE); the lowest level of support (IP, MP, RP). The lowest interest rate applied to credits directed mostly to farms, especially privately-owned farms, which usually used the MR line – 35.7% of all granted credits, and 43.2% of their total value (ARMA 2004). However, in 1995-2001 the MR credit line was used by only 5% of all privately-owned farms (**Sadowski 2003**).

Some agribusiness companies could use credits of the medium level of support—especially industrial credits, and until 1998 – regional credits. The other enterprises, which do not carry out production related to the programmes, as well as all entities that create jobs in rural areas, could use credits with the lowest support – mainly from the IP and MP credit line. Therefore, although the Agency's activities resulting in credits for the whole range of enterprises operating in rural areas should be recognised as positive, the relatively high interest rate for entities that are not farms has limited the potential effects of the transformation of the rural areas in Poland. This especially relates to enterprises that create jobs. Apart from the fact that they were subject to high interest rates, these companies have long been required to contribute 40% of own funds (compared to 20% in the case of farms and 30% in the case of other borrowers).

This situation was reflected in the mix of granted credits. In 1994-2003 banks granted 290 437 investment credits for the total amount of PLN 16786.49 mln (**ARMA 2005**). Apart from the MR line, most credits were from the IP (30.3%) and KZ (24.6%) lines, whereas the highest share of amounts were for the IP (25.1%) and BR and RE (20.6%) lines. Credits for jobs represented merely 1.3% of the number and 2.9% of the amount. In 1997, when the interest in credits was the highest in the Poznań province (**Sadowski 2003**), the mix of accepted applications with regard to the conducted activity was as follows: agriculture – 80.4%, special divisions – 4.87%, agritourism – 0.16 %, food processing – 3.25%, services for agriculture – 1.79%, and new jobs – 9.53%. With regard to the amount of credit applications, the share was as follows: 49.84%, 11.19%, 22.38%, 0.09%, 5.64%, and 10.86% (**Sadowska, Sadowski 1998**).

Apart from preferential credits, the inhabitants of rural areas have recently had an opportunity to use other sources of capital. The most important are: credits and loans from the Labour Fund, the programme of micro-loans of the Rural Development Foundation and grant programmes as well as credits for enterprises in the area of small business and credits of the Agricultural Property Agency (**Goraj et al. 2004**).

Availability and performance of rural credit facilities

Assessment of short-term credit sources

Both agriculture and food processing is characterised by a long production cycle, which results in separate periods of operational activity – which is dominated by expenditures – and generating income. Such a situation often causes periodical financial deficiencies, which, however, can be prevented by using short-term credits for supporting the operational activity. In the case of Polish farms that use the FADN accounting system, short-term debts represent 2.59% of all liabilities, and achieve the highest value in gardening farms (4.59%) and those that specialise in breeding animals fed with concentrates (4.18%). The debt is also growing in successive classes of economic size to achieve the value of 7.28% in very big farms (FADN 2005). In recent years in Poland, short-term credits and investment credits were preferential with a lowered rate of interest. Since 1995, ARMA has subsidized credits earmarked for purchasing the tangible means of agricultural production (the so-called fertilizer credits), agricultural produce, and storing crops and seasonal crop surpluses (the so-called purchase credits) and – since 2000 – purchasing and storing sea fish (ARMA 2004). According to the Agency, fertilizer credits are earmarked for agricultural producers in order to purchase such production means as fertilizers, plant protection agents, fodder, fuel, etc.

Taking into consideration the general number of short-term preferential credits granted in 1994 – 2003, fertilizer credits represented 99.6%. However, only 29.7% of the total amount were appropriated for them. The average value in the analysed period of the fertilizer loan was PLN 4.2 thousand. The maximum lending period was 12 months, and the amount of loan could not exceed the equivalent of 10dt of rye per 1 ha of arable lands, according to prices adopted for the calculation of the agricultural tax (Goraj *et al.* 2004). On the other hand, purchase credits were earmarked for food processing entities, so their average value was higher in the discussed period and totalled PLN 2 327 000.

In general, in 1994-2003 banks co-operating with AMAR granted 3 847 206 working capital credits for the total amount of PLN 53.89bln; most of which were in 1996 (670.8 thousand) and 1997 (542.3 thousand), similarly to investment credits. (ARMA 2004). On 30 April 2004, the government order on detailed directions of ARMA's operations of 30 January 1996 was amended, in order to enable subsidizing credits taken out in 2004 for purchasing the means of agricultural production, which allowed Polish farmers to use the national aid during the first months after accession.

With regard to purchase credits, an adequate amendment of the order was effected on 6 July 2004. Also, on 30 April 2004, the Act on subsidizing the interest rates of selected bank credits was amended, which made it possible to prolong – from 12 to 24 months – the period of subsidizing credits for the purchase of the tangible means of production taken in the 2nd half of 2003, and from January to April 2004 (Olejniczak 2005). Since the beginning of 2005, preferential working capital credits have been lifted, because their goals have been reached by the tools of the Common Agricultural Policy. Nevertheless, banks handling the agribusiness sector offer commercial working capital credits.

Assessment of medium-term and long-term credit sources

Long-term credits, due to their long repayment period, are usually earmarked for investment purposes. In rural areas, there is a special need for investment capital due to the considerably run down condition of the property of farms and other enterprises, as well as because of general infrastructural shortages. Until the accession to the EU, the basic source of investment capital was ARMA's investment credits and – especially in the case of self-governments – the

accession funds PHARE, ISPA and SAPARD, which are also earmarked for the wide sphere of agribusiness. Farms usually co-financed investments with preferential credits, especially when they planned larger investments and strived to make the farm the basic source of income (**Czerwińska – Kayzer 2002**).

This form of financing was used mainly by commodity farms (Alińska 2001)Kawecka (2003) adds that agricultural producers interested in credits were usually young and better educated, and owned larger farms. Also, according to Kulawik (1997), farms using preferential credits were different from the control group in many respects – e.g. they were farms with a 2.2 times bigger area. These observations are also confirmed by Mikołajczyk (2003) and Sadowski (2005). In addition, Podstawka and Czupryńska (1997) say that the demand for preferential credits in a particular province is positively correlated with the number of farms, the area of arable land, the agricultural population, the professional activity of the population, the number of people in working age, the number of banks handling agribusiness, and the provision of farms with the means of production.

According to Klepacki (1997), farmers' interest in credits depends on: the political and economical situation of Poland, the level of inflation, the tendency to and the possibility of saving by the society, the relations of prices in agriculture, the conditions of sourcing credits and loans, the availability of information on credits and the cultural determinants of farmers.

The rules of granting preferential credits have changed considerably during the operation of the Agency, in order to adjust to the current needs of the Polish agribusiness and the financial possibilities of the country. The biggest changes were in 1998 when all regional programmes and most industrial programmes were eliminated, and in 2000, when the rules and regulations concerning individual credit lines began to take into consideration the goals connected with the prospect of the accession to the EU.

However, the basic rules of using credits did not change. The most important of them is restricting credits only to entities that operate within agribusiness and create jobs in rural areas. Simultaneously, each credit line is characterised by a unique scope of entity restrictions: for example, the MR line can be used only by people who are below forty years of age and run a farm whose area is not smaller than the average in a given province. The MP loan is only available to enterprises that do not carry out agribusiness, food processing or services for agriculture, but they create permanent jobs on rural areas and towns of up to twenty thousand inhabitants. The credit application procedure is also similar for all credit lines. Apart from meeting general criteria of the repayment capacity, each entity must demonstrate that their investment purposes are in line with the purposes of a given credit line and present an economic rationale for their activities. Therefore, in each case it is necessary to prepare a business plan and have it approved with regard to the contents and formal-legal requirements by an adequate agricultural consulting centre. In addition, individual lines vary with respect to the repayment period and the grace period.

Assessment of the adequacy of credit sources

Credits for agribusiness and rural areas can be assessed from different points of view. The sectoral view takes into consideration transformations in agriculture or the progress in the development of rural areas. The micro-economical view takes into consideration the processes that impact on the borrower's situation. Taking into consideration the aspect of budget support in the case of preferential credits, it is also possible to make an assessment with regard to the efficiency of using public funds. Due to the fact that lending is one of many

elements of the changing economic reality, there are serious methodical problems with regard to the assessment of their impact on the ongoing changes (Kulawik 1997).

According to the Ministry of Agriculture and Rural Development (2005), there has been an investment recovery in food processing since 2003, which is caused first of all by the necessity to adjust to the requirements of the EU. In 2004, investment expenditure in this sector of the economy reached almost PLN 6 bln, and ca 1700 plants have the right to sell their products in the Community (721 plants are subject to transition periods). It is difficult to assess the influence of the offer of preferential credits, but it is worth mentioning that food processing plants can use industry programmes and IP lines e.g. for the realisation of aims connected with adjustment to EU standards. However, a few years earlier Kulawik (2000) had noticed that in the case of dairy there was no improvement in spite of the fact that industry was involved in the system of preferential lending.

The numerous papers related to the influence of credits – mainly investment credits – on the situation of farms. Kulawik (1997, 2000) stated that credit-based investments boosted economical growth, taking into consideration the fact that the profitability of some farms was below the interest rate of the cheapest credits. The influence of preferential lending on farms was also examined by Sadowski (2005). When analysing farms from the Wielkopolska region, he noticed that between the pre- and post-investment periods there was an increase in both the production features (labour, land and capital) and their productivity, measured by the value of sales. Cerwińska-Kayzer (2000) paid an attention to the improvement of the relation between the production factors and an improvement of their structure. Also, according to the Agency itself preferential credits contributed to better competitiveness and increased agricultural income (ARMA 2005).

However, it is more difficult to define the influence of credit-based investments on the situation of rural areas. This results from, among other things, a considerable fragmentation of the Polish agriculture. This is manifested by many small and economically weak farms that, due to formal reasons (e.g. lack of credit capacity and credit lines' entity restrictions), and other reasons (e.g. low productivity, low inclines to take risk), do not use credits, but significantly influence the general picture of Polish agriculture. Also, the recent global transformations were influenced by a number of macro-economical factors, which makes it difficult to specify the role of the credits themselves.

Similar difficulties are found in the case of credits earmarked for the creation of new jobs in the rural areas. When considering the problem in global terms, one may notice that in recent years the unemployment in rural areas has been rising although credits are taken out for the creation of new jobs. In 1998, 835.7 thousand people were registered as unemployed (FDPA 2002), and in 2004 –1060 thousand. (Chief Statistical Office 2005). However, it is necessary to take into consideration the fact that this situation was influenced by a number of factors, and investments carried out with the help of credits slowed down the process in many areas.

Evidence of credit market failure

Although, in general, credits earmarked for agribusiness and rural areas are assessed as positive, they have some important disadvantages. First of all, the list of urgent problems in the Polish rural areas often exceeds the state's financial possibilities and even the support of the European Union can hardly solve them completely. Banks that bear credit risk prefer to sign agreements with entities with a strong financial standing only. This undoubtedly positively affects the general efficiency of the co-financed investments, but leaves many problems of the rural areas unsolved.

The authors also raise a number of qualifications with regard to enterprises executed with aid of credits. Kulawik (1997) points to the fact that agricultural investments are rarely connected with modern solutions. He also notices (2000), other negative aspects of preferential lending. There is, for example, a large number of industrial and regional programs, which, on the one hand, is an example of a lack of coordination, and on the other hand, demonstrates the manipulation with interventionism by different groups of business. There is the setting of low minimum thresholds when applying for a loan from industrial program, which does not guarantee any effective investment; treating preferential lending as an instrument for hiding the shortages in other segments of the agricultural policy.

There are also considerable privileges in the sphere of the ongoing functioning of agribusiness juxtaposed with a low priority of tasks connected with a universal development of rural areas. An important element when seeking preferential credits is also the complicated procedure, both the banking procedure as well as the procedure connected with obtaining a positive opinion of ODR (Kulawik 2000, Kawecka 2003). In spite of the above-mentioned disadvantages, it is necessary to stress that the economic situation of farms and other entities allows them to make timely repayments, and lack of repayments are incidental only, and they have never been a massive problem since the inception of ARMA.

Overview and prospects

Preferential credits made it possible to modernise a number of production entities by improving their competitiveness in the new, EU market. Although the scale of transformations was too small to make radical changes in the Polish rural areas, providing the strongest agricultural producers and agribusiness enterprises with more capital must be recognised as a considerable achievement. Apart from assessing the merely economic effects, it is necessary to pay attention to the social consequences as well. The realisation of investments in one farm makes other imitate, which stimulates transformations in the neighbourhood.

The complicated procedure contributed to a better identification of the administration mechanisms of providing help with public means. This is extremely important now, since entities operating in the rural areas in Poland must know how to apply for EU funds that are available for them. Preferential credits, as a source of a cheap investment capital or working capital, were most significant when the commercial interest rate was low enough to reach for bank credits by economically weak units such as farms, many food-processing enterprises or companies that invest in the rural areas.

The number of credits granted in 2005 indicate that although the interest rates of commercial credits decreased and a great number of new offers appeared (e.g. foreign exchange credits), the interest in preferential credits still remains considerable. The offering of such credits after the accession to the EU was presented to the European Commission as the so-called “existing help” that can be continued during the first three years of the membership (**Olejniczak 2005**). Consequently, they will be offered in the present form until 30 April 2007. According to ARMA’s employees, works are now in the process on continuing the help after that date.

Chapter 11: ROMANIA

Introduction and background

An outline of rural credit facilities

Before December 1989, the Romanian financial system was a passive one as regards the mobilisation of savings and the allocation of credit finance. The banks were quite few, entirely state owned, each responsible for an economic sector and their role was restricted to providing financial resources for a pre-planned resource allocation. Their autonomy in taking decisions regarding selecting investments and credit granting was almost non-existent. No competitiveness criteria were taken into account when granting credit finance for investments. The level of future credit allocations was mostly independent from past credit repayment history, and therefore there was no incentive for the careful use of money nor for strict repayment discipline by the enterprises concerned. Credit risks were absorbed by the government.

In the agricultural sector and the food industry, the Bank for Agriculture and Food Industry (known as the Agricultural Bank (AB) until 2001 when it was bought by Raiffeisen Bank) had been responsible for performing all types of financial transactions (not only in credit finance). Agricultural production, upstream and downstream activities were all functioning within the structure of large state-owned farms or enterprises. All units received allocations of money for funding current production and for wages and, separately, for capital investments through planned credits. Small rural trade businesses, processing industries and craft businesses either did not exist, or were economically insignificant; and therefore banking operations were limited to a reduced range of relatively few, large units. (*Camelia Șerbănescu, 1999, Agricultural finance and institutional reforms in Romania p.4-5; Gertrud Schrieder, Franz Heidhues, 2000, Transition and rural finance, p.5*).

After 1989 the law of banking activity (1991) allowed the licensing of new banks, including private and foreign ones, but even so the movement of banks into the agricultural credit market has been slow. The reasons for this have been the following: the lack of an extensive network; the unattractiveness of the agricultural sector for the banking system due to its specific features (discontinuity of income, long production cycles, exposure to production fluctuations); and few relevant qualifications and little experience within the banks in the area of agricultural lending, risk evaluation etc. (*Camelia Șerbănescu, 1999, Agricultural finance and institutional reforms in Romania, p.7*). Credit has been highly unaccessible to the private sector due to both the very high interest rates (mainly due to inflation) and the lack of collateral in the sector. Also, the lack of experience of farmers in accessing credit finance has been an important limiting factor. It is important to note that some of these factors are still valid.

In 1993 the state-owned commercial banks still accounted for over 80% of aggregate customer lending, while AB held a 90% share in the market for lending to agro-processors, integrators and farms. (*Joint mission to advise on agricultural and food policy options. Agricultural banking and rural financial markets, March 1993*).

Until 1996, therefore, the state-owned AB was the dominant provider of agricultural credit and also the main bank handling subsidised loans directed to agriculture. The main beneficiaries of the subsidised loans were state-owned agro-processors, integrators and farms and not the private agricultural sector. It is estimated that between 1993 and 1996 rural

households received only 2% of these transfers (Schrieder, Heidhues, 1997). Unfortunately, these cheap credit schemes didn't fulfil their objectives because the main borrowers used them to cover their current operating costs and not for capital investments to increase their efficiency. Moreover, this scheme had other serious adverse effects such as inflation because it was covered by money emission.

Private farmers had very limited access to get subsidised loans directly from the banks because most of them couldn't overcome the collateral constraints. The situation is now different, however, and land can be used to secure loans. But during the 1990's this wasn't possible because even if the land restitution process could be considered to have been generally completed by 1997, the issue of the ownership of titles was not completed; so ownership and user rights relating to the restituted land were still unclear. Buildings could be used as collateral, but their valuation in rural areas was very low and so this was of limited use in practice. As a consequence, a large share of the agricultural sector was forced to resort to the integrators' system. Integrators (such as Romcereal, Semrom and other input suppliers) granted credit by providing inputs to farmers at 0% interest rate and in return the farmers undertook to sell their products at a fixed (lower than market) price to the concerned integrator, which provided for storage and processing facilities. There was, therefore, a real charge for credit finance equal to the difference between the market price for the product and the price actually received.

The Rural Credit Guarantee Fund (RCGF) was set up in 1994 to facilitate access to credit and other financing instruments, by covering a part of the guarantees requested by the commercial banks and other finance providers. The fund guarantees short, medium and long term credits and the amount guaranteed covers up to 100% of the credit.

Beneficiaries of the services provided by this fund are: private farmers, private farmers' associations without legal entity; companies with private or majority private capital, carrying on their activity in agriculture or food industry; Commune Local Councils (for rural infrastructure development, including the SAPARD programme).

In 2005 the Fund concluded Work Conventions with twenty one Commercial Banks.

For private farmers and for private associations of farmers, RCGF gives free guarantees for all kind of credit finance. Companies and Commune Local Councils are charged an annual guarantee fee, which varies between 1,5-2% of the guaranteed amount per year, depending on the type of guarantee granted and the rating category of the credit involved, according to the National Bank of Romania Regulation no. 5/2002. (<http://www.fgcr.ro>).

Since 1997, due to radical changes in the financing of agriculture and new legal provisions stipulating among other things that credit-worthiness is a compulsory condition for accessing credit (at subsidised or commercial interest rate), other commercial banks (both private and state-owned) also got involved in channelling credits to agriculture. (*Camelia Șerbănescu, 1999, Agricultural finance and institutional reforms in Romania, P.6*).

Since 2003, agricultural policy sustains the agricultural production sector through facilities for production credit. Agricultural producers (both natural persons and legal units) who access a production credit and reimburse it within 360 days benefit from a state allocation of a maximum of 30% of the credit volume (Law 150/2003). This scheme stimulates financial discipline and the fact that these credits can be guaranteed by the RCGF raises their accessibility.

Major credit and rural policy developments in 2005

The most important rural policy development in 2005 was “The Farmer” programme aiming to stimulate investments in both agriculture and the agri-food sector, and to accelerate the absorption of SAPARD funds.

The programme is implemented through The Agricultural Investment Credits Fund, that for 2006 is set at about 190 million euro.

The Ministry of Agriculture channels the resources of this fund to banks and other credit institutions, who then lend them on to the final beneficiaries (agricultural producers, agricultural products processors) (Law no. 231/2005). Some 90% of the resources of the fund are targeted towards the co-financing of Sapard projects.

These credits are for longer term investment, a maximum of 10 years, with a low interest rate (5%) and are guaranteed by two funds, the RCGF and The National SMEs Credit Guarantee Fund (NSMEGF) (Law no.218/2005). In addition, according to Government Ordinance no.46/2005, the goods purchased with the credit can also be used as collateral.

In 2005, the only bank chosen by the Ministry Of Agriculture to offer these credits was the Romanian Commercial Bank. In 2006, the Romanian Development Bank-Groupe Société Generale, Carpatica Bank and Casa de Economii si Consemnatiuni (CEC) Savings House have won the bid to give out such credits, to date. In April follows another bid, when other banks can also get into the programme.

Access to rural credit – uptake and issues

Given the experience Romania has had starting with 2000 in the rural finance, the supply side of the agricultural credit market has been quite liquid (World Bank, Report No. 32452, May 2005, *Country Assistance Evaluation*) but commercial banks are “collateral oriented”: loan applications are judged on the collateral offered rather than on their technical merits, on the possibility of servicing the debt. This forms a big obstacle for both farmers and other rural entrepreneurs in accessing credits finance because they can’t overcome the collateral constraints.

High credit costs, the lack of experience of farmers in uptaking of credit finance are also making access to credit difficult in this sector.

The SMEs in Romania appear to rely on mainly on internal sources for funds, such as retained earnings, loans from family and friends and, in some cases, arrears on obligations to non-banks (for example, utilities, government, employees) rather than on credit from financial institutions. Sources of financing new investments were reportedly 72% from internal funds and retained earnings, while another 5% came from loans from family or friends. Borrowings from banks accounted for only 11%, and equity less than 1%. Working capital financing shows similar patterns (World Bank Working Paper No. 45, 2005, *Capital Markets and Non-bank Financial Institutions in Romania. Assessment of Key Issues and Recommendations for Development*).

Specific features of the agricultural sector (discontinuity of income, long production cycles, exposure to production fluctuations), the low efficacy of juridical institutions when it comes

to handling problem borrowers, makes the agricultural sector unattractive for the banking system. (*Camelia Șerbănescu, 1999, Agricultural finance and institutional reforms in Romania, p.7*).

Also the inadequate qualification and experience of banks in lending to the agricultural sector, issues associated with risk evaluation, and the lack of an extensive network of banks in rural areas are all limiting factors in the development of the rural credit market. The Rural Finance Project of the World Bank is trying to address these problems.

The Savings House and CREDITCOOP are financial institutions that target especially the segment of rural clients. They have currently the most developed networks in the rural areas. The Savings House has a network of over 800 units in the rural areas and CREDITCOOP has 137. A few other banks (the most important are RDB-Groupe Societe Generale, and Transylvania Bank) are beginning to develop their networks in rural areas as well but this process is only in the early stages.

Availability and performance of rural credit facilities

Assessment of short-term credit sources

Short term credit finance can be given by the majority of financial institutions, the main being the Saving House, that offers short, medium and long term loans but only to legally constituted units. For a maximum period of one year credit finance can be accessed both for agricultural and other rural businesses to constitute seasonal and periodic stocks.

EBRD funds are channelled through the Savings House that grants them as loans to SMEs, natural persons, and family associations for short and medium-term (maximum 4 years) periods.

The Romanian Commercial Bank (RCB) offers credit finance, for a maximum of one year, to agricultural producers who trade the resulting production for expenditure related to current agricultural production activities and for insurance of crops and livestock. Credits are offered also for financing seasonal and periodic stocks, and for (pre)financing export stocks. (www.bcr.ro).

Credit cooperatives in Romania are autonomous non-governmental associations whose main objective is to provide banking activities for members.

With enforcement of the new legislation (Emergency Ordinance 97/2000 and Law 200/2002), the number of credit cooperatives dropped significantly due to the sector's incapacity to meet the much tougher regulatory requirements. Only one network, CREDITCOOP, has satisfactorily completed all the steps in the licensing process. In December 2005 only 124 credit cooperatives of the CREDITCOOP network held a functioning authorisation issued by the National Bank of Romania.

Although they have proven effective in other countries, so far credit cooperatives have played almost no role in financing rural businesses in Romania and, for the time being at least, they

are still not sufficiently well prepared to assume a significant role in rural finance. Their weaknesses include a lack of understanding of the rural sector, limited skills in appraising the business plans of private farmers, insufficient funds to meet the likely demand for credit in rural areas, an emphasis on excessive collateral requirements, and inadequate infrastructural and communication facilities in rural areas. Although in the long run credit cooperatives could play an important role in rural finance, they are not likely to be significant in the next five years.

There are no studies about NGOs that offer rural credit, nor information regarding the allocated sums or the regions served. A selective list comprises seven NGOs that offer micro-credit schemes for people living in rural areas. These offer loans, mostly to community groups, in order to contribute to or otherwise help the development of responsible social communities.

Assessment of medium-term and long-term credit sources

CREDITCOOP offers mainly medium term loans. In 2005, 65% of credits lent out by CREDITCOOP went to rural areas to both natural persons and legal units, who used the loans mainly for the development of agricultural production, the trading of products, machinery acquisition, and the development of agro-tourism. The cooperative also offers credits for the co-financing of SAPARD projects.

CREDITCOOPs market share was 0.41% in 2005, ranking it in 28th place in the banking system. As the targeted population have modest incomes, the typical credit offered are relatively small (in average 400-550 euro). The reimbursement period has grown from three to five years in order to help their clients with low incomes.

The Savings House offers credit for personal needs, specially designed for people living in rural areas, and with variable interest rate (typically 13.75%). The maximum amount that can be contracted is 680 euro, with a reimbursement period of five years.

For the moment the Romanian Development Bank-Groupe Soci t  Generale, Carpatica Bank and Savings House (CEC) are entitled to give out credit eligible from "The Farmer" programme to help the co-financing of SAPARD projects (Measure 1.1 - Improving processing and marketing of agricultural and fishery products; Measure 3.1 - Investments in agricultural holdings; Measure 3.4 - Development and diversification of economic activities, providing for multiple activities and alternative incomes). These credits are for longer terms (a maximum of 10 years) and come with a low interest rate of 5%.

The RDB-Groupe Soci t  Generale offers rural credit for investments based on sales contracts for milk (five years), and through the Romanian-German Fund gives credit to agricultural producers for cash flow (two years) and for investments (four years).

The rural credit service packages of the Romanian Commercial Bank for natural persons offers financing for investments in agriculture for 5-7 years such as: purchasing animals, the acquisition of machinery, and investment in orchards or vineyards. With a 20 years reimbursement period credits are guaranteed for the purchase of land for agricultural purposes. The advance payment is a minimum of 25% of the land purchased. This latter type of credit for legal units is available for short, medium and long term.

Credit is given to help to support the 25% national contribution when applying for measure 2.1 of SAPARD programme for “Development and improvement of the rural infrastructure”.

The ROMCOM Society for Microfinance offers credits for agricultural SME’s for a maximum period of five years. Beneficiaries have to be between 20-50 years, and at least 50% of their income has to come from agriculture. The credits can be used for modernising the infrastructure, extending the production capacities, and the purchase of agricultural machinery and equipment.

“The Apuseni Mountains rural development project” grants credits for short and medium-term for investments in agriculture, agro-tourism, rural industry in this area. The interest rate is determined annually. There are three types of credits granted:

- for individual farmers (maximum 4000 USD) for small investments, primary production and tourism;
- agricultural credits (between 4000 - 10000 USD) for primary production, for small processing companies, as well as for commercial activities and tourism;
- for commercial/industrial activities (between 10000 - 100000 USD) for those processing and commercial activities that generate support for the above mentioned credit categories.

The “Rural Financing Programme” financed by the World Bank and the Romanian government grants credits, through banks and leasing companies for investments and working capital. The reimbursement period depends on the nature of the economic activity being financed and is maximum 8 years.

Assessment of the adequacy of credit sources

Most small farmers and other rural entrepreneurs find it difficult to get loans. Collateral constraints are the main problem. Even if, according to the legal framework, banks can accept moveable guarantees (i.e. stocks, business plan, personal property etc.) for the credits, they are reluctant to accept them and prefer real estate guarantees. Some moveable guarantees are accepted but this tends to be from legal units rather than from natural persons (and most farmers or farmer associations are not legal units).

Business plans are required, especially when applying for an investment loan. Farmers and other rural entrepreneurs have difficulties in building up a business plan, but government provisions for aiding farmers and other rural entrepreneurs to draw up business plans were made through “The Farmer” programme. This includes consulting and assistance for building up business plans and is freely available to the programme’s beneficiaries at the Agricultural Consulting Centers.

Regarding the terms of loans, interest rates applied in the financial sector for agricultural and rural credits vary between 5% and 18%. We can say that “The Farmer” programme is trying to make them more “friendly”.

For production necessities short term loans are available. Farmers have to repay them within the maximum of 360 days according to law no. 150/2003.

Medium and long term credits are available for investments. Due to the still unstable economic environment, banks prefer to grant credits for medium term periods instead of long term.

Evidence of credit market failure

Among natural persons the amount of problem borrowers in 2005 was less than 1%. Among legal units who take up a loan the percentage involvement is greater, but not significantly. According to experts, there is no evidence for credit market failure. The potential danger period for this to happen existed until a few years ago, but it has now passed as the economic environment has become more stable.

Overview and prospects

- Beginning with 1998 modest progress can be noticed in several important factors: the development of rural financial services, the raising of financial flows, and access to credit finance at the level of rural borrowers.
- Banks are beginning to develop their networks in rural areas. Privatization of the Savings House, the bank with the most developed territorial network, will result in increased competition in the rural financing business. In this way financial services will become more accessible to people living in rural areas.
- Bankers consider that granting credits for the financing of the agricultural sector will be the next step in the development of the banking sector, but for that to happen growth in the retail segment has to reach a "sufficient" level. This point is expected to be reached in the next 12-18 months.
- The SAPARD programme has effected an increase in the demand for rural credit (World Bank, 2005, *Romanian Food and Agriculture from a European Perspective*) and there are big expectations from "The Farmer" programme. Also, in the near future, it is expected that the co-financing necessary to access Structural Funds, available after accession to the EU, will be an important factor in the development of rural credit.

Chapter 12: SERBIA MONTENEGRO

Introduction and background

An outline of rural credit facilities

Various methods were used in former Yugoslavia to finance agriculture and rural/regional development. There has never been a stable model of agricultural financing, even before transition and economic and political crisis. Since the Government had control of banks, it has had the leading role in defining both short-term and long-term models of agricultural financing. Scarce financial resources were allocated often on the basis of non-economic principles and without transparent procedures.

During 1970-1980s there were no specialised investment credits, adapted to the needs of the sector, available for agriculture. Loans have been granted within the framework of the general system for investment credits on terms which were unfavourable for agriculture. Socially owned enterprises and cooperatives have had privileged positions with regard to the access to credits. They use the following resources for financing their capital requirements: contributions from private farms, own savings, bank credits, World bank loans, contribution from the Federal Fund for financing the development of economically less-developed republics (and the province of Kosovo and Metohija), and special account. It is difficult to explain in one sentence. As you know the Government over that time has had control over everything and big powerful in the economy. The former Yugoslavia, for example, had a law which anticipated that successful enterprises from well developed regions must open new factories and support employment in less developed communities (in Kosovo and Methija, south Serbia, Bosnia, for example). During that period investment in the private sector, stimulated by agricultural credit projects of the World Bank¹⁴, increased rapidly. Two-thirds of total capital expenditures by private farmers were for the purchase of machinery and equipment. Commercial bank credits were available to the social sector and to private farmers who were engaged in co-operation with them. Every year, when monetary and credit policies are decided, an amount is set aside for re-discounting commercial bank loans, and interest rates on current production and marketing loans for basic agricultural products were fixed. Re-discount facilities were available on loans for production and marketing of “strategic” agricultural products¹⁵.

In 1988 “Agrobanka” and the “Cooperatives Association of Serbia” developed the “Programme for Enhancing Agricultural Production and Rural Living Standards” which has been realised since 1992 as the “Programme for Rural Revitalization”. Resources were used for financing the programme for the development of agricultural production, buildings for servicing agricultural machinery, production of processed commodities of quality brands, handicraft development, capacities for medicinal plant and forest fruit processing, development of domestic crafts and rural tourism, including rural infrastructure. Users whose programmes were to be realised under the conditions of hill and mountain regions had priority in acquiring the resources. Also included were those living in underdeveloped communities,

¹⁴ Credit line of \$322 million was opened for private farmers and socially owned sector, with a \$125 million participation by the World Bank.

¹⁵ List of “strategic” products included: wheat, maize, paddy rice, sugar beet, oilseeds, tobacco, cold storage grapes and apples, stocks of wine and wine cellars, livestock fattening (cattle, sheep, pig, poultry), fishing, meat in refrigeration plants, milk and domestic dairy products.

farmers under 40 yrs of age and those enabling the employment of a considerable number of unemployed and the production of high-quality food commodities. The users of these resources (credits) could also be connected with farms –persons involved in agricultural production, co-operatives and enterprises registered in the field of agricultural production. Depending on the type of programme and location (for example, underdeveloped and hill-mountain regions, other regions) the users of the credit had to ensure 20 to 80% own participation for financing the programme.

The Programme of Monetary Reconstruction was introduced in 1994 with the basic aim of conquering hyper-inflation which had brought the whole economic system close to disintegration. With that Programme important changes were introduced in the financing of agriculture. The previously prevailing resource of the Central Bank (National Bank of Yugoslavia) primary issue was abandoned. That actually meant that agriculture was supposed to rely on self-financing and bank credits. Since the banks funds for this purpose were very limited, they were available to a small part of agricultural production. In those circumstances the interest rates rapidly increased to an incredible 15-30%/month¹⁶, and Agriculture's debts to banks reached an incredible amount. Most producers (including leading socially-owned combines) had negative annual balances and their drawing accounts were closed. The consequence was that some of the banks could not return a larger amount of credits and went bankrupt.

In 1998 two Acts went into force with the aim of overcoming the unfavourable situation in financing agriculture:

1. The act to transform credits approved by banks for the needs of agricultural enterprises and cooperatives into public debt of the Federation⁴. Credit transformation into public debt was for a 10-year period and a grace period of 3 yrs.
2. The act to transform credit from primary issue into a long-term credit⁵. The credit repayment deadline was 15 years with a grace period of 5 years.

Serbia Since the introduction of the restrictive credit and monetary policy in Serbia in 1994, as well as the cancellation of financing the agrarian economy from the central bank primary issue, the domestic agrarian economy has been left without any permanent and safe financing source for its specific use. As this action has been significantly reflected on this devastated but for our condition very important economic branch in 1996 in the Republic of Serbia an agrarian budget was established as special part of the total budget of Serbia Republic aiming at provision targeted as well as supporting funds for subsidizing agriculture and total rural development in Serbia ?]From the initial 1 billion dinars (1996), the agrarian budget increased to 10 billion dinars (2003) during the past eight years, however in general its share decreased (from 8.3% to 3.0%).

Montenegro – Over the past few years some governmental institutions and funds have focused part of their capital on agriculture, crediting entrepreneurship projects and self-employment:

1. Beginning 1999 the government initiated the "Programme for stimulating entrepreneurship and employment". To date, 23 million Euros have been spent. On agricultural projects about 9 million Euros, or approx. 40% of the total resources have been spent..

¹⁶ Their share in the cost price of basic agricultural products was as big as 20%.

2. In 1998 the Ministry for Agriculture, in association with the Fund for Development and Employment Bureau, initiated the "Programme for crediting individual agricultural producers". To date nearly 1000 micro-credits have been approved, thus contributing to significant investments in the field of agricultural production.

Major credit and rural policy developments in 2005

During 2004-05 several attempts were made by the Ministry of Agriculture, Forestry and Water Management and the Ministry of Finance to improve the credit system in **Serbia**.

In Serbia agricultural production is being credited by:

- the Ministry of Agriculture, Forestry and Water Management at beneficial interest rates,
- business banks,
- development funds,
- leasing companies.

Credits of the Ministry of Agriculture – The Ministry of Agriculture has been crediting farmers since 2004. The source of money is the Agrarian budget. These credit lines to farmers are highly subsidized, and are provided through the banking sector (at or close to negative real rates 3 to 5%). Banks are managing credits, which is important in order to start the building of the credit history of farmers. Credit users are registered agricultural producers having accounts at business banks. In 2004 the total amount in the agrarian budget for crediting amounted to 3.7 billion dinars (i.e. 17.5% of the agrarian budget) consisting of 1.7 billion dinars for short-term credits and 2 billion dinars for long-term credits. In 2005 the resources intended for credits accounted for 18.2% of the total agrarian budget, i.e. 3.5 billion dinars (1.5 billion for short-term credits and 2 billion dinars for long-term credits). In 2004 and 2005, 51.456 registered farmers received credits with an average amount of about 61.943 dinars (more than 800 Euro). In 2006, 3.5 billion dinars (15.7% of the agrarian budget) were set aside for crediting, of which two billion dinars were intended for long-term credits and the rest for short-term crediting. The total amount for crediting registered farms will amount to 6-7 billion dinars, along with more than 3 billion dinars of extra deposit from repayed credits approved during the previous two years. The crediting mechanism includes two types of credits: short-term credits (up to one year) and mid-term credits (up to 5 years). (<http://www.minpolj.sr.gov.yu>).

Credits of business banks – In the current economic situation banks in Serbia are not too interested in dealing with farmers (and vice versa). Business banks prefer crediting agricultural enterprises, SME's and cooperatives. During 2005 there were 25 banks in Serbia approving agricultural credit loans under different conditions and for different purposes¹⁷.

The major provider of credit to agriculture in Serbia is ProCredit Bank. ProCredit was founded in 2001 by the three development agencies (EBRD, IFC, and KfW) and three commercial entities (IMI, Commerzbank, FMO) as a full service bank focused on lending to micro, small, and medium-sized enterprises. ProCredit's dominant position in agricultural lending derives from their focus on small businesses, a strategy that rarely overlaps with other commercial bank targets. ProCredit loans average about €4700. Micro-loans account for 85 percent of their business and they average only €2500. ProCredit is able to earn commercial rates of profit through their expertise and experience in this area, while few other banks actively pursue such small loans. The only significant exception is Opportunity International which also targets small loans, but only 10 percent of its loans are for agricultural purposes.

¹⁷ <http://www.minpolj.sr.gov.yu/images/materiali/odlukaoizboruposlovnihbanaka.pdf>

The collateral associated with ProCredit Bank loans varies with loan size. Loans under €2000 require no collateral. Larger loans require moveable assets as collateral, including equipment and livestock. Land is never used as collateral because it cannot typically be sold at the assessed value. ProCredit recognizes that the market for agricultural loans is unfulfilled. Its expansion is limited by the capital it has available. It has grown through increases in equity from its shareholders, which is now approaching €20 million, and through deposits. Deposits rose from €36 million in 2001 to €67 million in 2004, but continued growth is constrained by the poor growth of the Serbian economy¹⁸.

In 2004 Reiffeisenbank invested 159.5 million Euro (44.8% of its total credit portfolio) in agriculture, i.e. 42.9% of the total short-term credits and 48.1% of the total long-term credits. The major branches financed were: production of oil, sugar, meat, flour-milling industry, fruit juice production and confectionery. Farmer and SME financing in the field of primary agricultural production was achieved by making arrangements with corporate clients, meaning thereby recommendations for co-operants (signed agreement on co-operation). In addition, a support from the part of corporate clients was needed due to the following constraints: unsolved land ownership relationships, land record keeping and privatisation processes. The purposes of long-term credits were: the purchase of agricultural machinery, arable land and pastures, the construction of plastic and greenhouses, the purchase of irrigation systems and livestock, and the construction of barns.

Leasing companies – In Serbia the system of financial leasing is still in the development phase. The Act of the Republic of Serbia regarding financial leasing was adopted in May 2003. The establishment of the domestic leasing enterprise “Lipaks” was initiated in 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. Initially, the major users of leasing facilities were private farmers who were offered the restoration of dilapidated agricultural machinery under favourable conditions. In 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 3% annual interest rate for agricultural machinery and 5% for other leasing facilities. Minimum participation was 20% and maximum 50%. The repayment period was 2-5 years by monthly instalments (and, rarely, 3-month instalments). Mortgaging is used for farmers and real estate ownership inventory. The user is not obliged to pay tax instantly - the obligation is at the leasing company's expense.

Development funds – Agriculture has the priority in being credited from the development funds resources of Serbia¹⁹.

Development Fund of the Republic of Serbia – 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 Fund is 100% state-owned. The activities of the Fund are financially supported by the Republic of Serbia's budget, credit investment annuities and the corresponding interest rate, resources from the insolvent social enterprises, solidarity

¹⁸ http://pdf.dec.org/pdf_docs/PNADD235.pdf, www.procreditbank.co.yu/companies_loans_agro_s.html

¹⁹ <http://www.minpolj.sr.gov.yu/images/materiali/uredbaoprogrraspsredstzakredprehind05.pdf>,
<http://www.fondzarazvoj.sr.gov.yu/izvestaj2005.pdf>

resources, subsidies, business bank loans and domestic and foreign credits. The credits offered from the resources of the Fund can either be short-term or long-term credits.

Fund for agricultural development of Vojvodina Province (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 rate. Maximum credit is 8000 euro. Since 2002 there has also been a Fund for the development of Vojvodina. Privatization procedures participate with 50% in the source of the capital. The main objective is development of SME's, farms and private initiative. About 60% of the total credit amount is intended for agricultural industry²⁰.

In Montenegro there is no specialised bank for crediting agricultural activities. The government has ways for motivating banks with the aim of crediting agricultural production (beneficial interest rates, advance interest payment etc.). In 2004 an agreement was signed with six Montenegro banks, thus ensuring 13.2 million Euros for supporting financially the "Programme for legalisation of existing and opening new positions", which encourages entrepreneurship, employment, tourism and agriculture. The projects from the agricultural sector implied the development of livestock breeding, plant production, fisheries, poultry, and agricultural industry (five crediting lines), and their value amounted to 3.5 million Euro. Maximum credits amounted to 100 000 Euro with a 24 month grace period, repayment period to 4 years, and a 3-7% annual interest rate. This contributed to employment opportunities, i.e. 550 new jobs. In February 2006 the project "Programme for encouraging entrepreneurship" was initiated, with the aim of uniting financial support via the banking sector in association with the Employment Bureau, the Office for the development of small-scale and medium-scale enterprises and the Development Fund. Depending on the credit amount, the conditions of crediting were: 3-7% interest rate, 3-7 years repayment deadline, 12-24-month grace period. The Programme was intended for crediting projects in the field of agriculture, with the aim of creating commodity producers in primary agricultural production with enterprises that relate to agricultural industry.

Agricultural producers in Montenegro usually turn to institutions allowing micro-credits because the crediting procedure is much simpler and easier. Three micro-crediting programmes were initiated, thanks to donations aimed to offer support to small- and medium-scale enterprises and the rural population. More than 30000 credits were thus issued. The German organization "Help" supports those in need by offering interest-free credits and 15% repayment of the total credit. Until now a couple of micro-credits were available in the field of agricultural production. The programme supports persons with sound business ideas to start up or resume economic activities that are suitable to provide them with a regular income. These may be small repair work shops (for all kind of craftsmen's trades such as metal work, carpentry, electricians and the like), fishing, tailor workshops, mini farms, production of cheese, drying of herbs, small bakeries, packaging and the like. A total of 200 beneficiaries, including refugees, internally displaced persons and socially vulnerable people in the local population will benefit from this project.

Access to rural credit – uptake and issues

Incentives to lend for agriculture are improved, but, without appropriate institutional and organizational adoption, progress will be slow. Rural bank infrastructure in Serbia suffered from very inadequate rural financial services. There are no developed networks of co-operative and other commercial institutions that offer a wide range of financial services²¹.

²⁰ <http://www.almamons.co.yu/i2.php?sm=69&m=13>

²¹ <http://www.minpolj.sr.gov.yu/images/materiali/KreditipocetakWBprojekta.pdf>
<http://www.minpolj.sr.gov.yu/images/materiali/ruralfinanceniserbia.pdf>

Farmers, cooperatives and producer groups. Although more than 110 thousand farmers opened bank accounts during 2004-2005, Serbian farmers use very little credit from the banking system. This is generally due to two types of constraints to credit flows, namely ‘internal’ constraints, which result from lack of demand from within the farm system, and ‘external’ constraints, which result from factors outside the farm, that impede access to credit:

1. **Limited trust in the banking sector** and non-bank financial institutions among the farmers (as a result of previous bad experience from “pyramidal” schemes in the pre - transition period made by the National Bank of Yugoslavia).
2. **Lack of experience and expertise amongst farmers in developing and presenting business plans** - business plans are of poor quality. The advisory sector has insufficient expertise to offer farmers any help in this field. Farmers engage private advisers to develop business plans. There were sporadic initiatives from the donators’ projects in association with the Ministry of Agriculture to hold seminars for farmers and advisers in the field of agricultural economy (including business plan development).
3. **Market interest rates are too high** and usually, (especially for mid-term and long- term credits), are indexed to the Euro. Business banks offer enormous credit lines with a relatively high interest rate (hidden or open) under the conditions of increased money demand²².
4. **Unsafe legal protection and loans assurance** (unfinished cadastre, non-existing credit history). The use of farmland as collateral in Serbia is limited by inadequate cadastre evidence. The land market is still quite thin due to the structural weaknesses of land ownership, fragmentation of ownership, and incomplete titling, Land books are not updated²³.
5. **Uncertainty of marketing.** Uncertainty with regard to the placement of agricultural products on the market presents the major constraint for commercial banks' broader credit support to agricultural producers. Both the non-harmonized legislation and the underdeveloped futures market of agricultural products have contributed to the fact that commodity notes for agricultural products cannot guarantee credit approval under the conditions of domestic practice. The Act concerning public warehouse receipts of agricultural products and the Act regarding commodity notes for agricultural products are in the phase of adoption.
6. The relatively small loan size required from the private sector associated with relatively **high fixed cost** of establishing and monitoring it. As the new generation of small farmers has neither credit history, nor learned how to write business plans, private banks are likely to incur higher costs when providing credit to farmers as compared to other businessmen.

²² According to domestic experts and the Serbian government the major trigger of the high inflation in Serbia (17% in 2005) is the highly indebted population at business banks.

²³ According to the Ministry of Agriculture only 10-15% of farms' real estates have been recorded so far, impeding the use of mortgage on real estate as guaranty for credit issue.

7. **Lack of expertise** in the banking sector for appraising agricultural business plans. A couple of banks, (ProCredit Raiffeisen), have special sectors for agriculture and pay special attention to permanent education of its employees. Their target interests are large enterprises and farms, whereas their interest for co-operation with small producers is negligible.
8. **The lack of investment credit** in the Serbian economy generally. There is a shortage of long-term sources of funding. Among the major constraints of economic development of Serbia is the shortage of favourable crediting sources.

Experience from the past two years has shown that farmers prefer to lend to individuals. Group lending by association and co-operatives is a less frequent method used mainly in credits for expensive mechanization.

SME and other rural entrepreneurs - Sizable rural SME financing by commercial banks and largely refinanced by EBRD, EAR, EIB, KfW. Within the framework of local agrobusiness EBRD has been financing (by 62 million Euro) larger companies (and SME's), achieving favourable business results, where the policy of development was focused on the enhancement of standards and production technologies, for example: "Marbo", "Fresh & Co", SFIR (sugar factory Te-To Senta, Star šecer), "Grand", "Frikom", Grupa "Lura". In addition, the bank in association with the Ministry of Agriculture of Serbia has financed the development of the Regulation on Warehouse Receipts (Warehouse Receipt Programme/-WHR)²⁴.

Availability and performance of rural credit facilities

Assessment of short-term credit sources

Short-term credits of the Ministry of Agriculture – Short-term credits are intended for the purchase of working assets (seeds, fertilizers, fodder etc.). The repayment deadline is 12 months with a 12-month grace period and a 5% interest rate. 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. For short-term crediting in 2004 and 2005, 3.2 billion dinars (1.7 billion dinars in 2004 and 1.5 billion dinars in 2005) were provided. The needs were much greater so credits had to be limited with farm size. Loans were linked with farm size (up to 1 ha, 1-5 ha, 5-10 ha, up to 10 ha) and maximum payment was 150-3000 Euro. If the users do not meet the requirements for the short-term credit, they are put on the black list of the Ministry of Agriculture preventing them from acquiring any of the credits and any of the subventions of the Ministry.

A total of over 23,341 short-term credits of average credit value 69,879 dinars were approved of. In the structure of the approved short-term credits the share of credits for livestock production development accounts for 67% followed by machinery purchase, and construction of plastic and greenhouses.

²⁴ <http://www.ebrd.com/new/stories/2004/040727.htm>

Conditions for short-term crediting of agriculture by 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 purchase of input, 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 grace period 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.

Short-term credits of the Development Fund of the Republic of Serbia – These credits encouraged the export of domestic products. In 2005 short-term credits for encouraging export were approved for 12 agro-industrial enterprises amounting to 415 million dinars or 27% of the resources for these purposes.

Assessment of medium-term and long-term credit sources

Mid-term credits of the Ministry of Agriculture are being approved for a 5-year period with a 1-3 year grace period, depending on the purpose of the credit. Credits are approved for the construction and purchase of irrigation systems and equipment, purchase of agricultural machinery, establishment of orchards, construction of plastic and greenhouses, and livestock production. The lowest and highest credits approved are 5000 and 200 000 Euro respectively. The interest rate is 3% along with the currency clause (with respect to the Euro). Depending on the business bank, repayment guaranty can be mortgage, collateral (current or purchased asset), solo bill form, bill form of the physical subjects signed by one or a number of endorsers (50% greater resources of the monthly annuity), agreed bail and empowered credit user – the legal person for encashment from the account.

For investments over 15000 Euro banks demand that a business plan be enclosed when applying for mid-term credits. In association with the bank a farmer may enclose his own-made business plan but can also engage a consulting agency for the development of the business plan required. However, this does not mean that such an agency can apply for credits in the name of the farmer. Both in 2004 and 2005 the agrarian budget had 2 billion dinars for long-term credits. The Ministry provides 90% of these resources and the remaining 10% are the obligation of banks. Eighty percent of the share of business banks in the credit is being provided by the guaranty of the Guarantee Fund, meaning thereby that the real share of banks amounts to only 2%. In 2005 more than 1923 mid-term credits were approved from the agrarian budget, the average value amounting to 16,188 Euro. In the structure of mid-term credits the largest share accounts for credits intended for livestock production (54.95%) and the purchase of agricultural machinery (34.23%) followed by construction and purchase of the system for irrigation (4.36%), establishment of orchards (4.28%) and construction of plastic- and greenhouses (2.18%).

Of the numerous business banks taking part in the activities relating to mid-term crediting of registered farms at beneficial interest rates by MAFWM, the greatest number of credits were approved by Komercijalna Banka (6.6 million Euro) and Nacionalna stedionica (5.1 million euro) followed by Vojvodjanska banka (2.1 million Euro), Panonska banka (2 million Euro), Jubanka (1.3 mill. Euro), Eksim banka (1.2 mill Euro), Kulska banka (0.6 mill Euro), Hipo Alpe Adria banka (0.6 mill Euro) and Novosadska banka (0.134 mill Euro). The Ministry of Agriculture of Serbia has signed agreements with nine business banks which are expected to

participate in the programmes for short-term and long-term crediting of registered farms in 2006.

Currently there are no *long-term credits of the Ministry of Agriculture* intended for the purchase of farms, land, etc.

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 crediting land purchase and privatization (Privredna banka and Agro banka)²⁵. The repayment deadline was 3-5 years depending on the purpose. Credits were limited by credit worthiness and client reliability and ranged from 5000 to 220 000 Euro. 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. Some banks (e.g. ProCredit banka) have proclaimed the possibility of approving long-term credits for the purchase of land under identical conditions as for the purchase of apartments.

Long-term credits of the Development Fund of the Republic of Serbia. In 2005 the Development Fund was financing 234 projects in the field of agro-industry, according to the programme for financing small and large-scale enterprises. The value was 2.560 billion dinars which was more than 36% of the total amount of the resources approved for supporting the development of SME's. The financing programme included²⁶:

1. Crediting small- and medium-scale enterprises – investments with the aim of encouraging the harmonization of regional development. The share of the Fund in the preliminary value of the investment and interest rate depended on the degree of development of the region (community) evaluated with respect to national income. The Fund participated with 40% of the resources with an annual interest rate of 5% for communities having an income over 70% of the average for the Republic whereby the share of participation was 80% and a 1% annual interest rate for communities with an income less than 30% in relation to the average in the Republic.
2. Crediting private shops and entrepreneurs – Credits for encouraging production and small entrepreneurs (especially in the field of fading handicrafts) were approved with the objective of enhancing the development of small enterprises.
3. Employing workers – micro-credits. The Programme for employing workers left without a job in the process of transition was intended to approve micro-credits (amount in dinars equivalent to 5000 to 20000 Euro) to persons registered as unemployed at the National agency for employment.

The crediting programme of this Fund includes also 125 credits of support to independent entrepreneurs in the agro-industry amounting to 113 million dinars or 20% of the total credit value for this purpose. The Fund has approved micro-credits for self-employment for 295 projects in the field of agro-industry. The amount of the approved credits was approx. 246

²⁵ www.nbs.yu/english/news/agriculture.pdf

²⁶ <http://www.fondzarazvoj.sr.gov.yu/izvestaj2005.pdf>

million dinars (24% of the total resources for micro-crediting). Thus 869 persons were employed thanks to this programme.

Leasing – According to the current conditions in the financial market, leasing presents a much simpler way for the purchase of agricultural machinery and equipment in comparison with business bank crediting. The procedure for approving credits is much more complex. When approving greater credit sums Banks require stable guaranties. This is not the case with leasing companies. Those applying for the purchase of equipment by leasing facilities do not need a business plan, with the exception of larger projects. Financial reports are analyzed: balance sheets, balance results for the past two years and current financial statement, as for larger amounts and specific transactions, e.g. production departments, there is left the possibility to postpone the leasing repayment deadline. Depending on the leasing company a farmer may even be given the opportunity to repay by three-monthly instalments (the client may pay higher monthly instalments during seasons with greater resource inflow and lower with smaller resource inflow)²⁷.

Assessment of the adequacy of credit sources

The agriculture of Serbia is known to be characterized by a chronic lack of resources, both for financing current reproduction and financing development. This may be attributed to the nature and specific properties of this particular branch of the economy but also to unfavourable economic and political conditions in Serbia and Montenegro over the past years. The major reasons for the unfavourable situation in the field of agricultural financing are known to be the lower accumulation capacity and reproduction ability of the agricultural subjects, leaving a small possibility for self-financing, insufficient availability of bank credits for agriculture (especially for primary agricultural production and family farms) and unfavourable conditions for crediting. This is followed by the fact that there are no special institutions and tools for crediting agriculture adapted to the specific properties of this branch of the economy and, lastly, the underdeveloped and inefficient financial market.

In 2005 the crediting sources may be considered adequate and with an improving trend compared with the previous years. Still, credit demand prevails over credit supply. However, crediting conditions offered by business banks may still be considered unfavourable for agriculture (high interest rates, no possibilities for ensuring guaranties, short grace period etc.). Encouraging resources provided by the Agrarian budget and offered by a certain number of banks are insufficient for the needs of Serbian agriculture (for some purposes, which may be justifiable from the economic standpoint, resources are usually not approved of).

Micro-crediting institutions approving smaller credit amounts and suitable for poor rural regions are underdeveloped. Thus it is necessary to initiate new modes for governmental institutions to encourage short-term financing of Serbian agriculture. There are a few new drafted regulations focused on solving the issue (e.g the Act on warehouse receipts for agricultural products – 2005), expected to ensure a safe investment system for the needs of agriculture. It refers to warehouse receipts for agricultural products and the Guarantee Fund will be in charge, giving detailed instructions on the procedure of compulsory liquidation of supplies. The new regulation includes the issuing of commodity notes, which will be regulated in detail as investment trust securities.

The Serbian financial sector is still underdeveloped when compared to rest of the CEEC and is unable to contribute fully to economic growth. The Banking sector is over-populated, segmented and dominated by high state ownership. Competition is not sufficient enough to

²⁷ www.alcs.org.yu

increase efficiency and keep pricing under control. Debt workout needed to clean up the balance sheets of large banks and SOEs. There is still little funding going directly to private farmers and small holdings - banks prefer to work with input suppliers and production organizations which tend to barter with farmers with high implicit interest rates (see T. Arin: Rural finance in Serbia – Issues, IBRD activities and recommendations).

The State-financed guarantee scheme (where banks take only 2% of the total loan risks) addresses the long-term liquidity problem of the bank. The scheme does not promote good credit culture or practice:

1. With a small spread of 2.5%, banks can hardly make a profit out of these credit lines.
2. At the same time, they take no risks thanks to the apparent Government guarantee for 90% of loans. As a result, banks become “mailboxes”, as the whole evaluation process is primarily done by the Guarantee Fund staff. (The process for loan processing takes up to a year).

Evidence of credit market failure

The unfavourable economic and political situation in Serbia in 2005 has contributed to the decrease of the FDI in both economy and agriculture compared with the previous years and expectations. At the same time, among the major constraints of economic development of Serbia is the shortage of favourable crediting sources. The crediting sources in 2005 may be considered adequate and with an improving trend compared with the previous years. Still, credit demand prevails over credit supply. However, crediting conditions offered by business banks may still be considered unfavourable. Starting May 2006 the government is expected to initiate a harsher monetary policy which includes the conditions of business banks to approve credits with the aim of stopping overspending considered to have been the principal generator of high inflation over the past year. The crediting of agriculture has been exempted from the constraints which prove once again the resolution with regard to the strategic position and importance of this activity for the national economy.

The principal constraints of the market of agrarian credits in Serbia are:

1. **Market interest rates are too high** (especially for mid-term and long-term credits). The prices of agricultural products have not been changed for two years, input prices have been raised by approx. 40% since 2005 (following the introduction of VAT), farmers have difficulties in resolving debt problems and are not inclined to launch into new credits.
2. **Unsafe legal protection and loans assurance** (unfinished cadastre, non-existing credit history). Business banks, being aware of the constraints, are inclined to think of various exemptions for farmers in order to attract clients. It is however clear that resolving these issues would significantly contribute to cheaper credits and thus decrease the risk of banks.
3. **Lack of experience and expertise amongst farmers in developing and presenting business plans** - business plans are of poor quality. The advisory sector has insufficient expertise to offer farmers any help in this field. Farmers engage private advisers, often insufficiently qualified to develop business plans.

4. **Lack of expertise** in the banking sector for appraising agricultural business plans. A couple of banks, (ProCredit Raiffeisen), have special sectors for agriculture and pay special attention to permanent education of its employees.

Exemptions for agrarian and agrofood industry crediting stimulated by the Ministry of Finance and Ministry of Agriculture on one hand and the tremendous need for credits on the other, have stimulated business banks to initiate special sectors for agriculture, be more aggressive in their campaigns and establish communication with farmers. Since early 2006 domestic banks involved in agriculture during the previous period have been noted to be undertaken similar activities.

Overview and prospects

According to the World Bank view²⁸ rural financing in Serbia should be improved by the following changes:

1. Strengthen the capacity for agricultural loan appraisal among lenders, and support the establishment of viable bank and non-bank financial services. A broad range of financial institutions and financial instruments in Serbia is needed, including commercial banks and non-bank financial institutions (savings and credit associations, and leasing companies). Micro-credit organizations should be added to this range once the NBY has developed an appropriate legislative and supervisory framework for MCO operation.
2. Incentives to lend for agriculture must also be improved. Lending risks must be reduced by improving the ability of financial institutions to use and recover a wide range of assets held as security, including land and moveable assets. This will require new legislation and administrative procedures for moveable assets and warehouse receipts, as well as stronger land administration and land markets.
3. The financial sector's approach to agricultural lending must be changed. The capacity of financial institutions to evaluate loans from the rural sector must be re-oriented and strengthened, and the traditional emphasis on collateral-based loan appraisal should give way to greater attention to profitability and cash flow. This is especially pertinent for the small and medium-sized farms and agricultural enterprises that have consistently demonstrated their viability, even in the most difficult economic conditions, yet were largely excluded from credit markets in the past.
4. The returns to agriculture must be improved, beginning with reform of price and trade policy and measures to improve the efficiency of commodity markets. Increased access to capital will allow producers to acquire new technologies and adjust to the new incentive structures created by price and trade policy reform, and so increase farm returns.

²⁸ WB report Republic of Serbia – Agriculture sector review, 2003

DOCUMENT HISTORY

see country reports on www.agripolicy.net for full list of authors

Date	Author	Description
March 2006	Tine Stebe, Matej Bedrac, Tomaz Cunder	Preparation of draft report
7.5.2006	Alison Edwards	Review/Amendments
08.05.2006	Martin Turner	Review/amendments
09.05.2006	Tine Stebe	Corrections

Chapter 13: SLOVAKIA

Introduction and background

The new agricultural and rural structures formation is a result of the economic transformation, which is in progress in Slovakia and also in the rest of Central and Eastern European countries. Changes in the agricultural sector, together with macro-economic instability, incurred many problems in financing basic agricultural business activities during the economic reform. The value of enterprises' equity greatly diminished, and the conditions of capital acquisition through credit became hard. The state direct subsidy of farmers/enterprises rapidly declined during the 1990's. The financing of agriculture and the question of cash flow become the actual issues for agricultural businesses (enterprises). Since agriculture is determined by special characteristics such as seasonally, a long production cycle requires long-term financial back up. The specifics of agriculture, together with the financial disciplines in observance in business relationships in the past, invoked time discordance between the income and expenditure of agricultural businesses. This problem caused the shortage of cash flow and also problems in financing day-to-day activities of agricultural businesses. Currently combined resources finance agricultural businesses: own and foreign financial resources (e.g. state budget, commercial banks credit). Commercial bank credits are the main financial resources for agricultural businesses.

An outline of rural credit facilities

The supply of funds for credits has been very limited in Slovakia during recent years. It follows that the volume of new credits has also been rather modest, and that the credits available have had to be repaid with high interest rates. After the implosion of the socialist regime interest rates for short-term credits initially went up to more than 20% p.a. but later, in line with the declining inflation rate, they went down to about 16-17% p.a. For agricultural entrepreneurs the process of applying for credit is quite confusing. Although the overall amount of available credit is smaller than total demand, there are various credit programmes available and managed, particularly by the Agricultural Bank. Further, there are different credit programmes financed by the European Support Fund. Depending on the source of refunding the interest rates on credit vary from 5% to the market rate of 16-17%, annually. Similarly, capital subsidies can be granted of up to 40% of the amount to be invested. The number of beneficiaries getting support is quite limited. For example, in 1994 the Support Fund dispensed 250 million SKK, of which 175 million was as a guarantee for credits for just 36 farming enterprises (OECD: 77). It seems that most of the funds allocated for the promotion of the agricultural sector were lent to the agri-food industries and not much to the agricultural production units.

In 1999 access to credit sources was hindered not only because of highly priced credit, but also due to the strict limitations applied by the banks in responding to the increase in risk, which was a result of the inter-year worsening of the credit situation of agricultural businesses. The commercial banks indicate that agriculture is one of the more risky sectors in terms of credit repayment and that, on the basis of experience, such businesses are typically uncertain creditors. With the repayment of credit finance, and the reduced rate of growth in new credit during the last two years, the total credit carrying capacity of the agricultural sector markedly decreased. Active credits provided during 1999 amounted to about 3 billion SKK by total volume out of a total for capital credits of 7 billion SKK, which in terms of operational and investment requirements of the sector was insufficient. With a decrease in active credits there has been an increased share of other credits (classified).

In 1999 access to credit sources became more problematic due not only to the high loan prices (interest rates and fees) at that time, but also to the growing cautiousness of the commercial banks in their perception of the agricultural sector, as they reacted to the evidence of year-to-year reductions in the creditworthiness of Slovak agricultural enterprises.

Accordingly, the commercial banks consider the agricultural sector as one of the most risky business sectors from a loan repayment capacity point of view; and companies working in this sector during the transformational process in the 1990's have had a reputation of being unstable and unreliable debtors.

Regarding the above mentioned, the commercial banks have set up very strict loan conditions, following the principle of the safe-allocation of their resources. This cautiousness on the part of commercial banks has been the result both of their highly burdened loan portfolio and of the late-coming restructuring of the loan portfolios of the leading banks. This policy clearly worsens the situation in terms of loans accessibility for agricultural businesses.

Through the repayment of existing loans and the reduction in the rate of providing new loans during the last two years, the overall loan amount to be repaid by agriculture has reduced considerably, and the volume of loan principal decreased by 28.5%. In 1999 the banks granted a new volume of SKK 3 billion for agricultural sector, compared to the outstanding loan principal for the sector which amounted to SKK 7 billion, but even this volume of loan funding did not fulfil either the operational or investment requirements of agricultural enterprises.

The banks insisted on additional assets to be put up as collateral in support of newly granted loans; this means they have their required collateral coverage of 200-300% of the loan volume and, further, this asset should have been insured in favour of the bank. For other types of loan collateral such as for the operating assets of farm businesses (machinery, inventories) and real-estate assets (buildings, constructions) the banks collateralised them at the rate of 50-60% of loan volume. The banks specify that the object put up as collateral should not be the farmland due (a) to unsolved ownership rights at that time, and (b) because a lot of farms did not own their farmland (they only leased it). These were the main reasons in 1999 why land was not used as collateral for mortgage loans (Table 1).

The decline in loan volumes granted by the banks was observed throughout the whole agricultural sector, and applied as much to those businesses operating in better natural conditions as to those operating in poorer natural conditions. The demand for loans from agricultural enterprises decreased due to the high interest rates imposed in the case of businesses reaching only low levels of profitability, as was the case for many agricultural businesses (Table 2).

The impact of the credit system on the economic effectiveness of agricultural businesses during the years 2000-2004 is demonstrated by investment levels and the availability of financial resources to cover agricultural business operations. Commercial banks provided credit to agricultural businesses during the above-mentioned period based on the same valid standards that apply to other business clients. Since the credit-worthiness of agricultural business is typically less than that of non-agricultural sectors, the available volume of credit finance to agriculture decreased (Table 3).

In order to help with the above-mentioned problem and to supply improved financial resources to the agricultural sectors there are continued activities of the following institutional guarantee and subsidies mechanisms:

- Guarantee mechanism of Slovak Guarantee and Development Bank;
- Storage mortgage bonds and trade bonds mortgage (draft);
- State support fund of agricultural and food (only applied to the year 2001);
- Conditions created within subsidy support;
- Slovak commodity stock exchange.

Major credit and rural policy developments in 2005

While in the past credits for farmers were difficult to obtain, currently various banks have reconsidered their access and have created credit products oriented especially for the agricultural sector. While before accession to the EU Slovakian farmers were given subsidy during the production year, after accession to the EU farmers receive any subsidy at the end of the year. This delay in the actual payment date of payments to agricultural businesses causes temporal insufficiencies in the level of financial resources, which are particularly acute during cultivation and harvesting work. For the acquisition of resources at this stage, therefore, the banks began to offer bridging loans.

Among the banks that provide a high level of credit for the agricultural sector are the Slovak Guarantee and Development Bank, the Tatra Bank, the UniBank, the OTP Bank Slovakia and the General Credit Bank. Last year the Tatra Bank provided, through various types of credits and products for farmers, more than 1 billion SKK to the agricultural sector. The interest rate on this credit was around 5,8%, but it should be noted that the rate of interest differs among the banks.

Except in the case of commercial banks, credit and direct payments for farmers was also available as a micro-credit system for rural development purposes. Various institutes provide micro-credit to support rural enterprises. Most of the credits provided in the year 2005 were short-term, and the share of long-term credits was lower. Programs of rural development implemented in 2005 were:

SAPARD Program

The basic objective is to ensure an adequate standard of living and improvement in the quality of life of the rural population; sufficient job opportunities and adequate incomes by means of economic activities in the areas of agriculture, forestry, water management, the processing industry, traditional crafts, services and tourism; creation of an appropriate social climate; and protection and formation of a healthy environment. This programme contained three priorities and nine measures within them:

- **Priority No. 1**
Improvement of the agricultural production sector, including the food-processing industry.
 - **Measure No.1:** Investments in agricultural holdings (in the following sectors: sheep, poultry, fruit and vegetables, cattle and pigs).
 - **Measure No.2:** Improvement in the processing and marketing of agricultural and fishery products (milk processing and the dairy products industry, processing of meat, poultry, fruits and vegetables and ready-made meals, fish and fishery products).
 - **Measure No.3:** Setting-up of producer groups.
- **Priority No.2**

Sustainable rural development.

- **Measure 4a:** Diversification activities in rural areas for investments not involving infrastructure.
 - **Measure 4b:** Diversification activities – infrastructure investments not generating substantial net revenue.
 - **Measure No.5:** Forestry.
 - **Measure No.6:** Agricultural production methods designated to protect the environment and maintain the countryside.
 - **Measure No.7:** Land consolidation.
- **Priority No.3**
Development of human activities.
 - **Measure No.8:** Human resources development.
 - **Measure No.9 :**Technical assistance.

Sectoral Operational Programme-Agriculture and Rural Development 2004-2006

The Sectoral Operational Programme is a programming document for drawing funds from EAGGF and FIGG Guidance Sections. There were determined two priorities with the following measures:

- **Support of productive agriculture**
 - **Measure 1.1** Investments in agricultural holdings.
 - **Measure 1.2** Improving processing and marketing of agricultural products.
- **Support of sustainable rural development:**
 - **Measure 2.1** Sustainable forest management and forestry development .**Sub-measure 2.1.1**Investments for improvement and rationalisation of silviculture and marketing of wood and non-wood products (profitable investments). **Sub-measure 2.1.2** Public welfare investments (non-profit investments).
 - **Measure 2.2** Fisheries (financed by the FIGG). **Sub-measure 2.2.1** Fish processing and promotion of fishery products. **Sub-measure 2.2.2** Aquaculture.
 - **Measure 2.3** Promoting the adaptation and development of rural areas. **Sub-measure 2.3.1** Land consolidation .**Sub-measure 2.3.2** Diversification of agricultural activities.
 - **Measure 2.4** Training.
 - **Measure 2.5** Technical assistance

Rural Development Plan of the SR 2004-2006

The main objective of the RDP is to increase efficiency in the sector of agricultural production and quality of life of the rural population (multifunctional agriculture and sustainable rural development). Two priorities of the RDP with the following measures are based on the relevant objectives. The Rural Development Plan is carried out according to geographical allocation and it is intended for three types of measures:

- **Development of a sustainable rural economy:**
 - **Measure 1** – Investment in agricultural holdings. Projects approved according to Regulation No 1268/1999 (SAPARD Programme).
 - **Measure 2** – Training.
 - **Measure 4** – Meeting standards of the Community.
 - **Measure 6** – Improving processing and marketing of agricultural products.

- **Measure 7** – Forestry. Projects approved according to Regulation No 1268/1999 (SAPARD).
 - **Measure 9** – Land consolidation.
 - **Measure 10** – Diversification of agricultural activities.
 - **Measure 11** – Semi-subsistence farms.
 - **Measure 12** – Producer groups. Projects approved according to Regulation No 1268/1999 (SAPARD)
- **Protection and improvement of rural environment:**
 - **Measure 3** – Less favoured areas and areas with environmental restrictions.
 - **Measure 5** – Agri-environment support. Projects approved according to Regulation No 1268/1999 (SAPARD).
 - **Measure 8** – Afforestation of agricultural land.
 - **Measure 13** – Technical assistance including evaluation.
 - **Measure 14** – Complements to direct payments.

Policy measures implemented to rural development (NUTS III) in Slovakia have to be implemented in such way that the existing regional economic differences do not expand..

Access to rural credit – uptake and issues

In the year 1999, on the basis of agreement between Slovak Ministry of Agricultural and selected banks financial resources for the agricultural sector were accessed from banks using the follow products:

- Guarantees and contributions from guarantee funds from the Slovak Guarantee and Development Bank
- Partial payment of credit interest from subsidy,
- Cheaper loans, guarantee and payment of credit interest for investment from the State Support Fund of Agricultural and Foods, for supporting investment projects,
- Agricultural drafts,
- Supply and customer credit,
- Storage and trade mortgage bonds
- Barter trade

Other sources of agricultural loans are private food processing companies such as Palma-Tumys, Sugar refineries, and breweries, etc. The rates of interest on loans provided by those industries are typically rather low compared to commercial banks loans. The loan is provided over the short term to buy agricultural inputs. Rural credit is also available from the SAPARD program.

The loans from commercial banks are provided over both short term and long term periods, and the rate of interest ranges between 6 and 9 % p.a. Collateral is demanded, usually valued at 2 to 3 times the value of the loan. Machinery, buildings and stocks are accepted as collateral. Land is not accepted as collateral because of unsettled titles, and because most enterprises use leased land.

Availability and performance of rural credit facilities

Assessment of short-term credit sources

The average interest rate for loans to the agricultural sector during the 1997-99 period was 16.5% (taken as the ratio of interest volume on the entire outstanding loan volume). Since on the “Old Block” of credits a flat interest rate of 13% was administered, this implies

that a lot of the new loans in the agricultural sector have been operated with higher interest rates than the average (16.5%) might suggest. The maturity dates of these agricultural loans should also be taken into consideration, and the maturity of such lending in previous years (i.e. up to 1999) was dominated by short-term loans, and it was only after 1999 that a more balanced status, in terms of loan maturity dates (short-term loans versus long term loans), was achieved (Table 4).

The 'old block' of credit

The financial restructuring of those agricultural businesses which are still burdened by the so-called "Old Block of Credits" remains an unresolved issue, and is an open problem affecting Slovak agriculture. This old block of credit represents approximately SKK 6.3 billion (including accrued interest to be paid) and it consists of:

- Loans used for the operational needs of businesses; and
- Investment loans, which were granted in 1992.

Assessment of medium-term and long-term credit sources

The General Credit Bank is still the most important source of credit. This bank split away from the former State Bank and used to be the supplier of financial resources to the national economy, including the agricultural sector. The majority of farms are still clients of this bank. However, the General Credit Bank did not provide sufficient loans to smooth the drastic decline in agricultural production. Already in 1990 the government supported the Agricultural Bank. It provides credit to the agricultural sector out of its own funds, but predominantly in co-operation with the state funds such as the Support Fund (European Commission:27). In 1992 the government actively promoted the setting up of the Guarantee and Development Bank. Its funds were mainly provided by the state and also national funds. In addition, some international support has been made available from the European Investment Bank. The Guarantee Bank is administrating the Guarantee Fund. This fund secures particularly short-term credits of the commercial banks to the respective enterprises and, thus, reduces the repayment risks. In general, it covers 80% of the total sum (Green Report: 44). The agricultural sector is characterised by the urgent need of fresh funds. Commercial banks regard this sector as too risky and refrain from providing any money. In 1994 about 3.8 billion SKK (according to the OECD: 77) were provided as new credits to the agricultural producers. Out of the total sum of 3.8 billion SKK, three types of credit can be distinguished:

- About 1.4 billion SKK were handed out by the bank as "Green Credits" for financing short-term expenditures during the cropping year. In general, these credits are secured by the Guarantee Fund.
- Another 0.4 billion SKK can be characterised as medium to long-term credits since their maturity dates are longer than one year. In general, these credits are secured by the Support Fund.
- About 2 billion SKK are also short-term credits under special conditions. Since 1992 there is the possibility for the commercial banks to grant credits to agricultural producers by taking the future harvest as collateral. The farmer gets cash from the respective commercial bank against a certificate of indebtedness during Springtime (Green Report: 43). The bank can deposit this certificate at the National Bank at the discount rate, (in 1996 for 8 per cent.). The customer pays, as for the "Green Credits" an interest rate of about 12-13 % (1996). In line with the modest recovery of the agricultural sector, this approach has become more popular.

Assessment of the adequacy of credit sources

The main support instruments for agriculture include the following components:

- direct payments to farmers, intended to support selected crops, animal production and farming in less favourable areas, as well as to provide disaster compensation and assistance with charges for irrigation;
- market price intervention, which involves "guaranteed" prices for selected commodities;
- credit subsidies, which provide access to working-capital financing at preferential interest rates and investments grants for asset modernisation and restructuring;
- tax concessions in the form of special tax exemptions to farmers operating as self-employed farmers or other legal entity, and tax refunds on diesel fuel used for farming. More recent instruments of government intervention include agri-environmental and rural development support schemes, which have been implemented since 1997 to encourage sustainability and protection of the environment, and financial support for general agricultural services, such as research, education, information dissemination and marketing promotion. Among the various instruments of agricultural support, direct payments to farmers and commodity support through guaranteed prices accounted for more than 50 percent of total budget expenditure on agriculture in 2000 and 2001.

The stabilisation in the banking sector in 2003 resulted from figures achieved by the banks in 2002 indicated (Table 5) that when asset productivity improved the market in banking products increased, and compliance with prudential ratios developed favourably. In the latter area there was a quantitative shift during 2003, in terms of the calculation of the adequacy of their own funds where, following the effectiveness of the decree on the adequacy of bank's own funds of financing, as from January 2003, in addition to credit risk, market risks also started to be considered.

The structure of loan provision changed from the aspect of the industrial sector and the most important items - industry and energy - gradually decreased. In contrast, the less important items grew, such as transport, warehousing, posts, telecommunications, and financial intermediation. Industry sector risks of loan-repayment default were concentrated in agriculture, sole traders, industrial production, construction, trade and services (Table 6).

Evidence of credit market failure

The banking sector was controlled by the state in Slovakia until the middle of 2000 and banks were major financial intermediaries. The state had majority shares in the three biggest banks - Všeobecná úverová banka (VUB), Slovenská sporiteľňa (SLSP) and Investičná a rozvojová banka (IRB). These three banks accounted for half of all bank credits. State ownership of the bank was a major cause of credit conditions difficulties, slow growth of financial market institutions, and minimal restructuring of enterprises. The outcome of not reforming the banking sector was credit rationing, high real interest-rates, and a significant amount of bad loans. The agricultural sector suffered from the lack of availability of credits in the first 10 years of transformation. Restructuring of the banking sector and privatisation of the three biggest banks by foreign subjects established better conditions for bank loans. Conditions for cheaper and available credits were established. The restructuring of the banking sector, together with fiscal tightening, created a surplus of funds in the market. The required reserves declined from 6.5 to 5.6 per cent and interest rates gradually decreased to about 11 per cent from the level of about 20 per cent. Currently there is a surplus of funds in the banking sector, while the enterprise sector (especially agriculture) is still under-capitalised. The creation of own sources is not sufficient to cover the producing process costs

in agriculture, mainly because of the price disparity, low liquidity and negative profitability of capital. To obtain credit from a bank is one of the possible solutions. The financial institutions consider the agricultural sector as high risk, mostly from the viewpoint of return of cost. This risk is higher in the case of individual farms due to their size.

Overview and prospects

Evaluating the current situation in terms of accessibility to local credit facilities supports the following conclusions:

- Since 2002, the agricultural output has been growing, and this is having a positive impact on Slovak GDP.
- Agricultural businesses have to produce viable business plans in order to get credit lines from commercial banks.
- The credit situation has been changing, and the majority of commercial banks operating in Slovakia are disposed to provide special loans to agricultural businesses.
- The ability of agricultural businesses to guarantee the loans with solid collateral has also improved (many of them are putting the future EU direct payments as loan collaterals) .
- According to the SOP and RV (Sectoral and Operating Program and Rural Development) analysis, a regional disproportion in allocation and in the distribution of EU funds exists. Such regional differences could have an impact also on the accessibility of local credit facilities offered by commercial banks.

Chapter 14: SLOVENIA

Introduction and background

An outline of rural credit facilities

Slovenia has a long tradition and a lot of experiences in the field of crediting agriculture and rural areas. In the pre-transition period, one of the most important measures of agricultural policy were bank loans assured to socially owned farms and agro-processing enterprises at very low or even negative real interest rates (OECD, 2001). The private sector, which owned more than 90% of the utilised agricultural area, was put in unequal position having very limited access to these credits.

The most important financial services for family farms in the pre-transition period were Savings and Loan Services (SLS) founded within cooperatives and forestry organisations. SLS collected savings of farmers, cooperative workers and other citizens in rural areas and credited farmers and co-operatives. They were integrated in the Association of Savings and Loan Services of Slovenia. In 1980's there were 72 SLS in Slovenia. As a result of the transformation of the bank sector in the 1990's most of them gradually stopped operating and their role was taken over by banks. In 1991 the Cooperative Union of Slovenia established the Slovene Co-operative Agricultural Bank with the aim of complementing the financial system in the field of agriculture, which was renamed as the Land Bank of Slovenia in 2004.

With the independence of Slovenia and the transition to a market economy, the bank sector went through great changes. In 1999 the Parliament adopted the new Banking Law which contributed to the increase of competitiveness in the banking sector. The system of universal banking, similar to that in the majority of European countries, was developed. Today Slovenia has 19 commercial banks and four of them, among other services, provide special offers of loans for agriculture. These banks represent the main source of crediting agriculture and other enterprises situated in the rural areas.

There are some other institutions that provide loans for agriculture and encourage the development of enterprises in rural areas. The most important among them is the Public Fund of the Republic of Slovenia for Regional Development and Preservation of the Settlement of Slovene Rural Areas, which finances in particular the projects in the less developed regions and territories with special development problems.

The second most important national financial institution is the Slovene Enterprise Fund, which was founded in order to improve the accessibility of funding sources required for the investment in the development of micro, small and medium-sized enterprises (SME's).

In the field of crediting the development of agriculture an important role is played by local communities which, in collaboration with banks, ensure farmers the access to credit sources at more favourable terms.

Major credit and rural policy developments in 2005

Agricultural and rural development is one of the priorities of Slovene regional and agricultural policy. Agricultural policy programmes are aimed to support the competitiveness of the agricultural sector, increase the level of income comparably with other activities, encourage a sustainable use of natural resources and protect the environment.

In 2005 agricultural policy supported (with capital grants) the following programmes:

- Improvement of processing and marketing of agricultural products;
- Investments in agricultural holdings;
- Diversification of agricultural activities;
- Marketing of quality agricultural products.

Banks play an important role in the field of using capital grants from national and EU funds. They offer long- term loans for the entire investment, short- term loans for paying the current investment costs (until eligible costs are refunded from the public funds), advantageous arrangements concerning deposits needed for the financial insurance, performance bonds and statements on the financial cover of investments.

The Public Fund of the Republic of Slovenia for Regional Development and Preservation of the Settlement of Slovene Rural Areas has an important role in the field of financing projects of rural development, which are co-financed by the EU. It provides advantageous loans and security guarantees, and supports the investment projects, building of the local and regional infrastructure, investments in the developing infrastructure and investments in agriculture.

The Slovene Enterprise Fund supports development investments in SME's by offering advantageous indirect and direct loans, and payment guaranties for loans, and by providing lower interest rates, lower costs of crediting and lower costs of guaranties. Capital grants are intended for natural persons[TV1] who are starting a business, for development projects of enterprises, and for investment into development of the business infrastructure necessary for the acceleration of investments.

The banking sector, together with other public institutions, provides different sources of financing for development in agriculture, entrepreneurship and the re-structuring of rural enterprises.

Access to rural credit – uptake and issues

Farmers are treated by banks as natural persons or as legal persons[TV2] within the sector of small and medium-sized enterprises. Banks offer different types of loans to farmers, for instance short-term loans with a 12-month payback period (which are mainly used for financing the current production), and long-term loans with a payback period of up to 10 years. Loans are mainly issued in national currency, but they can also be issued in foreign currency. The valid interest rate used is normally the nominal interest rate. Other interest rates are allowed, for example the Slovenian Bank's referenced interest rate with fixed interest bonus, annual fixed or variable interest rate for the loans in foreign currency; or EURIBOR, or other international referenced interest rates with fixed interest bonus. The loans for farmers are usually offered with lower interest rates than those offered to other types of business. The credit ability for farmers is estimated on the cadastral income and other incomes of the farmer and family members.

The documentation required by the bank when raising a loan is specified in detail, and comprises of the identification of the economic and social position of the borrower, evidence

on taxes paid, declaration of the cadastral income, declaration of the property, and other documents determined by the bank with regard to the type of investment and insurance.

When raising a loan different types of collateral can be used, for instance guaranties, insurance policies, fixed-property or movable property given in pawn, stock given in pawn, savings, and other combinations. The main collateral comprises of the signed bill of exchange and the signed order to pay.

The Public Fund of the Republic of Slovenia for Regional Development and Preservation of the Settlement of Slovene Rural Areas offers long-term credits (at least 4000 €) with a 20-year repayment period, and included moratorium on repayment of the credit (up to 5 years). Favourable interest rate is defined yearly in the business and financial plan. The credits may be used for investments in land, buildings or equipment. The borrowers have to elaborate a business plan or investment programme. The share of own resources has to be at least 25%.

The Slovene Enterprise Fund provides favourable criteria for financing investments in small and medium-sized enterprises. Their goals are stimulation of the development projects, setting up new enterprises, and equalisation of credit criteria with bigger enterprises. The Slovene Enterprise Fund encourages capital investments in every stage of the development of small and medium-sized enterprises, offering credits and different forms of guaranties. The maximum amount of credit is 50% of the estimated investment amount. The share of the farmer's own resources has to be at least 30%. The maximum repayment period is 10 years with a 2 year moratorium on repayment of the principal.

Availability and performance of rural credit facilities

Assessment of short-term credit sources

The main source of short-term credit (i.e. with a repayment period up to 12 months) for financing the operating appropriations are the banks, which ensure working capital for financial operations, for bridging financial problems, short term credit for financing the agricultural activity (i.e. seed credit), and for the smooth running of investment costs until the refunding of part of the costs from national funds and EU structural funds.

Agricultural cooperatives usually borrow revolving short-term loans used for the financing of current operations, or frame loans on current accounts.

Interest rates for short-term credit are calculated using a linear interest factor. Since 01.07.2002 all interest rates have become nominal. The level of the interest rate depends on the circumstances of the borrower, the length of pay back period, and on collateral.

Assessment of medium-term and long-term credit sources

Banks are the main source of long-term credits (i.e. with a repayment period up to 10 years and more). They offer long-term credits for:

- Investments in agricultural facilities;
- Investments in rural tourism;
- Purchase of agricultural machinery and spare parts;
- Purchase of livestock for breeding;
- Planting/replanting of permanent crops;

- Meat production (with repayment period up to 18 months) - specific loans with lower interest rates.

Interest rates for long-term credit sources are calculated according to an annually agreed rate, which is composed of the existing basic interest rate (known as the “T” interest rate) and the degree of revaluation.

The interest rate depends on the estimated amount of investment, credit-worthiness, credit rating and collaterals.

Assessment of the adequacy of credit sources

There is a lack of empirical studies about the adequacy of credit sources for agriculture and rural areas in Slovenia. Considering the wide spread of commercial banks and other institutions, which provide a wide range of opportunities, it could be estimated that the existing system is appropriate and sufficient.

The main sources of rural credits are commercial banks. Most of them do not employ a specialist for crediting agriculture and rural areas, but they provide constant education for their employees in order to become aware of the specific nature of the agricultural sector. To assure quality services some banks have established special departments for loans in agriculture.

With regard to farm investment and financial construction, farmers can use the services of the Agricultural Extension Service, which operates under the Slovene Chamber of Agriculture and Forestry. Agricultural advisers educate and train people in rural areas, enable the flow of information and the transfer of knowledge, and advise people about business decisions (preparation of business plans, technical assistance at restructuring of holdings, etc.).

With a similar function to the Agricultural Extension Service, the Small Business Development Centre provides access to information, advisory services and different forms of financing. The aims of this Centre are to create an efficient environment for an accelerated development of entrepreneurship, craft and self-employment, and also to promote the culture of entrepreneurship. Within this centre Rural Development Cores operate as independent non-profit-making units, which provide support to projects and operators in rural areas.

Evidence of credit market failure

With regard to the fact that there are no specific empirical studies concerning the crediting of agriculture and rural areas, it is hard to identify the potential difficulties. The mid-term evaluation of the pre-accession programme SAPARD (MAFF, 2003) have pointed out that farmers and rural enterprises had problems in obtaining credits, mainly due to inadequate credit-worthiness. Family farms are often too small and lack their own financial resources, which decreases their possibilities of obtaining credit to ensure a share of co-financing of the projects and, consequently, to benefit from the state subsidies.

Farmers believe that the procedures required for obtaining credit are long-running and complex. The criteria for taking a loan are strongly related to collaterals and the results of the past performance of borrowers.

Overview and prospects

It may be concluded that the existing system of rural crediting in Slovenia is well developed. The system ensures different loans from various private and public financial institutions (banks, public funds). The banks are aware of the complexity and specific nature of agricultural production, which reflects in special offers of services in order to fulfil the needs of this specific segment of the borrowers.

The small size structure of farms and unfavourable natural conditions result in a low income level from agriculture. This is often the strongest limiting factor at benefiting from the available credit sources.

The development of agriculture and other activities in rural areas is one of the main development priorities in Slovenia. Under the new financial perspective of the EU even greater emphasis will be given to improving the quality of life, employment opportunities and diversification of activities in rural areas. It can be estimated that the needs for quality financial services will increase, along with the increase of the experiences acquired at the disbursement from EU structural funds.

Chapter 15: TURKEY

Introduction and background

An outline of rural credit facilities

Rural credit facilities in Turkey are divided into two broad categories: organized credit sources and unorganized credit sources.

The major credit-providing institution, at the top of the organized sources, is Ziraat Bank of Republic of Turkey, which was established in 1888. Today, this institution still provides 95 percent of direct or indirect credits given to rural areas (TCMB, 2004). While 9 banks with public and private capital were providing credits to rural areas and the agricultural sector in 1985, only three banks (i.e., Ziraat Bank, Sekerbank and National Aydın Bank) provided rural credits in 2000. Recently, many banks provide credits, not with low interest rates but with the current interest rates in the market.

After 2003, in addition to Ziraat Bank and Agricultural Credit Cooperatives, other banks such as Vakıflar Bank, İş Bank, Denizbank, and Garanti Bank started to provide credit to those who live in rural areas.

While the Ziraat bank itself has provided credits to the large size farms, the credit needs of the middle and small size farmers have been provided through Agricultural Credit Cooperatives. This cooperative union with 2958 branches provides services to its 1.4 million farmer members. This number corresponds 46 percent of the 3.022.127 farmers in Turkey.

The objective of the Agricultural Credit Cooperatives is to provide middle term credit needs of the farmers. The sources of credits come from the own sources of the cooperatives, in addition to the amount provided from the Ziraat bank. The ratio of own resources increased to 85 percent of the total credit provided to the farmers in 2003 from only 12.5 percent in 2000.

In line with this, the ratio of credit coming from the sources of Ziraat bank decreased reversely (Table 4).

Other than Agricultural Credit Cooperatives, Agricultural Sale Cooperatives, Sugarbeet Farmers' Production Cooperatives and Tea Farmers' Production Cooperatives provide rural credit to its members. All these cooperatives mainly provide credit in kind but also a limited amount in the form of money (TSKB, 2003).

In general, rural credits provided by private banks have been very limited.. When a rough evaluation is made, it can be seen that only 6 banks out of 38 in 1980, 5 banks out of 32 in 1986, 4 banks out of 38 in 1991, and 3 banks out of 43 have provided credits to agriculture (TBB, 2000). Regarding the 3 banks that provided credits in 2000, agricultural credit provided by Ziraat Bank of Republic of Turkey, National Aydın Bank (Tarisbank) and Sekerbank covers only 35.45, 16.00 and 1.75 percent of the total credit they provided, respectively (TBB, 2000). Today, private banks also provide credit to the agricultural sector, but the amount compared to total credit they provided is very small.

Denizbank started providing credit to the members of Agricultural Sale Cooperatives (Taris) in 2004. In recent years, Garanti Bank also started providing credit to agriculture, especially focusing on contract farming. In 2006, Akbank reserved 350 million YTL to be utilised by farmers under a special programme named “Farmer Support Package”. In this package, while the bank provides rural credit, it provides insurance for heavy rainfall (hail) and fire risks by its Ak Insurance. In this package, the bank also provides Greenhouse Investment Credit and Tractor and Agricultural Equipment Credit.

Agricultural credits provided to rural areas have fluctuated in terms of the amount since 1982. The amount of credits provided in 2000 was the highest. The level of interest rate applied to crop production has been higher than interest rates applied to the credits for animal husbandry (Table 3). The interest rates seemed high because of high inflation rates in the past but they used to be much lower than interest rates for saving accounts.

In addition to these, a new important development related to rural credit is micro-finance/micro-credit. Micro-credit became known in 2003 with the credit provided by World Bank. This micro project came into effect when the Prime Minister’s Office provided 130 million US Dollars mutual funds in response to 500 million US Dollars credit provided by the World Bank. With the cooperation of the Wastefulness Preventing Association of Turkey, Governor of Turkey and Grameen Trust, the project was started on June 11, 2003 in Diyarbakir province and the first micro-credit checks were given on July 18, 2003. These credits were given for the amount of 500 YTL for 21-year period with weekly repayments. Up to now, all repayments have been paid on time.

Halk Bank offeres credits with low interest rates to low income groups, tradesman and craftsman as micro entrepreneurs under the packages of “Support Credits for women and young entrepreneurs”, “Credit for taxi and minibus drivers” and “Product improving credit” Individuals, tradesman, middleman, money brokers and comissionars are unorganized credit sources. These sources provide credit finance with short terms, high interest rates and heavy payment conditions. Some studies indicate that, depending upon the region, the ratio of unorganized sources of credits fluctuates between 10 and 60 percent (Karlı, 1996)

Major credit and rural policy developments in 2005

- **Restructuring Farmer’s Debts:** The Restructuring Farmer’s Debts Law numbered 4876 provided a peace between state and farmers. The application period of this law, published in the Official Newspaper and enacted on June 12, 2003, ended on January 31, 2006. In this application period, 1.6 billion YTL debts of 800 thousand farmers to Ziraat bank and Agricultural Credit Cooperatives were restructured. Accumulated interests on debts were wiped away and principles of debts were fixed. Ten percent of total amount of debt was to be paid in 60 days and the rest was made a sum due payable on the installment plan of repayments in the Octobers of coming three years. The distraint order for the debts of the farmers who applied for this opportunity was cancelled.

The debt of 1.276 billion YTL of 546 thousand farmers to Agricultural Credit Cooperatives was reduced to 531 million YTL through this dept restructuring, and made an instalment payment. Because of this policy, Agricultural Credit Cooperatives gave up a credit of 745 million YTL.

On the other hand, Ziraat bank restructured the debts of 220 thousand farmers. But, as only 177 thousand of the farmers applied for this opportunity, 673 million YTL debts were restructured and 328 million YTL was collected.

The credit debts of the farmers increased very fast due to high interest rates during the crises periods and farmers were not able to afford to pay this amount. This is why this policy was implemented and the land and tractors of the farmers were saved from distraining.

- The maximum credit level provided by Agricultural Credit Cooperatives increased from 3,000 YTL in 2002 to 10,000 YTL in 2005.
- In 2005, subsidised credits were made available for farmers to use with interest rates ranging from 8% to 15%.
- While the contribution of Ziraat bank to Agricultural Credit Cooperation decreased substantially, the new law enacted recently permitted Agricultural Credit Cooperatives to make loans from other banks and financial institutions.
- **Credit Support:** In the framework of the commitments given by the intention letters to IMF on December 9, 1999, after the year 2000 interest rates in agricultural credits have linked to the interest rates of the government bonds. Because big problems in credit use faced by farmers had made subsidized credit necessary, the Cabinet Decision on the Use of Investment and Business Credit with Low Interest for Agricultural Production Improvement, in 2004, initiated subsidized agricultural credits for farmers.
- **Interest Rate Reduction:** In 2005, 1.3 billion YTL through Ziraat Bank and 1.2 billion YTL through Agricultural Credit Cooperatives were made available for farmers. The interest rates of these credits reduced from 26% to 10.5–19.5%. In 2006, Ziraat Bank will pull down the interest rates by 16 percent to subsidize agriculture and the debt of more than 160 million YTL occurred as a result of this will be paid to Ziraat Bank by the treasury.
- To meet the needs of producers in the Agricultural Sector related to production, Ziraat Bank of the Republic of Turkey and Agricultural Credit Cooperatives started providing business credits with low interest rates. In this framework, up to 250 thousand YTL credit will be offered to real and legal individuals as business credits.
- The major problem with credit policy implementation is that the credit borrowed by farmers is not being used properly and not controlled efficiently by the provider.
- See related recent publications on rural credit in references.

Access to rural credit – uptake and issues

The main obstacles to access to the sources of credit finance are: 1) lack of adequate collateral for rural people, 2) lack of adequate credit facilities with reasonable conditions, and 3) distance to credit facilities. First of all, due to the high rural population (34% compared to a rural population of around 5% in Europe), and low productivity, low income and such low/no savings, many Turkish people in rural areas do not have adequate collateral to get credits from commercial banks. Secondly, many commercial banks do not have branches in many rural areas and do not offer credits to rural people. On the other hand, the ones which offer credits charge high interest rates that rural people cannot afford. The main sources of credits for the rural population are the Ziraat Bank of the Republic of Turkey and Agricultural Credits Cooperatives. Actually we can say that Ziraat Bank is the main source, since Agricultural

Credits Cooperatives basically distributes rural people the credits that they get from Ziraat Bank. However, the main advantage of Agricultural Credits Cooperatives is that they have branches (1958 units) all over Turkey, even in small villages where there are no banks whatsoever. Hence, they can reach and provide credits for small and medium-sized farms. This, of course, eases up the access to the credit facilities for rural people. On the other hand Ziraat Bank mostly provides credits for bigger sized farms.

Although the commercial banks have recently started to provide more credit opportunities for rural people, and in particular farmers, they target the bigger farms, richer and less risky farmers as customers, such as those who do contract farming (Özçelik, 2005). According to statistics, around 30% of the farms cannot get any credits from any organizations (Karlı, 1996).

Besides all this, there are some positive progresses in rural regions. In 2003, a micro credit project was first applied in Diyarbakır province, located in south-east region of Turkey. This project copies the Grameen Bank's micro-credit project, to provide credit for poor people, especially women, in rural regions. This is an outstanding progress and improvement in the rural credit field in Turkey. So far, this project is working excellently with 100% credit return rate. By means of this project, poor people with no collateral can easily access the credit and have opportunity to establish his/her own business. This will lead to an increase in their income and welfare and therefore to rural development.

Availability and performance of rural credit facilities

Assessment of short-term credit sources

Most of the rural credits offered in Turkey are short term credits. As can be seen from Table 1, the ratio of short term credits decreased from 79.94% at the end of 1. Plan period (1967) to 66.56% at the end of 3. Plan period (1977). However, the ratio again started to increase and reached to 96.24% at the end of 6. Plan period (1994). The ratio of short term credits at the end of 7. Plan period (2000) is 60.9%. It is normal to have a higher ratio for short term credits since rural people, and farmers in particular, have low incomes and need more short term credits for inputs. On the other hand, due to the unstable economic conditions in Turkey, credit organizations do not want to offer much longer term credits and take higher risks. However, because of better economic conditions over several years, credit institutions now are willing to offer more credits with longer terms.

Ziraat Bank (TCZB) and Agricultural Credits Cooperatives (ACC) offer short term farm credits for seeds, fertilizer, pesticides, herbicides, gas etc. up to 12-18 months. These two institutions are the main source of rural credits. Recently, Garanti Bank and Vakıfbank have started to offer short term credits for farmers. Garanti Bank offers up to 9 months short term credits for contract farming, while Vakıfbank offers up to 12 months short term credits for organic farming.

Assessment of medium-term and long-term credit sources

In Turkey, there is no credit provider that offers long term credit finance either for agriculture or other rural businesses, indeed, for other business sectors either. Only short term and medium term credits are offered. Medium term credits are mainly for investments, such as tractors, combines, inventories, equipment and livestock, with a maximum term of 5 years. Ziraat Bank, Agricultural Credits Cooperatives, Sekerbank and Garanti Bank offer medium term credits. To develop the rural regions and to improve the structure of agriculture in Turkey, credit finance can play an important role, especially medium and long term credit for major investments. Borrowing for such investment can increase the profitability of farms and the competitive position of farms.

While the ratio of medium term credits of the total agricultural credits was 3.76% at the end of 6. Plan period (1994), this ratio went up to 39.1% at the end of 7. Plan period (2000) (Table 1).

Assessment of the adequacy of credit sources

The rate of agricultural credits over GNP is getting lower and lower. It was 5.52% in 1967 and had decreased to 2.61% in the year 2000. In addition, while the proportion of agricultural credits over total bank credits was 20.05% in 1977, this figure had reduced to 8% in 2001 (II. Tarım Şurası Sonuç raporu, 2004, page 94 and Table 1). On the other hand, the amount of credits per farm is very low, although it has been getting higher in recent years. That is mainly because of the high and poor rural population, the lack of sufficient credit sources, and the high interest rates of existing credit providers. The number of rural credit providers and the amount of credits offered need increasing. To some extent, government should support and compensate rural people for lower interest rates in order to adopt more productive inputs and technologies.

Evidence of credit market failure

Due to unstable economic conditions and the poor structure of agriculture in Turkey, commercial banks or institutions did not enter the rural credit business since rural people were poor and loaning credits to them too risky. Therefore, state banks and cooperatives were the only credit sources for these people, a sort of monopoly. Almost 95% of rural credits are loaned by the two state institutions, The Ziraat Bank of the Republic of Turkey and Agricultural Credits Cooperatives. However, recently commercial banks and the other institutions have begun to enter this credit market as the economy of the country gets better off.

The other point is that due to low income levels and lack of collateral, many people in rural regions cannot get a loan from a bank (around 30%). For these people, micro-credits can be a remedy. This project is very new in Turkey and can overcome this problem in the long run.

Finally, in many rural areas there are only the ACC branches as a credit provider. The ease and closeness to reach credit providers are very important issues for borrowers. More credit providers need to go and open branches in those areas. This will make it easier for people to get credits, as well as triggering effective competition amongst credit providers.

Overview and prospects

One of the most important problems of rural areas, especially the agricultural sector, is funding. The improvements in funding have not been sufficient because of the continuing problems of the agricultural sector and farmers, and chronic economic problems. At the same time, this structure and the economic conditions prevented efficient organization and structuring related to credit governance. Recent successful policies on inflation and economic and political stability affected financing activities. In this respect other private commercial banks started providing credit to rural people in addition to Ziraat Bank. These private banks mainly provide credit to contracted farmers who are more reliable. This tendency will improve vertical integration and contribute to rural credit problems.

When the general structure of agriculture is overviewed, the problems of very high credit cost and cash flow have not been solved. Because of this problem, farmers, middle-men and commissioners have had very weak relationship with financial institutions. In order to improve the cooperation with financial institutions, the need of special credit, due date, and guarantees to agriculture must be satisfied. In this respect;

- Subsidized credits with low interest must be provided.

- Agricultural Credit Cooperatives through Ziraat Bank or other means must increase the amount of credit provided to farmers.
- Since insufficient credits prevent sufficient use of inputs and modernization, the level of credit must be increased for middle and long term credits (Karlı, 1991).
- The number of organized credit sources, and the cooperation among them need to be increased and improved.

REFERENCES

References to chapter 1 (Bosnia Heerzegovina)

1. Ministry of Justice of Bosnia and Herzegovina: Functional Review of Agricultural Sector in Bosnia end Herzegovina, (2004)
2. Dragana Ognjenovic: Capital Market in Federation of Bosnia and Herzegovina and its Influence on the Investment Costs in food Industry, (2000);
3. Ognjenovic, Dragana, Selak, V., Bogucanin,H., Bajramovic, S., Nikolic, Aleksandra: Sources and Terms for Investment' Financing in Berry-fruit Production, Symposium Days of Berry-fruits, Celic, (2005);
4. Economic Reform and Reconstruction of Bosnia and Herzegovina, Economic Newsletter, Vol.5, Issue 2, Office of the High Representative in Bosnia and Herzegovina (2002);
5. IFAD Project Livestock and Rural Finance Development, Project documentation, Project coordination units of FBH and RS;
6. <http://web.worldbank.org>
7. <http://www.worldbank.ba>
8. <http://www.doingbusiness.org>
9. <http://www.amfi.ba>
10. <http://micro.lock.ba>
11. <http://www.procreditbank.ba>
12. <http://www.raiffeisenbank.ba>
13. <http://www.ibf-bih.com>
14. <http://www.hypo-alpe-adria.ba>
15. <http://www.bobarbanka.com>
16. <http://www.mikrofin.com>
17. <http://www.prizma.ba>
18. <http://www.partner.ba>
19. <http://www.delbih.cec.eu.int>
20. <http://www.vladars.net>
21. <http://www.abrs.ba>
22. <http://www.fba.ba>

References to Chapter 3 (Croatia)

Croatia bank, 2005. Financial Statements and Independant Auditor's Report as on 31th December 2004. Croatia banka. Zagreb. Available from:
http://www.croatiabanka.hr/pdf/poslovna_izvjesca_2004_EN.pdf

Croatian National Bank, 2004. Macroeconomic analysis – recent trends on domestic financial market, Croatian National Bank, Zagreb

Croatian National Bank, 2005. Results of the third banks survey by CNB. Croatian National Bank.August 2005. Zagreb. Available from <http://www.hnb.hr/publikac/pregledi/p-020.htm>

Croatian National Bank, 2006. Standard presentation formation, Croatian National Bank,Zagreb

Croatian National Bank. Bulletin about Banks, 2005. Croatian National Bank. Zagreb. 11.
Avliable from: <http://www.hnb.hr/publikac/bilten-o-bankama/hbilten-o-bankama-11.pdf>

Erste & Steiermärkische Bank, 2005. Consolidated Financial Statements for the years ended 31th 2005 and 2004 and Independent Auditor's Report. Erste & Steiermärkische Bank, Rijeka.
Available from: http://www.erstebank.hr/godisnja_izvjesca/Financial_Statements_2005.pdf

Hakim, M.A.,2004. Microcredit and Agriculture, Microcredit Summit Meeting, Dhaka

Heron I., Knight I., Winter M, 2002. Croatia Agriculture/Agribusiness Assessment, Prepared for USAID Croatia, Office of Economic Growth

Lipovac, M, Peratović, Ž., 2003. Report from Croatian Parliament Board session, Vjesnik, January 29th 2003, Zagreb

OECD, 2001. Agricultural Finance and Credit Infrastructure in Transition Economies. Focus on South Eastern Europe - Proceedings of OECD Expert Meeting, Portoroz, Slovenia, May 2001.

The Banker, 2005. A New Landscape. Available from:
http://www.thebanker.com/news/fullstory.php/aid/2653/A_new_landscape.html

Thomas Reininger, Zoltan Walko, 2005. The Croatian banking system, Financial Stability Report, Oesterreichische Nationalbank, Available from:
http://www.oenb.at/en/geldp_volksw/zentral_osteuropa/banksecfmstab/2005_reiningerwalko.jsp

UN FAO and the Ministry of Agriculture and Forestry of the Republic of Croatia, 2003. Project: Rural Development Strategy for Croatia. A strategy for rural development in Croatia (2004-2010) (Draft). Zagreb.

References to chapter 4 (Cyprus)

Public Loans Fund, Ministry of Finance – Loans Officials
Cooperative Central Bank, Cooperative Central Bank Website <http://www.coopbank.com.cy/>
Cooperative Societies' Supervision and Development Authority
Cooperative Societies' Supervision and Development Authority Website
<http://www.cssda.gov.cy/>
Ministry of Agriculture and Natural Resources – Department of Agro economics

References to chapter 5 (Czech Republic)

1. Czech National Bank: Bank sector in the period of economic transformation, Prague 1996
2. Ministry of Finance: Annual report of the year 2005, Prague 2006
3. Ministry of Agriculture: Green Report – 1995-2004
4. FADN CR: Yearly reports 1995-2004
5. Czech Statistical Office: Yearly reports 2002-2005

6. Czech National Bank: Yearly report 2002-2005
7. MMF: Assessment of the cooperation between CR and WB in 1998-2005, Prague 2006

References to chapter 6 (Estonia)

Rural Development and Agricultural Market Regulation Act. 2004
Rural Development Plan 2004-2006 <http://www.agri.ee/index.php/14602/>
National Development Plan 2004-2006 <http://www.agri.ee/index.php/15734/>
Rural Development Foundation, Annual report 2003.
Rural Development Foundation, Annual report 2004.

References to chapter 7 (Hungary)

Interview with dr. Sándor Gösy, senior adviser of OTSZ (National Association of Saving Cooperatives)

Dr. Gösy Sándor: Az agrárhitelezés helyzete, kapcsolata az agrárgazdaság és a vidék fejlődésével. Az EU csatlakozás hatása az agrárfinanszírozásra és fejlesztésének körülményei, lehetőségei és feladatai. Integráció, 2005. július-augusztus, szeptember-október [The situation of rural credit system; its relation of the development of rural areas. The impact of EU accession on agricultural crediting. Possibilities and tasks]

Illés Zoltán: Agrárfinanszírozás a Takerékszövetkezeti Integrációban. Előadás ppt. [Agricultural financing in the integration of rural saving cooperatives]
Rural-Credit Guarantee Foundation, Annual Report, 2004

References to chapter 9 (Lithuania)

1. Bank of Lithuania. Operations of Credit Institutions (balance sheet, profit and loss statements) <http://www.lb.lt/eng/institutions/operations.htm>
2. Bank of Lithuania. Statistics, 1999 – 2005. <http://www.lb.lt/eng/statistic/index.html>
3. Dries L., Swinnen J.F.M. Finance, Credit and Investments in Polish Agriculture. Research Group on Food Policy, Katholieke Universiteit Leuven, May 2003.
4. Igarytė J. Legal Regulation of Lithuanian Credit Unions: Possible Amendments in Lithuania and Model Application in Eastern European Countries. – Kaunas, 2005.
5. Kraujelis J., Tunaitienė R. Kredito garantijos kaimo verslui // Lietuvos kaimo raida. Lietuvos agrarinės ekonomikos institutas. Vilnius, 2005.
6. Lithuanian Credit Unions. Services_Interest Rates 2005. <http://www.lku.lt/content/category/5/73/29/>
7. Lithuanian Institute of Agrarian Economics. Data about agricultural enterprises, 1999-2004. – Vilnius, 2000 – 2005.
8. Lithuanian Ministry of Agriculture. Annual reports of agricultural companies, 1999-2003
9. Lithuanian Ministry of Agriculture. Reports of National Paying Agency, 2005
10. Meyers W.H., Kazlauskienė N., Naujokienė R., Kriščiukaitienė I. Rural Financial Constraints in the Framework of EU Accession of Lithuania. Study supported by the World Bank under Lithuania Technical Assistance. November 2004.
11. Pederson G., Matusevich V. The Evolution of Commercial Finance in Russian Agriculture. Conference on Paying the Way Forward for Rural Finance: An International

Conference on Best Practices. World Council of Credit Unions, Washington, D.C. June 3, 2003.

12. Rural Credit Guarantee Fund. 2004 Activity Report. <http://www.garfondas.lt/index.php?-1255990785>

13. **World Development Report 2002: Building Institutions for Markets. 2002**

Interviews with specialists from:

1. Lithuanian Association of Agricultural Companies
2. Lithuanian Farmer's Union
3. Lithuanian Institute of Agrarian Economics
4. Nord LB Bank
5. Regional Farmers' Association
6. Rural Credit Guarantee Fund
7. Rural Small Businessmen and Craftsmen Association of Lithuania
8. SEB Vilnius Bank

Ūkio Bankas

References to chapter 10 (Poland)

1. A. Alińska (2001): Inwestycje i kredyty w gospodarstwach chłopskich w latach 1996 – 2000. IERiGŻ. Warszawa.
2. ARiMR (2004): Agencja Restrukturyzacji i Modernizacji Rolnictwa – Dokonania i zamierzenia. Warszawa.
3. ARiMR (2005): Agencja Restrukturyzacji i Modernizacji Rolnictwa – rok po akcesji. Warszawa.
4. D. Czerwińska – Kayzer (2000): Rola inwestycyjnych kredytów preferencyjnych w przemianach strukturalnych rolnictwa indywidualnego. Praca doktorska wykonana pod kierunkiem prof. Dr hab. Walentego Poczty. Poznań.
5. D. Czerwińska – Kayzer (2002): Czynniki wpływające na decyzję wyboru źródła finansowania inwestycji w gospodarstwach indywidualnych. Zeszyty Naukowe SERIA. tom IV, zeszyt 4. Warszawa – Bydgoszcz.
6. FADN (2005): Wyniki Standardowe uzyskane przez indywidualne gospodarstwa rolne prowadzące rachunkowość w 2004 roku. FADN, Warszawa.
7. FDPA (2002): Polska Wieś – Raport o stanie polskiej wsi (2002): FDPA. Warszawa.
8. L. Goraj S. Mańko, R. Sass, Z. Wyszowska (2004): Rachunkowość rolnicza. Warszawa.
9. GUS (2005): Rocznik Statystyczny Rzeczypospolitej Polskiej 2005. Warszawa.
10. W. Kawecka (2003): Kredyty preferencyjne w opinii rolników. Zagadnienia Doradztwa Rolniczego nr 3/2003. Poznań.
11. B. Klepacki (1997): Produkcyjne i ekonomiczne przystosowania gospodarstw prywatnych do zmian warunków gospodarowania. SGGW. Warszawa.
12. Z. Koziół (1997): System kredytowy gospodarki rolnej w Polsce. Ocena efektywności wykorzystania kredytów na modernizację i restrukturyzację gospodarstw rodzinnych, tom I – System kredytowy i skala zadłużenia rolnictwa polskiego. Praca zbiorowa pod redakcją prof. dr hab. Janusza Lewandowskiego. Warszawa.
13. J. Kulawik (1997): Efekty kredytów inwestycyjnych w gospodarstwach rodzinnych prowadzących rachunkowość rolną dla IERiGŻ. IERiGŻ, ARiMR. Warszawa.
14. J. Kulawik (2000): Makro i mikroekonomiczne przesłanki oraz skutki interwencjonizmu państwowego w sektorze kredytowania rolnictwa – Synteza. IERiGŻ. Warszawa.

15. J. Mikołajczyk (2003): Organizacja i efektywność inwestycji produkcyjnych w rolniczych gospodarstwach indywidualnych małopolski. Praca doktorska wykonana pod kierunkiem dr hab. Wiesława Musiała. Kraków.
16. MRiRW (2005): Rolnictwo i gospodarka żywnościowa w Polsce. Warszawa.
17. MRiRW (2005): Biuletyn Informacyjny 11-12/2005 (101), 2005.
18. W. Olejniczak (2005): Wsparcie gospodarstw rolnych po akcesji do UE. MRiRW. Warszawa.
19. M. Podstawka, K. Czupryńska (1997): Czynniki determinujące popyt na rolnicze kredyty preferencyjne. Zagadnienia Doradztwa Rolniczego nr 4/1997. Poznań.
20. A. Sadowski (2003): Kredyt na utworzenie i urządzenie gospodarstwa rolnego na tle kraju. Zeszyty Naukowe SERIA. tom V, zeszyt 1. Warszawa – Poznań – Koszalin.
21. I. Sadowska, A. Sadowski (1998): Analiza planowanych przedsięwzięć i poniesionych nakładów inwestycyjnych na podstawie opinii wydanych przez Ośrodek Doradztwa Rolniczego Sielinko dla podmiotów ubiegających się o kredyty preferencyjne dofinansowywane przez Agencję Restrukturyzacji i Modernizacji Rolnictwa w roku 1997. Materiały niepublikowane.
22. A. Sadowski (2005): Ocena skutków inwestycji wspieranych kredytem preferencyjnym dla gospodarstw rolnych. Praca doktorska wykonana pod kierunkiem prof. dr hab. Walentego Poczty. Poznań.
23. www.arimr.gov.pl 24.03.2006.
24. www.nbp.pl 22.03.2006.

References to chapter 11 (Romania)

- Șerbănescu, C., (1999). *Agricultural finance and institutional reforms in Romania*, p.4-7
- Schrieder, G., Heidhues, F., (2000). *Transition and rural finance*, p.5
- ***, (May 2005). Romania Country Assistance Evaluation, *World Bank, Report No. 32452* Country Evaluation and Regional Relations, Operations Evaluation Department
- ***, (2005). Romanian Food and Agriculture from a European Perspective, *World Bank, Working Paper No. 39*
- ***, (2005). Capital Markets and Non-bank Financial Institutions in Romania. Assessment of Key Issues and Recommendations for Development *World Bank, Working Paper No. 45*
- ***, (1993). *Joint mission to advise on agricultural and food policy options. Agricultural banking and rural financial markets*

Periodicals:

- ***, *Adevărul Economic*, (2005).

Legal Acts:

- ***, *Emergency Government Ordinance no. 97/2000 regarding credit cooperative organisations* ([O.U.G. nr.97/29-06-2000](#) ORDONANȚĂ DE URGENȚĂ privind organizațiile cooperatiste de credit)
- ***, *Law no. 200/2002 regarding the adoption of Emergency Government Ordinance no. 97/2000 regarding credit cooperative organisations* ([L. nr.200/16-04-2002](#) LEGE pentru aprobarea Ordonanței de urgență a Guvernului nr. 97/2000 privind organizațiile cooperatiste de credit)
- ***, *Law no. 150/2003 regarding agricultural credit for production* (L. nr.150/14-04-2003 LEGEA creditului agricol pentru producție)

***, *Law no. 218/2005 for the stimulaton of SAPARD funds through the guarantee funds* ([L. nr.218/05-07-2005](#) LEGE privind stimularea absorbției fondurilor SAPARD prin preluarea riscului de către fondurile de garantare)

***, *Law no. 231/2005 regarding the stimulation of investments in agriculture* ([L. nr.231/13-07-2005](#) LEGE privind stimularea investițiilor în agricultură)

***, *Ordinance no. 46/2005 for the acceleration of absorbtion of SAPARD funds through the goods purchased used as collateral* ([O.G. nr.46/11-08-2005](#) ORDONANȚĂ privind accelerarea absorbției fondurilor SAPARD prin garantarea creditelor de cofinanțare cu activele achiziționate în cadrul proiectelor SAPARD)

Websites:

www.cec-sa.ro

www.fgcr.ro

www.bcr.ro

www.sapard.ro

www.agrinet.ro

References to chapter 12 (Serbia Montenegro)

1. *Andrić J, Vasiljević Zorica., Sredojević Zorica.* (2005) **Investments – Foundations of Planing and Analysis** Faculty of Agriculture, University of Belgrade, Belgrade.
2. *Ševarlić M, Vasiljević Zorica, Dimitrijević B.* (2004): **Investment Capital in Serbian Agriculture and Measures of Agrarian Policy**, Thematic Proceedings of the International Scientific Symposium "Capital in Agriculture", Faculty of Economics, Subotica.
3. *Vasiljević Zorica, Ševarlić M.* (2003): **Financing of Agrarian Economy in Serbia**, Proceedings of the Fifth International Sumposium on "Investments and Economic Recovery", Academia de Studii Economice Bucuresti, Facultatea Management, Catedra Eficienta Economica, Editura ASE, Bucuresti, Romania.
4. *Vasiljević Zorica, Ševarlić M.* (2003): **Agrarian Budget as an Economic Instrument in Transition of Serbian Agrarian Economy**, in Monograph "Institutional Reforms and Transition of Agrarian Economy in Republic of Serbia", No 2, University of Belgrade – Faculty of Economics, Belgrade.
5. *Vasiljević Zorica, Ševarlić M.* (2004): **Financing of Rural Development Policy Measures in EU Countries – Possible Directions for Serbia**, in Monograph "Institutional Reforms and Transition of Agrarian Economy in Republic of Serbia", No 3, University of Belgrade – Faculty of Economics, Belgrade.
6. *Vasiljević Zorica, Ševarlić M.* (2005): **New Forms of Financing in Agrarian Economy of Serbia**, *Agricultural Economics*, No 1/2005, Belgrade.
7. *Vasiljević Zorica, Sredojević Zorica* (2005): **Investments on Family Farms**, in Monograph "Family farms of Serbia in Changes", The Institute of Agricultural Economics, Faculty of Agriculture, Belgrade and "Mladost-biro", Belgrade.
8. *Božić Dragica, Marković D., Munćan P.* (2003): **Agrarian budgete in function of agricultural development of Serbia**, Thematic Proceedings of the International Scientific Symposium: Agriculture and rural develolment in European integratio process, Faculty of Agriculture Univeristy of Belgrade, Belgrade, pg. 320-327.
9. *Božić Dragica, Bogdanov Natalija, Munćan, P.* (2005): **Investment in Family Farms in Serbia**, International Symposium on "Investments and Economic Recovery" Bucuresti.

10. Gajić, M., Lovre, K., Trkulja, Đ., Zekić, S. (2004). **Rural Development Financing Model for the Republic of Serbia**, *Monograph- Institutional Reforms and Transition of agribusiness in Republic of Serbia (3)*, 149-161.
Financing the Agribusiness Sector, Trends and Perspectives (1999)-Proceedings of the 63 rd Seminar of the European Association of Agricultural Economics, Subotica-Yugoslavia. ID=72067340.
Capital in Agriculture (2004)- Proceedings, Faculty of Agriculture, Subotica, Department for Agricultural Economics, Belgrade, Faculty of Agriculture, Novi Sad. ISBN: 86-7233-097-8
11. USAID Mission in SAM: Conference on Development of Agricultural Credit Market. Held in NBS, Belgrade, November 24, 2004, *27 July 2004 (Press Release from Governor's Cabinet)*

Web resources:

www.kombeg.org.yu/komora/udr_banaka/kredit/pdf/kredit_za_poljoprivredu.pdf
www.poljoprivreda.info
www.procreditbank.co.yu/companies_loans_agro_s.html
www.pks.co.yu/pks/pdf/saobracajkrediti.pdf
www.fondzarazvoj.sr.gov.yu
<http://www.ebrd.com/new/stories/2004/040727.htm>
<http://www.minpolj.sr.gov.yu/images/materiali/KreditipocetakWBprojekta.pdf>
<http://www.minpolj.sr.gov.yu/images/materiali/ruralfinanceniserbia.pdf>
<http://www.almamons.co.yu/i2.php?sm=69&m=13>
http://www.help-ev.cg.yu/projects.php?subaction=showfull&id=1115725415&archive=&start_from=&ucat=&

References to chapter 13 (Slovakia)

- Bezemer, D.: Structural Change in the Post-Socialist Transformation of Central European Agriculture: Studies from the Czech and Slovak Republics. Amsterdam , Netherlands. Tingbergen Institute, Tingbergen Institute Research Series No 262, 2001
- Bielik P., Pokrivčák J., Jančíková V.: Microeconomic analysis of households restructuring in the pre accession to the EU. *Agric.Econ.*, 48 (2), 11-16,2002
- Bielik, P.: Comparison of the Agricultural enterprises efficiency between Slovakia and the EU. *Zem.Ekon.*, 44, (10) pp. 449-452, 1998
- Census: Farm structure Census 2001.A2: Land Use. Statistical office of the Slovak Republic, Bratislava, Slovakia, 2002
- Chrastinová Z.: Agricultural credits in the Slovak republic and countries of EU. Research Institute of Agricultural and Food Economics, Bratislava,2000
- Chrastinová Z.: Medium term vision of integration change impact in agriculture on economic and rural structural institutions. Research Institute of Agricultural and Food Economics, Bratislava,2005
- Csaki C., Lerman Z., Nucifora A., Blaas G.: The Agricultural Sector of Slovakia on the Eve of EU Accession. *Eurasian Geography and Economics*, 44,No4, 305-320,2003
- European Commission, Agricultural Situations and prospects in the Central and East European Countries, Summary Report, Brussels, Directorate-General for Agriculture, Working Document 1995
- Gow H., Swinnen J.: Agribusiness Restructuring, Foreign Direct Investment, and Hold-Up problems in Agriculture in Transition. *European Review of Agricultural Economics*, 25 (4), 331-350, 1998
- Jančíková V., Gurčík L.: Analysis of selected financial and investments problems of private farms in Slovakia. *Agric.Econ.*, 48 (5), 219-224,2002
- Lerman Z., Csaki C., Feder G.: Land policies and Evolving Farm Structures in transition Countries. Washington, DC: the world Bank, policy Research Working Paper 2794,2002

Mizicková, L.: Private farmers in the organisational structure of agriculture, Farmer 1996, No.2,16-17, 1996 (in Slovakia)
Pokrivčák J., Bielik P.: Selected problems of restructuring and transforming of agriculture. Agri. Econ., 47 (8),356-360,2001
Pokrivčák, J.: Agricultural credits and contracts. Agri. Econ., 48 (5), 215-218,2002
Sarris A.: Methodology for Drawing Sample for the Farm Household Surveys in the Czech and Slovak republics. Phare-ACE project 97-8158-R Micro-economic analysis of farm restructuring in Central and Eastern Europe, 1999
www.mpsr.sk
www.uni-kiel.de/agrarpol/pages/de/afact_en.html
www.vnjh.sk/sk/index.php?include=onas
www.europa.eu.int/comm/agriculture/publi/peco/slovakia/summary/sum_en.htm
www.dexia.sk/c1256A41002E0B22/s/1102
<http://usda.mannlib.cornell.edu/reports/erssor/economics/ao-bb/1997/ao239.pdf>

References to chapter 14 (Slovenia)

Avsec Franci, Sila Tomaž. (2001) Agricultural credit co-operation in Slovenia: Lessons from the past and strategy for the future. Portorož, Slovenia: Agricultural finance and credit infrastructure in transition economies: focus on South Eastern Europe: proceedings of OECD Expert Meeting, Portorož, Slovenia, May 2001.

OECD (2001) Centre for Co-operation with non-member: Review of Agricultural Policies. Slovenia, 2001, 184 p.

Heric Dragica: Kmetije kot prava podjetja (Agricultural holdings as enterprises). Ljubljana: Kmečki glas, 15.02.2006.

MAFF (2003). Mid term evaluation of SAPARD programme 2000-2003. Draft report. Ljubljana: Ministry of Agriculture, Forestry and Food, 2003, 123 p.

Škufca Helena: Oris zgodovine slovenskega bančništva. (History of Slovenian banking). Graduating thesis, Ljubljana: University of Ljubljana, Faculty of Economy, 2004. 46 p.

Zupan Aleš: Pripravljenost slovenskega malega gospodarstva na črpanje sredstev iz evropskih strukturnih skladov. (The readiness of Slovenian small business sector on disbursement from the European structural funds) Master thesis, Ljubljana: University of Ljubljana, Faculty of Economy, 2003, 84 p.

Banka Slovenije (Bank of Slovenia)
<http://www.bsi.si/en/>

Deželna banka Slovenije, d.d. (Land Bank of Slovenia)
<http://www.dbs.si/en/>

Javni sklad Republike Slovenije za regionalni razvoj in ohranjanje poseljenosti slovenskega podeželja (Public Fund of the Republic of Slovenia for Regional Development and Preservation of the Settlement of Slovene Rural Areas)
<http://www.rdf-sklad.si/english.html>

Nova ljubljanska banka, d.d. Ljubljana
<http://www.nlb.si/cgi-bin/nlbweb.exe?doc=12760&SeS=1932408847-1147175631000>

Nova kreditna banka Maribor, d.d.
<http://www.nkbm.si/>

PCMG Pospeševalni center za malo gospodarstvo
<http://www.pcmg.si/index.php?root=4>

Poštna banka Slovenije, d.d.
<http://www.pbs.si/>

Slovenski podjetniški sklad (The Slovene Enterprise Fund)
<http://www.podjetniskisklad.si/About.html>

References to chapter 15 (Turkey)

1. Özçelik, A., E. Güneş ve M. M. Artukoğlu, “Türkiye’de Tarımsal Kredi: Sözleşmeli Tarım ve Üretici Örgütleri Üzerinden Kredi Uygulamaları”, Türkiye Ziraat Mühendisliği 6. Teknik Kongresi, 961-985, Ankara, (2005).
2. Karlı, Bahri, 1996, “Türkiye’de Tarımsal Kredinin Organizasyonu ve Kredi Kullanımındaki Gelişmeler”, Türkiye 2.Tarım Ekonomisi Kongresi, Adana.
3. Anonymous, 2005, Tarımsal Yatırımlar ve Tarımın Finansmanı pp.93-96, Kredi p.399, II.Tarım Şurası Sonuç Raporu, Ankara.
4. Güneş, Erdoğan, 2004, Uluslararası Politikalar ve AB’ye Uyum sürecinde Türkiye Tarımının Finansmanı, Türkiye VI.Tarım Ekonomisi Kongresi, Tokat.
5. www.sekerbank.com.tr
6. <http://www.bhdhaber.com/default.asp?haberid=8372>
7. http://www.ziraat.com.tr/tarimsal/tarimsal_kredi.html
8. <http://www.tarimkredi.org.tr/>
9. Anonymous, 2006, Tarım Kredi Kooperatiflerinin Yeniden Yapılanma Sürecindeki Çözüm Bekleyen Problemleri, T.C. TTK Merkez Birliği Genel Müdürlüğü, Ankara.
10. TBB 1983 Türkiye Bankalar Birliği, Bankalarımız 1983,Tablo No:19, Ankara.
11. TBB 1984. Türkiye Bankalar Birliği Bankalarımız Yayın No: 132, Tablo No:14, Ankara.
12. TBB 1989. Türkiye Bankalar Birliği, Banks In Turkey, Ankara.
13. TBB 1990. Türkiye Bankalar Birliği Bankalarımız Yayın No:159, Ankara.
14. TBB 1998. Türkiye Bankalar Birliği, Bankacılar Dergisi, Sayı:25, Ankara.
15. TBB 2001. Türkiye Bankalar Birliği, Bankalarımız Mayıs 2001, s.111-411, Ankara.
16. TBB 2004 Türkiye Bankalar Birliği, Bankacılar Dergisi, Ankara.
17. TCZB 1983. 1983 Yılı 95.Hesap Yılı Genel Müdürlük Raporu, s.42, Ankara.
18. TCZB 1989. Annual Report, s.21, Ankara.
19. TCZB 1991. Tarıma Tam Destek, Broşür, s.5, Ankara.
20. TCZB 2004. Yayınlanmamış Tarımsal Kredi İstatistik ve Kayıtları, Ankara.

21. TKB 1996. Sözleşmeli Tarımsal Ürün Yetiştiriciliği İle İlgili Usul ve Esaslar Hakkında Tebliğ, No:6, Resmi Gazete Sayı:22682, Sayfa:112, Ankara.
22. TKB 1998. Sözleşmeli Tarımsal Ürün Yetiştiriciliği İle İlgili Usul ve Esaslar Hakkında Tebliğ, No:16, Resmi Gazete Sayı:23420, Sayfa:89, Ankara.
23. TKKMB 2001-2003. Tarım Kredi Kooperatifleri Merkez Birliği, VII.Olağan Genel Kurul, s.15, Ankara.
24. TSKB 2003. Tarıf Pamuk Tarım Satış Kooperatifleri Birliği, 2001/2002 Faaliyet Raporu 53.İş Yılı, Çeşitli Sayfalar, İzmir.
25. Denizbank 2004. Denizbank Tarımsal Bankacılık Bölümü Dökümanları, Ankara.
26. DİE 1972. Türkiye İstatistik Yıllığı, Yayın No:670, s.193-194, Ankara.
27. DİE 1976. Türkiye İstatistik Yıllığı, Yayın No: 750 s.174-175, Ankara.
28. DİE 1981. Türkiye İstatistik Yıllığı, Yayın No:960, s.186-187, Ankara.
29. DİE 1982. Türkiye İstatistik Yıllığı , İstatistik Göstergeler (1963-1990) , Yayın No:1020, s.396,Ankara.
30. DİE 1987. Türkiye İstatistik Yıllığı s.216-217, Ankara.
31. DİE 1989. İstatistik Göstergeler (1963-1990) , s.396, Ankara.
32. DİE 1991. İstatistik Göstergeler (1963-1990) , Yayın No: 1472, s.396, Ankara.
33. DİE 1996 Türkiye İstatistik Yıllığı, Ankara.
34. DPT 1963 1.BYKP, Ankara, s.187, Ankara.
35. DPT 1967. 2.BYKP, Ankara, s.308, Ankara.
36. DPT 1974. 3.BYKP, Ankara, s.226, Ankara.
37. DPT 1979. 4.BYKP, Yayın No: 1664, s.339, Ankara.
38. DPT 1985. 5.BYKP, Yayın No: 1974, s.54, Ankara
39. DPT 1989. 6.BYKP, Yayın No: 2174, s.48, Ankara
40. DPT 2003. Ekonomik ve Sosyal Göstergeler (1950-2003), s.3, Ankara.
41. <http://www.akbank.com/sirket/?page=2456&mcat=604>
42. http://www.garanti.com.tr/bankacilik/kobi/kobilere_ozel/sektore_ozel/tarim.html
43. <http://www.vakifbank.com.tr/kobikredileri/organiktarimkrd.htm>

ANNEXES

Annex to chapter 1 (Bosnia Herzegovina)

None

Annex to chapter 3 (Croatia)

Table 1: Credit to family farms (in Kuna), Year 2000

Regions	All family farms (N= 892)		Family farms with credit (N= 203)		
	Average Loan Size	Ratio of Value of Credit/Value of Total Assets (%)	Average Loan Size	Ratio of Value of Credit/Value of Total Assets (%)	
Pannonian A	25,438	5.66	100,520	17.20	
Pannonian B	27,063	6.64	140,954	21.96	
Hilly-Mountain	34,941	6.69	102,326	14.26	
Mediterranean	26,170	2.71	100,062	11.93	
Total, Croatia	27,276	5.80	119,852	18.60	

Source: Farm Survey data

Table 2: Provisional unaudited data of business results of commercial banks, December 31st 2005

	Bank	Total Assets (000 HRK)	Share in Total Assets (%)	Assets growth (%)	Profit/loss before taxation (000 HRK)
1.	BANKA BROD d.d.	188.767	0,07	24,76	5.346
2.	BANKA KOVANICA d.d.	696.689	0,27	23,11	2.522
3.	BANKA SONIC d.d.	798.462	0,31	32,67	20.443
4.	BANKA SPLITSKO-DALMATINSKA d.d.	150.285	0,06	5,10	3.465
5.	CENTAR BANKA d.d.	837.317	0,32	25,08	12.478
6.	CREDO BANKA d.d.	1.013.748	0,39	26,07	13.219
7.	CROATIA BANKA d.d.	1.461.031	0,56	-2,55	5.768
8.	ERSTE & STEIERMÄRKISCHE BANK d.d.	30.435.625	11,68	17,87	436.408
9.	GOSPODARSKO KREDITNA BANKA d.d.	374.888	0,14	8,12	12.407
10.	HRVATSKA POŠTANSKA BANKA d.d.	7.306.863	2,80	31,72	116.499
11.	HVB SPLITSKA BANKA d.d.	23.411.641	8,98	9,03	353.737
12.	HYPO ALPE-ADRIA-BANK d.d.	19.287.256	7,40	12,93	250.062
13.	IMEX BANKA d.d.	600.277	0,23	16,24	7.720
14.	ISTARSKA KREDITNA BANKA UMAG d.d.	1.701.565	0,65	8,58	27.116
15.	JADRANSKA BANKA d.d.	1.647.322	0,63	4,68	4.477
16.	KARLOVAČKA BANKA d.d.	1.130.865	0,43	-7,05	10.152

17.	KREDITNA BANKA ZAGREB d.d.	913.411	0,35	7,91	11.746
18.	KVARNER BANKA d.d.	338.698	0,13	17,41	7.348
19.	MEĐIMURSKA BANKA d.d.	2.207.260	0,85	6,68	38.103
20.	NAVA BANKA d.d.	363.815	0,14	0,68	3.533
21.	OTP BANKA HRVATSKA d.d.	8.712.751	3,34	10,32	170.666
22.	PARTNER BANKA d.d.	1.031.059	0,40	28,39	26.281
23.	PODRAVSKA BANKA d.d.	1.802.929	0,69	15,69	19.192
24.	POŽEŠKA BANKA d.d.	375.531	0,14	-8,62	-50.334
25.	PRIMORSKA BANKA d.d.	112.213	0,04	13,49	108
26.	PRIVREDNA BANKA ZAGREB d.d.	47.872.582	18,37	16,42	925.302
27.	RAIFFEISENBANK AUSTRIA d.d.	28.680.039	11,01	17,55	369.782
28.	SAMOBORSKA BANKA d.d.	329.635	0,13	4,27	2.544
29.	SLATINSKA BANKA d.d.	863.342	0,33	11,56	12.471
30.	SLAVONSKA BANKA d.d.	7.166.917	2,75	29,26	72.355
31.	ŠTEDBANKA d.d.	917.820	0,35	4,68	37.687
32.	VABA d.d. BANKA VARAŽDIN	311.548	0,12	122,33	8.415
33.	VOLKSBANK d.d.	3.940.277	1,51	8,91	27.884
34.	ZAGREBAČKA BANKA d.d.	63.611.229	24,41	10,68	1.126.536
TOTAL		260.593.659	100,00	13,64	4.091.438

Source; Croatian National Bank, www.hnb.hr

Table 3: Number of banks in Croatia (1993-9/2005)

	State owned banks	Private domestic banks	Foreign owned banks	Total
1993.	25	18	0	43
1994.	26	23	1	50
1995.	14	39	1	54
1996.	10	43	5	58
1997.	7	46	7	60
1998.	8	42	10	60
1999.	10	30	13	53
2000.	3	20	20	43
2001.	3	16	24	43
2002.	2	21	23	46
2003.	2	20	19	41
2004.	2	20	15	37
9/05.	2	19	13	34

Source: Bulletin about Banks, No 11, Croatian National Bank, 11/2005

Table 4: **Banking system by ownership**

in % of Total Assets	2000	2001	2002	2003	2004	9/05
State owned banks	5,7	5,0	4,0	3,4	3,1	3,4
Private domestic banks	10,2	5,6	5,8	5,6	5,6	5,5
Foreign owned banks	84,1	89,3	90,2	91,0	91,3	91,1

Source: Bulletin about Banks, No 11, Croatian National Bank, 11/2005

Table 5: **Concentration index - share of assets of the 2(4) largest banks in total bank assets**

in %	Two largest banks	Four largest banks
1995	54	68
1996	46	60
1997	40	53
1998	41	53
1999	44	58
2000	48	62
2001	46	60
2002	44	59
2003	43	62
2004	43	65
9/05	43	65

Source: Bulletin about Banks, No 11, Croatian National Bank, 11/2005

Table 6: **Credit terms of agricultural loans by Croatian financial institutions**

	Erste banka (Commercial bank)	Croatian Bank for Reconstruction and Development
Max. credit limit	Determined by credit worthiness	3,5 million HRK
Repayment period	max 10 years	max 12 years
Interest Rate	7,5% - 8,5%	4%
Loan fee	1,0% - 2,0%	1%

Web site: www.erstebank.hr
www.hbor.hr

Annex to chapter 4 (Cyprus)

Table 1

PUBLIC LOANS FUND
Loans issued during the year (in EUR '000)

	1998	1999	2000	2001	2002	2003
Water Development and use	1,114	952	583	416	223	525
Agricultural Development	3,713	1,298	1,013	1,213	562	661
Rural Development	3,111	2,711	2,596	2,377	1,924	1,355
Total	7,938	4,961	4,192	4,005	2,709	2,542

Table 2

Co-operative Central Bank LTD
Outstanding Loans 31/12

	1998	1999	2000	2001	2002	2005
Loans to farmers (in EUR 000)	5,411	5,408	5,404	5,399	5,397	
a) Loans for reactivation of displaced framers	4,865 89.9%	4,862 89.9%	4,858 89.9%	4,856 89.9%	4,856 90.0%	
b) Loans through Local Co-operative Credit Societies	515 9.5%	515 9.5%	515 9.5%	513 9.5%	512 9.5%	
c) Mortgaged Loans	31 0.6%	31 0.6%	31 0.6%	31 0.6%	31 0.6%	
Arrears of loans	17,684	18,931	20,278	20,281	20,278	24,593

Table 3

1.1.1.1 LOANS OUTSTANDING (Agricultural) at 31/12

	EUR '000							
	1998	1999	2000	2001	2002	2003	2004	2005
Government								
Water Development and use	17,597	17,477	11,985	11,766	11,566			
Agricultural Development	38,795	39,246	47,601	44,318	42,131			
Rural Development	21,338	21,813	25,338	26,074	26,732			
Total	77,729	78,535	84,924	82,158	80,428			
Commercial Banks	168,187	191,929	204,405	208,428	196,364	194,135	203,347	186,617
Co-operatives		87,345	49,646	59,637	58,502	65,288	47,813	52,200

Total	245,916	357,808	338,975	350,222	335,295	259,424	251,160	238,817
--------------	----------------	----------------	----------------	----------------	----------------	----------------	----------------	----------------

Table 4 **AGRICULTURAL CREDIT ACCOUNTS (in EUR 000)**

	1998	1999	2000	2001	2002	2003	2004
Accumulated	3,367	3,414	3,461	3,490	3,504		

Table 5 **INTEREST RATES FOR LOANS ISSUED**

	1998	1999	2000	2001	2002	2003	2004
Self-Employment of Tertiary Education Graduates							
In URBAN areas		6.5%	6.5%	6.5%	6.5%		
In RURAL areas		5.0%	5.0%	5.0%	5.0%		
Public Road Transport Peripheral Companies							
URBAN		5.5%	5.5%	5.5%	5.5%		
RURAL		2.0%	2.0%	2.0%	2.0%		
Infand Transport b/w cities		N/A	N/A	3.0%	3.0%		
Loans to Co-operative Central Bank							
Farmers Scheme		3.0%	3.0%	3.0%	3.0%		
New Farmers Scheme		N/A	N/A	2.5%	2.5%		

Annex to chapter 5 (Czech Republic)

None

Annex to chapter 6 (Estonia)

None

Annex to chapter 7 (Hungary)

The breakdown of credit guarantee transactions by the number of employees

	2003		2004	
No. of employees	No. of guarantees	Guaranted loan amount (HUF million)	No. of guarantees	Guaranted loan amount (HUF million)

1	1.164	8.381	1.686	14.558
2 – 10	1.062	14.200	1.270	22.488
11 – 20	280	6.395	310	11.502
21 – 50	306	9.857	337	17.800
51 – 100	175	6.634	217	14.679
101 – 200	68	4.577	113	11.162
201 – 250	9	409	14	1.515
Total:	3.064	50.450	3.947	93.710

The breakdown of credit guarantee transactions by sectors



Annex to chapter 9 (Lithuania)

1. ANNEX 1

RURAL CREDIT GUARANTEE FUND PRODUCTS

Rural Credit Guarantee Fund guarantees banks the repayment of up to 70 percent of the unpaid credit amount; 80 percent of the unpaid credit amount is guaranteed for loans granted to young farmers (under 40 years of age).

Guarantee granting conditions

	Investment credit guarantees	Guarantees to credits supplementing current assets
--	------------------------------	----------------------------------------------------

	Farmers	Processing companies	Rural businesses	Farmers	Processing companies	Rural businesses
Credit purpose	To implement any investment projects			To supplement current assets	To purchase agricultural produce	To supplement current assets
Credit period	No limitations			Up to 2 years		
Maximum amount per guarantee	400,000 Lt per farm 900,000 Lt per company No limitations for projects financed by EU assistance funds			300,000 Lt	No limitations	300,000 Lt
Total amount of guarantees	600,000 Lt per farm 1,200,000 Lt per company No limitations for projects financed by EU assistance funds			300,000 Lt	No limitations	300,000 Lt
Guarantee payment	1.1 percent	5.5 percent	1.1 percent	0.4 percent	2 percent	0.4 percent
Other conditions	<ul style="list-style-type: none"> · Credit beneficiary shall finance at least 10 percent of the business project by personal assets. · Credit beneficiary shall be obliged to mortgage the property purchased by the credit funds to the bank. If the bank does not want this property, other property or property rights may be mortgaged. 			Credit beneficiary shall be obliged to mortgage the property purchased by the credit funds to the bank. If the bank does not want this property, other property or property rights may be mortgaged.		

How to receive a credit guarantee

The customer shall apply to the a bank asking to grant a credit. The bank shall apply to the Rural Credit Guarantee Fund regarding guarantee issuing and furnish the Fund with the documents submitted by the customer and prepared by the bank:

- Application to obtain a credit guarantee.
- Application to receive a credit.
- Decision of the bank to grant the credit.
- Draft credit agreement.
- Registration documents.
- Business plan (explanatory note if the credit amount is less than 100,000 Lt or is being taken out to supplement current assets).
- Financial accountability documents from the two previous years, list of debtors and creditors, payables and liabilities, information on the immovable property owned by the loan beneficiary and return on agricultural areas and crops.
- Certificates from the State Tax Inspectorate and SODRA on paid taxes and arrears to the state.
- Decision of the general shareholders' meeting and the board of the company regarding the obtaining of the loan and mortgage of property.
- Contracts and other documents on assistance provided from the EU and the state.
- Contracts on the sales of production and provision of raw and other materials.
- Information on state aid gained by the credit beneficiary.
- Other documents required by the Fund Board.

Rural Credit Guarantee Fund shall make a decision on the issuance of a guarantee. Credit beneficiary shall make a guarantee payment followed by the signing of the Credit contract and

Guarantee.

Limit of guarantee liabilities

The liabilities undertaken by the Rural Credit Guarantee Fund are issued as a state guarantee and accounted into the state debt. Therefore each year the limit of guarantee liabilities is established by a Government resolution.

Administrating other support to business

Rural Credit Guarantee Fund administers compensation of guarantee payment, insurance premiums and loan interests to guaranteed credit beneficiaries.

Compensation of guarantee payment – 80% of the guarantee fee.

Compensation of insurance premiums – 50% of insurance premium, paid for insurance of mortgaged assets

Compensation of loan interests:

- 40% of paid interests for young farmers;
- 30% of paid interests for other credit beneficiaries.

If credit is issued for agricultural land purchase:

- 60% of paid interests for young farmers;
- 50% of paid interests for other credit beneficiaries.

Licensed warehouses

According to the Resolution No. 1523 of October 1st, 2002 of the Government of the Republic of Lithuania, Rural Credit Guarantee Fund is empowered to administer the Indemnity Fund of Licensed Warehouses. By implementing licensed warehouses and storage documentation system, grain producers and processing companies that have pledged stored grains to credit institutions, will be able to get medium-term loans to cover the operational expenses. The Fund is entitled:

- to accumulate reserves for ensuring commercial banks' and other credit institutions rights of claim and compensating any stored goods owners' loss that is not covered by warehouse or insurance;
- to compensate loss of warehouse receipt holders.

BALANCE INDICATORS OF AGRICULTURAL COMPANIES AND FARMERS FARMS

Capital of Agricultural Companies in Cash in 1998 – 2003 (Balance Indicators), in Thou. LTL (at the End of the Year)

Indicators	1998	1999	2000	2001	2002	2003
TOTAL ASSETS	1836933	1470095	1228411	1125235	1150005	1237163
of which:						
long-term assets	807527	681648	563080	477748	494712	550826
short-term assets	1026990	785877	662785	645101	652763	683797
EQUITY AND LIABILITIES	1836933	1470095	1228411	1125235	1150005	1237163
1. Equity	1412842	1110737	905489	843237	851551	879762
2. Borrowed capital	424091	359358	322922	281998	298454	357401
2.1. Long-term credits (>1 year)	94287	73335	73945	90632,4	106058	124771
of which: bank credits	35233	25316	21170	24395	30247	61308
2.2. Short-term loans	329455	284293	247091	184037	187976	227456
of which:						
bank credits	52344	31744	20750	11884	14548	19115
trade credits (debts for suppliers)	142643	118215	106413	86994	107533	130915
clients imprest	6235	6344	6598	8179	8253	8198

Source: Consolidated financial reports of agricultural companies according to official statistical forms

Capital of Farmers Farms in Cash in 1998 – 2003 (Balance Indicators, Average of Respondent Farmers Farms), In Thou. LTL (the End of the Year)

Indicators	1998	1999	2000	2001	2002	2003
TOTAL ASSETS	322759	319519	336672	274253	278974	331794
EQUITY AND LIABILITIES	322759	319519	336672	274253	278974	331794
of which:						
long-term loans	12102	21152	19566	17462	16923	24834
short-term loans	8490	4804	4883	9071	10781	25501
Equity	302167	293563	312223	247820	251270	281459
Equity, in LTL per 1 ha of UAA	4943	4059	4027	2935	2709	2551

Source: Data from farmers farms-respondents in 1998-2003. – Lithuanian Institute of Agrarian Economics

Capital of Farmers Farms in Cash in 2003-2004 (Balance Indicators, Weighted Average of Respondent Farmers Farms), in LTL (at the End of the Year)

	2003	2004
TOTAL ASSETS	150446	186290
of which own agricultural assets	129942	154860
EQUITY AND LIABILITIES	150446	186290
Total liabilities	8876	15343
of which:		
long-term loans	3952	6837
short-term loans	4924	8506
Equity	141570	170947

Capital of Agricultural Companies in Cash in 2003-2004 (Balance Indicators, Weighted Average of Respondent Agricultural Companies), in LTL (at the End of the Year)

	2003	2004
TOTAL ASSETS	2555291	3480431
of which agricultural assets	1588977	2399556
EQUITY AND LIABILITIES	2555291	3480431
Total liabilities	76199	409617
of which:		
long-term loans	28515	128826
short-term loans	47684	280791
Equity	2479092	3070814

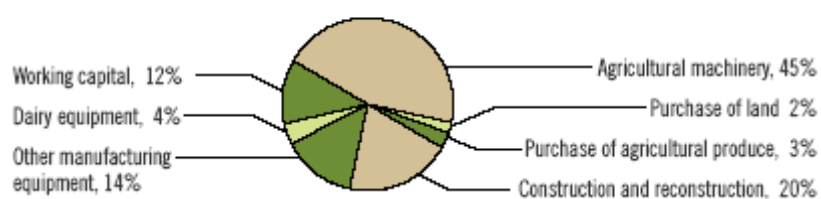
Source: Data from farmers farms-respondents in 2003-2004. – Lithuanian Institute of Agrarian Economics

RURAL CREDIT GUARANTEE FUND ACTIVITY RESULTS, 2004

Guarantees issued to banks in 1998-2004

	1998-2004		2003	2004
	Total:	Annual Average		
TOTAL GUARANTEES ISSUED:				
number	945	135	123	163
amount, mln. LTL	1.150,6	164	179,2	99,96
of which				
To agricultural entities, rural entrepreneurs, processing companies				
number	914	131	118	162
amount, mln. LTL	178,6	26	63,8	57,5
of which				
Long-term guarantees				
number	849	121	95	131
amount, mln. LTL	151,5	22	51,0	51,4
Short-term guarantees				
number	65	9	23	31
amount, mln. LTL	27,2	4	12,8	6,2
To the Lithuanian Agricultural and Food Products Market Regulation Agency				
number	31	4	5	1
amount, mln. LTL	972,0	139	115,3	42,5

Breakdown of guarantees issued to banks by type of loan in 1998-2004, %



Breakdown of issued guarantees by types of activities, '000 LTL

	1998-2004	2003	2004
Guarantees issued in respect of loans:			
TOTAL:	178.597	63.816	57.507
FOR AGRICULTURAL ACTIVITIES	120.467	27.229	46.932
Crop production	62.396	10.404	25.802
Gardening	2.287	210	1.190
Livestock farming	21.697	8.410	7.518
Mixed farming	24.289	1.101	9.794
Poultry farming	5.650	3.770	1.840
Horticulture	4.148	3.333	788
FOR PROCESSING	36.401	25.351	3.010
Crop processing	6.100	6.100	0
Meat processing	13.560	8.910	3.010
Milk processing	6.941	5.441	0
Fruit and vegetable processing	9.800	4.900	0
FOR ACTIVITIES ALTERNATIVE TO AGRICULTURE	21.729	11.235	7.566
Manufacturing	14.516	7.269	6.916
Services	2.124	1.204	0
Rural tourism	747	345	0
Mixed activities	4.342	2.418	650

Risk assessment of all guarantees issued by the Company					
Risk group	Grades	Guarantee liabilities of the Company by risk group		Rate of provisions, %	Amount of provisions, LTL
		LTL	%		
Risk-free guarantees	60-49	16,230,051	13.95	0	0
Low-risk guarantees	48-37	88,060,769	75.67	20	17,612,154
High-risk guarantees	36-25	11,435,047	9.83	40	4,574,019
Bad guarantees	24-13	641,273	0.55	100	641,273
TOTAL:		116,367,140	100		22,827,446
				Risk percentage	19.62

Source: Rural Credit Guarantee Fund <http://www.garfondas.lt/index.php?-1255990785>

Balance Sheet of Credit Unions, Thou. LTL
07/01/2005

	Item	Nacional currency	Foreign currency	Total
	ASSETS			
1.	CASH	3,398.45	51.14	3,449.59
1.1.	Bank-notes and coins	3,398.45	51.14	3,449.59
1.2.	Other payment instruments			
2.	CLAIMS ON BANKS	4,581.95	101.44	4,683.39
2.1.	DEPOSITS	4,581.95	101.44	4,683.39
2.1.1.	Demand	4,211.95	97.99	4,309.94
2.1.2.	Time	370.00	3.45	373.45
3.	CLAIMS WITH FOREIGN BANKS			
4.	CLAIMS WITH CENTRAL CREDIT UNION	46,075.68		46,075.68
4.1.	DEPOSITS	44,000.91		44,000.91
4.1.1.	Demand	27,790.91		27,790.91
4.1.2.	Time	16,210.00		16,210.00
4.2.	Special-purpose funds	2,074.77		2,074.77
5.	FUNDS WITH CREDIT UNIONS	893.00		893.00
5.1.	DEPOSITS	893.00		893.00
5.1.1.	Demand			
5.1.2.	Time	893.00		893.00
5.2.	LOANS			
5.2.1.	Short-term			
5.2.2.	Long-term			
6.	LOANS GRANTED	166,656.88	624.96	167,281.84
6.1.	SHORT-TERM	17,121.52	48.20	17,169.72
6.1.1.	TO CREDIT UNION MEMBERS	14,876.89	39.62	14,916.51
6.1.1.1.	To public and trade union organizations, religious communities and associations	58.50		58.50
6.1.1.2.	To agricultural co-operatives			
6.1.1.3.	To natural persons	14,818.39	39.62	14,858.01
6.1.2.	TO ASSOCIATED MEMBERS OF CTEDIT UNION	2,244.63	8.58	2,253.21
6.1.2.1.	To individual (personal) enterprises, partnerships	233.45		233.45
6.1.2.2.	To agricultural co-operatives, private companies	766.82		766.82
6.1.2.3.	To natural persons	1,244.36	8.58	1,252.94
6.1.3.	To credit union associations*			
6.2.	LONG-TERM	149,535.36	576.76	150,112.12
6.2.1.	TO CREDIT UNION MEMBERS	128,368.19	376.40	128,744.59
6.2.1.1.	To public and trade union organizations, religious communities and associations	195.00		195.00

6.2.1.2.	To agricultural co-operatives			
6.2.1.3.	To natural persons	128,173.19	376.40	128,549.59
6.2.2.	TO ASSOCIATED MEMBERS OF CTEDIT UNION	21,167.17	200.36	21,367.53
6.2.2.1.	To individual (personal) enterprises, partnerships	271.95		271.95
6.2.2.2.	To agricultural co-operatives, private companies	2,821.78	184.42	3,006.20
6.2.2.3.	To natural persons	18,073.44	15.94	18,089.38
6.2.3.	To credit union associations*			
7.	BILLS DISCOUNTED	142.53	50.04	192.57
8.	INVESTMENTS IN GOVERNMENT SECURITIES	2,757.23		2,757.23
8.1.	Short-term (up to 1 year)	130.11		130.11
8.2.	Long-term (over 1 year)	2,627.12		2,627.12
9.	INVESTMENTS IN THE CENTRAL CREDIT UNION CAPITAL	2,300.00		2,300.00
10.	FIXED ASSETS (residual value)	4,590.84		4,590.84
10.1.	Tangible assets	4,544.65		4,544.65
10.2.	Intangible assets	46.19		46.19
11.	ASSETS TAKEN OVER FOR DEBTS			
12.	OTHER ASSETS	3,967.43	4.74	3,972.17
12.1.	Accrued income	1,812.83	4.74	1,817.57
12.2.	Deferred expenses	91.20		91.20
12.3.	Other assets	2,063.40		2,063.40
13.	SPECIFIC PROVISIONS (with minus sign)	-1,067.55	-0.61	-1,068.16
13.1.	For loans	-789.85	-0.61	-790.46
13.2.	For accrued income	-56.43		-56.43
13.3.	For other assets	-221.27		-221.27
	TOTAL	234,296.44	831.71	235,128.15
	LIABILITIES, OWNERSHIP			
14.	LIABILITIES TO BANKS			
14.1.	Short-term loans			
14.2.	Long-term loans			
15.	LIABILITIES TO FOREIGN BANKS			
16.	LIABILITIES TO CENTRAL CREDIT UNION	14,941.92		14,941.92
16.1.	Loans for maintaining liquidity	100.00		100.00
16.2.	Other loans	14,841.92		14,841.92
17.	LIABILITIES TO CREDIT UNIONS	893.00		893.00
17.1.	DEPOSITS	583.00		583.00
17.1.1.	Demand			
17.1.2.	Time	583.00		583.00
17.2.	LOANS	310.00		310.00
17.2.1.	Short-term	310.00		310.00
17.2.2.	Long-term			
18.	LIABILITIES TO CREDIT UNION			

	ASSOCIATIONS*			
19.	DEPOSITS	186,367.16	919.57	187,286.73
19.1.	DEMAND	51,054.00	54.74	51,108.74
19.1.1.	OF CREDIT UNION MEMBERS	46,064.22	54.41	46,118.63
19.1.1.1.	Of public and trade union organizations, religious communities and associations	182.71		182.71
19.1.1.2.	Of agricultural co-operatives	10.03		10.03
19.1.1.3.	Of natural persons	45,871.48	54.41	45,925.89
19.1.2.	OF ASSOCIATED MEMBERS OF CTEDIT UNION	3,696.56	0.33	3,696.89
19.1.2.1.	Of individual (personal) enterprises, partnerships	148.11		148.11
19.1.2.2.	Of agricultural co-operatives, private companies	526.93		526.93
19.1.2.3.	Of natural persons	3,021.52	0.33	3,021.85
19.1.3.	Of credit union associations*	0.04		0.04
19.1.4.	Of public organizations	444.86		444.86
19.1.5.	Of religious communities	529.99		529.99
19.1.6.	Of trade union organizations	9.00		9.00
19.1.7.	Of the Republic of Lithuania, international and foreign charity and sponsorship funds			
19.1.8.	Of bodies authorized by the Government and municipalities	309.33		309.33
19.2.	TIME	135,313.16	864.83	136,177.99
19.2.1.	OF CREDIT UNION MEMBERS	105,685.94	706.50	106,392.44
19.2.1.1.	Of public and trade union organizations, religious communities and associations	457.76		457.76
19.2.1.2.	Of agricultural co-operatives			
19.2.1.3.	Of natural persons	105,228.18	706.50	105,934.68
19.2.2.	OF ASSOCIATED MEMBERS OF CTEDIT UNION	28,378.68	158.33	28,537.01
19.2.2.1.	Of individual (personal) enterprises, partnerships	50.20		50.20
19.2.2.2.	Of agricultural co-operatives, private companies	1,157.63		1,157.63
19.2.2.3.	Of natural persons	27,170.85	158.33	27,329.18
19.2.3.	Of credit union associations*			
19.2.4.	Of public organizations	380.18		380.18
19.2.5.	Of religious communities	271.31		271.31
19.2.6.	Of trade union organizations	6.43		6.43
19.2.7.	Of the Republic of Lithuania, international and foreign charity and sponsorship funds	67.65		67.65
19.2.8.	Of bodies authorized by the Government and municipalities	522.97		522.97
20.	BILLS COLLECTED			
21.	OTHER LIABILITIES	3,917.51	16.10	3,933.61
21.1.	Accrued expenses	3,428.68	14.75	3,443.43
21.2.	Deferred income	168.14	1.35	169.49
21.3.	Other liabilities	320.69		320.69

22.	SPECIAL AND OTHER RESERVES			
22.1.	Specific provisions for off-balance sheet items			
22.2.	Other reserves			
23.	CREDIT UNION CAPITAL	28,072.89		28,072.89
23.1.	Share	25,443.19		25,443.19
23.2.	Reserve	2,229.54		2,229.54
23.3.	Supplementary capital	400.16		400.16
23.3.1.	Retained profit (loss) of the past year	-152.76		-152.76
23.3.2.	Fixed assets revaluation reserve			
23.3.3.	Other supplementary capitals and reserves	46.89		46.89
23.3.4.	Profit (loss) of the current year	506.03		506.03
	TOTAL	234,192.48	935.67	235,128.15

* - *Until a credit union joins the Central Credit Union.*

Source: Bank of Lithuania http://www.lb.lt/eng/institutions/1ku_balans5_2.htm

Structure of Loans by Economic Activities

2004 Q1 - 2005 Q4

percentage of total

	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4
Agriculture, hunting, forestry	2.03	1.85	2.12	2.45	2.03
Fishing	0.13	0.12	0.12	0.22	0.09
Mining and quarrying	0.22	0.22	0.23	0.21	0.15
Manufacturing	18.68	18.62	18.03	16.83	15.18
Electricity, gas and water supply	6.37	6.06	5.22	4.68	4.16
Construction	3.09	3.34	4.09	4.40	3.92
Wholesale and retail trade; repair of motor vehicles, motorcycles; personal and household goods appliances	17.53	17.27	16.31	15.27	12.97
Hotels and restaurants	1.64	1.64	1.68	1.64	1.53
Transport, storage and communication	2.60	2.61	2.62	2.95	2.56
Financial intermediation	11.05	11.43	11.05	10.28	14.61
Real estate, renting and other business activities	10.46	11.05	11.07	12.38	12.47
Public administration and defence; compulsory social security	4.47	2.25	2.06	1.68	3.31
Education	0.09	0.07	0.07	0.06	0.05
Health and social work	0.78	0.77	0.65	0.61	0.49
Other utilities, social and personal services	0.93	0.90	0.92	0.91	0.74
Other types of economic activities	0.00	0.00	0.05	0.05	0.00
Loans not attributed to economic activities	19.93	21.78	23.72	25.38	25.75

Source: Bank of Lithuania

<http://www.lb.lt/statistics/statbrowser.aspx?group=7260&lang=en&orient=vert>

Loans for agriculture, hunting, forestry, fishing, LTL million
1998 - 2004 (end-of-the year)

	Short-term loans					Long-term loans					Total loans				
	in Litas	in foreign currencies	in USD	in Euro*	in all currencies	in Litas	in foreign currencies	in USD	in Euro*	in all currencies	in Litas	in foreign currencies	in USD	in Euro*	in all currencies
Agriculture, hunting, forestry															
1999	65.1	46.5	44.2	2.3	111.6	84.1	23.1	16.6	6.5	107.2	149.2	69.7	60.8	8.8	218.9
2000	29.4	14.2	13.2	0.9	43.5	39.1	30.1	19.2	10.8	69.1	68.4	44.2	32.5	11.8	112.7
2001	35.1	6.6	4.2	2.4	41.7	39.4	20.8	9.8	11.0	60.1	74.5	27.4	13.9	13.4	101.8
2002	20.4	45.6	0.3	45.4	66.0	64.0	36.9	6.3	30.6	100.9	84.4	82.5	6.6	76.0	166.9
2003	22.8	28.4	0.1	28.4	51.3	125.0	65.1	2.2	62.9	190.1	147.8	93.5	2.3	91.3	241.4
2004	41.1	22.1	0.0	22.0	63.1	238.7	64.0	1.8	59.4	302.7	279.7	86.1	1.8	81.4	365.8
Fishing															
1999	0.9	0.4	0.4	-	1.3	0.9	5.6	5.6	-	6.5	1.8	6.0	6.0	-	7.8
2000	0.3	0.3	0.3	-	0.6	0.0	0.2	0.2	-	0.2	0.3	0.5	0.5	-	0.8
2001	0.3	0.2	0.2	-	0.4	0.0	8.2	8.0	0.2	8.3	0.3	8.4	8.2	0.2	8.7
2002	0.2	-	-	-	0.2	0.4	15.2	14.5	0.7	15.6	0.6	15.2	14.5	0.7	15.8
2003	1.2	0.1	0.1	-	1.3	1.2	8.0	4.4	3.7	9.2	2.4	8.1	4.4	3.7	10.5
2004	0.5	-	-	-	0.5	2.4	19.2	2.8	16.4	21.6	3.0	19.2	2.8	16.4	22.1

Source: Bank of Lithuania <http://www.lb.lt/loan/default.asp?lang=e>

Loan Interest Rates in Credit Unions, by percent 2005-04-21

#	Credit Union	%
1	Achemos KU (Jovava)	6,00
2	Akademinė KU (Kaunas)	6,00
3	Alytaus KU	9,50
4	Anykščių KU	8,50
5	Biržų KU	6,00
6	Ekraniečių KU (Panevėžys)	8,00
7	Gargždų taupa (Klaipėdos r.)	11,00
8	Germanto lobis (Telšiai)	4,00
9	Giminėlė (Kaunas) Grinkiškio KU	9,00
10	(Radviliškio r.)	12,00
11	Ignalinos KU	10,00
12	Jonavos žemė	8,00
13	Joniškio KU	9,00
14	Jurbarko KU	9,00
15	Kaišiadorių vyskupijos KU Kauno	7,50
16	arkivyskupijos KU Kauno	7,00
17	technologijos u-to KU	6,50
18	Kelmės taupa	6,00
#	Credit Union	%

19	Klausučių KU (Jurbarko r.)	11,00
20	Kretingos KU	12,00
21	Kupiškėnų taupa	6,00
22	Kvėdarnos KU (Šilalės r.)	10,00
23	Mažeikių KU Mėmelio	12,00
24	taupomoji kasa (Klaipėda)	10,00
25	Moterų taupa (Kaunas)	6,50
26	Naftininkų KU	7,00
27	Pagėgių KU	8,00
28	Pakruojo ūkininkų KU	5,00
29	Palangos KU	8,50
30	Pasvalio KU	8,00
31	Prienuų taupa Radviliškio KU	7,00
32		10,00
33	Raseinių KU	9,00
34	Rokiškio KU	9,00
35	Savas rūpestis (Šiauliai)	10,00
36	Sedos KU (Mažeikių r.)	10,00
37	Skuodo bankelis Sūduvos	8,50
38	parama (Marijampolė)	6,00
#	Credit Union	%

39	Šilalės KU	7,99
40	Šilutės KU	7,00
41	Tauragės KU Tikroji viltis	8,90
42	(Naujoji Akmenė)	6,00
43	Trakų KU Ūkininkų	9,30
44	taupa (Širvintos)	5,00
45	Ūkininkų viltis (Panevėžys)	7,00
46	Ukmergės ūkininkų KU	10,00
47	Utenos	5,80
48	Verslo gija (Vilnius)	6,00
49	Vievio taupa Zanavykų	10,00
50	bankelis (Šakiai) Žemaitijos	7,00
51	valstiečių KU (Plungė) Žemdirbio	5,00
52	gerovė (Šiauliai)	9,00
53	Žemdirbio parama (Vilkaviškis)	12,00
Average		8,16

Source: Lithuanian CreditUnions

<http://www.lku.lt/content/category/5/73/29/>

ANNEX 7

Average Annual Interest Rates on Loans in Lit

December, 2000 - December, 2004

Per cent; monthly average

Date	up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	over 5 years	total
December, 2000	12,32	11,51	11,06	11,28	10,68	10,68	11
December, 2001	7,4	8,24	10,81	8,21	8,22	7,82	8,13
December, 2002	6,03	6,28	5,35	6,47	6,19	5,88	6,08
December, 2003	5,5	5,94	4,49	5,29	5,58	4,49	5,07
December, 2004	5,23	5,25	5,07	5,68	6,11	4,8	5,64
During selected period:	up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	over 5 years	total
minimum	3,48	4,26	4,49	5,17	5,29	4,49	5,07
maximum	14	12,02	13,26	11,44	11,05	11,11	11,2
average	6,91	7,17	6,32	6,89	6,91	5,53	6,52
change	-7,09	-6,26	-5,99	-5,6	-4,57	-5,88	-5,39
difference in maximum and minimum	10,52	7,76	8,77	6,27	5,76	6,62	6,11

Source: Bank of Lithuania <http://www.lb.lt/int/default.asp?lang=E&pid=1>

Structural Funds Support – Statistics 2005-10-14

No.	MEASURE	Number of applications submitted 2004-2005		Total public cost available, thou. LTL 2004-2006	Number of signed contracts	Amount of contracts, thou. LTL
		units	amount, thou. LTL			
1	Investment in Agricultural Holdings	824	404.734	212.644	198	98.647
2	Setting up of Young Farmers	753	65.963	56.396	313	24.819
3	Improving processing and marketing of agricultural products	25	61.432	103.978	10	29.352
4.	Promoting the adaptation and development of rural areas	154	173823	190209	29	34035
4.1	Water management in agriculture	39	54.961	50.952	9	13.790
4.2	Redistribution of plots of land	0	0	7.683	0	0
4.3	Consultations to agricultural holdings	24	37.209	25.410	7	6.320
4.4	Development and diversification of agricultural and adjacent economic activity sectors for the multiple activities and alternative income	21	18.532	33.682	1	1.095
4.5	Promoting rural tourism and crafts	70	63.121	72.482	12	12.830
5	Forestry	40	13.069	21.828	23	4.707
6	Leader + type measure	92	2.040	9.373	46	754
7	Training	99	12.819	9.182	23	1.011
8	The activities, related with the fishery fleet	25	50.298	32.434	20	21.773
9	Development and security of water resources, aquaculture, fishery port equipment, processing and marketing and fishery in inner waters	7	8.408	21.732	3	1.358
10	Other fishery related activities	56	1.840	5.180	0	0
TOTAL		2.075	794.427	662.956	665	216.456

Source: National Payment Agency under the Ministry of Agriculture
<http://parama.nma.lt/index.php?1806906469>

Annex to chapter 10 (Poland)

Annex

Appendix 1

List of investment credit lines with ARMA's subsidies to interest rates launched from the beginning of ARMA's operation until 2004

Item	Credit line	Date of launch
1	Credit for carrying out investments in agriculture, food processing and services for agriculture (IP)	06.06.1994
2	Credit for the purchase of agricultural land (KZ)	15.05.1995
3	Credit for establishing or equipping farms by people who are not older than 40 (MR)	16.05.1995
4	Credit for investments in agriculture and special divisions of agricultural production aimed at using the existing production base of farms and special divisions, by commencing or increasing the production in these farms or special divisions (RP)	01.03.1996
5	Credit for investments in agriculture aimed at using the existing production base of farms and special divisions of agricultural production by resuming production in these farms of special divisions after a break in production lasting at least 1 year or commenced before 24 February 1996 due to reasons beyond the control of the business entity (WP)	01.03.1996
6	Credit for renewing the production in farms and special divisions of the agricultural production that are located in areas affected by drought, hailstorm, excessive precipitation, destruction by frost, flood, hurricane, fire, plague of rodents or landslide (KL)	01.03.1996
7	Investment credit for creating new permanent jobs in non-agricultural business in rural communes, rural-municipality communes and town of up to 20 000 inhabitants, which guarantee employment for rural populations (MP)	01.03.1996
8	Within the framework of the approved by the Minister of Agriculture and Food Economy and the Minister of Finance programme of agricultural settlement on the land of the State Treasury (OR)	30.04.1997
9	Credit for carrying out investments in agriculture, food-processing and services for agriculture by groups of producers established under the Law on groups of agricultural producers and their associations of 15 September 2000 and the amendments of other Laws / Dz.U No. 88, item 983/ (GP).	17.04.2002
10	Credit for the purchase of agricultural property earmarked for establishing or equipping family-run farms in accordance to the Law on developing the agricultural system of 11 April 2003 (GR)	01.01.2004
11	Credit for carrying out investment enterprises on new production technologies in agriculture (NT)	01.01.2004

Industrial credits:		
12	Credit within the framework of the dairy restructuring and modernisation programme (BR/01)	01.08.1994
13	Credit within the framework of the cattle husbandry and breeding development programme in Poland (BR/02)	01.05.1995
14	Credit within the framework of the curbing the decline and rebuilding the population of sheep programme for 1994-2000 (BR/03)	03.03.1995
15	Credit within the framework of the restructuring and modernisation programme for potato processing (BR/04)	19.10.1995
16	Credit within the framework of the programme for storehousing of grains and seeds of other plants in farms (BR/05)	04.12.1995
17	Credit within the framework of the programme for the pressurised watering of soil cultivations and shielded cultivations (BR/06)	11.01.1996
18	Credit within the framework of the programme for restructuring and developing poultry farming and poultry processing (BR/07)	17.12.1996
19	Credit within the framework of the programme for cultivating plants and breeding animals in AWRSP companies and research & development units (BR/08)	12.03.1997
20	Credit within the framework of the programme for supporting the restructuring of the sugar industry and sugar beets production (BR/09)	12.03.1997
21	Credit within the framework of the programme for developing the shared usage of agricultural machines and devices (BR/10)	03.01.1997
22	Credit within the framework of the programme for production modernisation and increasing the meatness of porkers (BR/11)	07.04.1997
23	Credit within the framework of the programme for fishing development in Poland for 2000-2006 (BR/12)	07.11.2000
24	Credit within the framework of the programme for the modernisation of starch potato processing in Poland (BR/13)	07.11.2000
25	Credit within the framework of the programme for developing the restructuring and modernisation of the meat industry in Poland (BR/14)	07.11.2000
26	Credit within the framework of the industry dairy programme (BR/15)	21.09.2000
27	Credit within the framework of the industry programme for developing the restructuring and modernisation of the utilization industry in Poland (BR/16)	06.09.2002

Regional credits:		
28	Credit within the framework of the programme for developing the production of sheep and breeding goats in the Krosno province (RE/01)	13.03.1995
29	Credit within the framework of the programme for rebuilding the poultry base and poultry-processing in the Bydgoszcz, Kalisz, Konin, and Poznań provinces (RE/02)	18.05.1995
30	Credit within the framework of the programme for the restructuring and development of gardening in the Rzeszów province (RE/03)	10.11.1995
31	Credit within the framework of the programme for restructuring and developing the poultry farming in the Suwałki province (RE/04)	10.04.1996
32	Credit within the framework of the programme for developing the poultry production in the Legnica province (RE/05)	22.04.1996
33	Credit within the framework of the programme for restructuring and developing the poultry farming in the Toruń province (RE/06)	16.05.1996
34	Credit within the framework of the programme for developing the restructuring of the sugar beets production of the Śląska Spółka Cukrowa S.A.(RE/07)	14.05.1996
35	Credit within the framework of the programme for restructuring and developing the poultry farming in the Olsztyn province for 1996-2000 (RE/08)	27.07.1996
36	Credit within the framework of the programme for developing the poultry production in the Tarnów province (RE/09)	26.06.1996
37	Credit within the framework of the programme for restructuring and developing the poultry farming in the Białystok and Łomża provinces (RE/10)	23.09.1996
38	Credit within the framework of the programme for developing the gardening in the Radomsko and Skierniewice provinces (RE/11)	21.08.1996
39	Credit within the framework of the programme for developing the restructuring of the sugar industry and the production of sugar beets of the Mazowiecko-Kujawska Spółka Cukrowa S.A.(RE/12) until 29.06.1997.	02.10.1996
40	Credit within the framework of the programme for restructuring and developing the gardening in the Wałbrzych province (RE/13)	16.11.1996
41	Credit within the framework of the programme for developing agritourism in the Jelenia Góra province (RE/14)	24.01.1997
42	Credit within the framework of the programme for developing agritourism in the Piła province (RE/15)	17.02.1997
43	Credit within the framework of developing the production of sugar beets and its processing in the operational area of the Lubelsko-Małopolska Spółka Cukrowa in Zamość (RE/16)	12.11.1996
44	Credit within the framework of the programme for restructuring and developing the gardening in the Małopolska macro-region (RE/17)	24.01.1997
45	Credit within the framework of the programme for developing the restructuring the sugar industry and the production of sugar beets of the Poznańsko-Pomorska Spółka Cukrowa S.A (RE/18)	02.01.1997
46	Credit within the framework of the programme for developing the gardening production in the Kalisz province (RE/19)	06.03.1997
47	Credit within the framework of the programme for restructuring and developing the gardening in the Piotrków province (RE/20)	19.03.1997
48	Credit within the framework of the programme for developing agritourism in the Bielsko, Krosno and Nowy Sącz provinces (RE/21)	03.04.1997
49	Credit within the framework of the programme for developing agritourism in the Wałbrzych province (RE/22)	28.03.1997
50	Credit within the framework of the programme for restructuring and developing the gardening in the Włocławek province (RE/23)	09.04.1997
51	Credit within the framework of the programme for restructuring and developing the gardening in the Białystok province (RE/24)	19.05.1997
52	Credit within the framework of the programme for restructuring and developing the gardening in the Ciechanów province (RE/25)	07.07.1997
53	Credit within the framework of the programme for restructuring and developing the gardening in the Warszawa province until 2010 (RE/26)	24.09.1997
54	Credit within the framework of the programme for restructuring and developing the gardening in the macro-region of Central-Eastern Poland (RE/27)	06.10.1997

Source: Agency for Restructuring and Modernisation of Agriculture – Achievements and Plans. Collective paper under the direction of W. Pomajda. ARMA. Warszawa, 2004.

Appendix 2

List of investment credits with ARMA's subsidies to interest rates available in 2005

ITEM	Credit line
1	Credit for investment enterprises in agriculture, food-processing and services for agriculture (IP)
2	Credit for the purchase of agricultural land (KZ)
3	Credit for establishing or equipping farms by people who are not older than 40 (MR)
4	Credit within the framework of the programme for developing the shared usage of agricultural machines and devices (BR/10)
5	Credit within the framework of the programme for the modernisation of starch potato processing in Poland (BR/13)
6	Credit within the framework of the programme for developing the restructuring and modernisation of the meat industry in Poland (BR/14)
7	Credit within the framework of the industry dairy programme (BR/15)
8	Credit within the framework of the industry programme for developing the restructuring and modernisation of the utilization industry in Poland (BR/16)
9	Within the framework of the approved by the Minister of Agriculture and Food Economy and the Minister of Finance programme of agricultural settlement on the land of the State Treasury (OR)
10	Credit for carrying out investments in agriculture, food-processing and services for agriculture by groups of producers established under the Law on groups of agricultural producers and their associations of 15 September 2000 and the amendments of other Laws / Dz.U No. 88, item 983/ (GP)
11	Credit for the purchase of agricultural property earmarked for establishing or equipping family-run farms in accordance to the Law on developing the agricultural system of 11 April 2003 (GR)
12	Credit for carrying out investment enterprises on new production technologies in agriculture (NT)
13	Credit for renewing the production in farms and special divisions of the agricultural production that are located in areas affected by drought, hailstorm, excessive precipitation, destruction by frost, flood, hurricane, fire, plague of rodents or landslide (KL)

Source: www.arimr.gov.pl, ARiMR 2005

Appendix 3

List of banks and the present interest rates of investment and disaster credits

Item	BANK	Interest rate paid to the bank by the borrower under lines:					KL - investment	KL - working capital
		IP, OR/IP ¹	BR, DM/B Rz ² OR/BR ¹	MR, KZ, DM/M Rz ³ OR/MR ¹ , OR/KZ ¹ , GR	GP	NT		
1	Bank Gospodarki Żywnościowej S.A.	3	2	1.2	1.125	1	1.2	1.2
2	Bank BPH Spółka Akcyjna	3	2	1.2	1.125	1		
3	Bank Polskiej Spółdzielczości SA	3	2	1.2	1.125	1	1.2	1.2
4	PKO BP S.A.	3	2	1.2	1.125	1	1.2	1.2
5	Kredyt Bank S.A.	3	2	1.2	1.125	1		1.2
6	ING Bank Śląski S.A.	3	2	1.2	1.125	1		1.2
7	SGB GBW S.A.	3	2	1.2	1.125	1	1.2	1.2
8	Bank Zachodni WBK SA	3	2	1.2	1.125	1	1.2	1.2
9	Bank Millennium SA	3	2	1.2	1.125	1		1.2
10	Bank Ochrony Środowiska SA	3	2	1.2	1.125	1		1.2
11	BRE Bank S.A.	3	2	1.2	1.125	1		1.2
12	Bank PKO S.A.	3	2	1.2	1.125	1		1.2
13	Nordea Bank Polska S.A.	3	2	1.2	1.125	1		
14	Bank Inicjatyw Społeczno - Ekonomicznych SA	3	2	1.2	1.125	1		1.2
15	Mazowiecki Bank Regionalny S.A.	3	2	1.2	1.125	1	1.2	1.2
16	Raiffeisen Bank Polska S.A.	3	2	1.2	1.125	1		

¹ interest rate of the OR credit in the case that the borrower meets the conditions of the IP, KZ, MR or BR line (note of A. Sadowski),

² applying and increasing the Agency's [subsidies to the interest rates of credits as well as for industrial credits](#),

³ applying and increasing the Agency's subsidies to the interest rate of credits as in the case of credits for establishing or equipping farms by young farmers,

Source: www.arimr.gov.pl

Appendix 4

Comparing the number and amount of positive decisions of ODR with the number and amount of preferential credits granted from 1 January 2005 to 31 December 2005. (according to credit lines)

Name of credit line	Positive decisions issued by ODR		Granted credits	
	Number	Amount of sought credits (in PLN k)	Number	Amount (in PLN k)
Credits for young farmers (MR)	9 390	1 391 586	8 356	1 065 255
Credits for the purchase of agricultural land (KZ)	7 030	421 237	6 257	330 402
Basic investment credits (IP)	5 395	460 374	4 593	316 835
Credits for family-run farms (GR)	567	77 576	468	53 232
Credits for new technologies (NT)	730	241 228	635	185 999
Credits for groups of producers (GP)	9	5 884	7	5 071
Industrial credits (BR), including:	818	182 077	723	151 821
Industrial programme for the shared usage of agricultural machines and devices (BR/10)	66	20 379	56	19 625
Industrial programme for restructuring the potato processing for starch in Poland (BR/13)	0	0	0	0
Programme for developing the restructuring of the meat industry and egg processing in Poland (BR/14)	59	52 100	48	37 391
Dairy industrial programme (BR/15)	692	108 954	618	94 161
Industrial programme for restructuring and modernising the utilization industry in Poland (BR/16)	1	644	1	644
Credits for agricultural settlement (OR)	2	1 835	0	0
Credits for eliminating the consequences of natural disasters (KL), including ¹⁾ :	X	X	62 769	805 677
Disaster investment credits (KL/01)	23	983	21	1 113
Disaster working capital credits ¹⁾ (KL/02)	X	X	62 748	804 564
Total of investment credits	23 964	2 782 779	21 060	2 109 727
Total of credits (investment and working capital)	X	X	83 808	2 914 291

¹⁾ Pursuant to the rules of granting credits, a positive ODR's decision must be obtained only in the case of disaster investment credits (such requirement does not exist in the case of disaster working capital credits).

Source: ARMA's System of Managerial Information, made on 13.03.2006.

Annex to chapter 11 (Romania)

None

Annex to Chapter 12 (Serbia Montenegro)

Table 1. Agrarian credits financed from the Agrarian budget of the Republic of Serbia

Year	Total Budget Mill. dinara	Agrarian Budget		Agrarian Credits	
		Mil.din	% of total budget	Mil.din	% of agrar. budget
2004	374641	22354	5.9	3767	16.8
2005	432999	20065	4.6	3500	17.4
2006	487900	23057	4.7	3500	15.2

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

Table 2. Structure of the agrarian credits financed from the agrarian budget of the Republic of Serbia

Year	Agrarian Credits Mil.din	Short-term Credits		Long-term Credits	
		Mil.din	%	Mil.din	%
2004.	3767	1728	45.9	2000	53.1
2005.	3500	1460	45.9	2000	53.1
2006.	3500	1400	40.0	2000	57.1

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

Table 3. Short-term credits financed from the Agrarian budget in 2004 and 2005

Bank	2004			2005			Total		
	Number	% of total resources for this purpose	Average	Number	% of total resources for this purpose	Average	Number	% of total resources for this purpose	Average
up to 10000 din	389	0.23	9995	257	0.18	10000	646	0.20	9997
up to 40000 din	12312	28.46	39928	9722	26.62	39978	22034	27.62	39950
up to 80000 din	15424	71.32	79875	13363	73.20	79969	28787	72.18	79919
Total	28125	100.00	61421	23342	100.00	62542	51467	100.00	61930

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

Table 4. Long-term credits financed in 2005

Purpose	Directly from the Fund			From the Fund through Banks			Through banks		
	No	% of total resources for this purpose	Average	No	% of total resources for this purpose	Average	No	% of total resources for this purpose	Average
Irrigation system	3	10.5	60000	19	3	1502789	64	3.4	16822
Agricultural machinery	0	0	0	358	41.4	1113385	642	27.7	13494
Establishment of Orchards	20	9.3	7978500	36	0.5	129620	92	5.1	17321
Plastic/Greenhouses	8	7.9	16886250	42	6.5	1488031	50	2.3	14560
Livestock production	126	72.3	9777778	285	48.7	1645396	1078	61.5	17838
TOTAL	157	100	10870446	740	100	1301684	1926	100	16247

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

Table 5. Long-term credits of the Fund for Development of RS intended for agro-industry in 2005

	No. of credits authorised	Realized funds for this purpose (din)	% of total resources for this purpose
Crediting small and medium enterprises	234	2559200	36.05
Credits for private shops and entrepreneurs	125	113155	19.81
Self employment, microcredits	295	245986	24.41
Short-term credits, export encouragement	12	415000	27.36
Employment encouragement in underdeveloped communities	6	240911	16.35

Source: – Author's calculation based on the data of the Fund for Development of the RS <http://www.fondzarazvoj.sr.gov.yu/izvestaj2005.pdf>

Annex to Chapter 14 (Slovenia)

None

Annex to Chapter 15 (Turkey)

Table 1: Evaluation of Agricultural Credits in Planned Periods

Agricultural Credits/GNP (%)	1.Plan (1967)	2.Plan (1972)	3.Plan (1977)	4.Plan (1983)	5.Plan (1989)	6.Plan (1994)	7.Plan (2000)	
		5.52	4.50	5.63	4.43	4.32	3.10	2.61
Agricultural Credits/Total Bank Credits (%)	15.20	15.05	20.05	17.14	15.99	15.25	9.59	
Short Term Agricultural Credits (%)	79.94	71.23	66.56	71.00	79.45	96.24	60.90	
Medium-Long Term Agricultural Credits (%)	20.06	28.77	33.44	29.00	20.55	3.76	39.10	
Agricultural Credits per Farm	Current (TL)	1.805	3.541	16.063	140.162	2.017.557	29.600.000	806.673.185
	Real (TL)	1.463	1.777	3.264	2.456	3.484	3.694	4.248

Table 2: Allocation of T.C: Ziraat Bank (TCZB) Credits (Thousands YTL)*

AGRICULTURAL CREDITS	Years				
	1999	2000	2001	2002	2003
TCZB SOURCED CREDITS					
1. Direct Credits Loaned to Producers	739.007	961.132	556.294	453.549	460.498
Crop Production	322.370	409.867	200.583	165.168	216.423
Livestock Production	349.796	471.618	306.709	253.350	220.492
Fishery Products	10.186	16.863	5.177	3.046	3.176
Agricultural Mechanization	56.655	62.784	43.825	31.985	20.407
2. Credits Allocated to ACC	483.200	703.846	213.198	145.626	73.071
Crop Production	331.035	487.382	135.468	95.066	49.699
Livestock Production	95.499	138.372	54.328	33.455	16.010
Agricultural Mechanization	56.666	78.092	23.402	17.105	7.362
TCZB Sourced Credits Total (1+2)	1.222.207	1.664.978	769.492	599.175	533.569
FUND SOURCED CREDITS					
DFİF Sourced Credits	846.627	1.699.947	1.936.986	1.998.620	2.687.636
Special Housing Fund Sourced Credits	-	5.645	6.938	8.487	10.847
Credits Converted into Fund Sources	-	-	186.522	190.073	224.630
Agricultural Development Coop. Credits	-	29.953	42.790	82.455	100.135
Other Fund Sourced Credits	74.374	8.229	5.765	5.341	5.210
Fund Sourced Credits Total	921.001	1.743.774	2.179.001	2.284.976	3.028.458
AGRICULTURAL CREDITS TOTAL	2.143.208	3.408.752	2.948.493	2.884.151	3.562.027

*Obtained from published statistics and records of T.C. Ziraat Bank.

Table 3: Agricultural Credits in Turkey (1982-2003)

Year	Real Agricultural Credits (1987=100)	Index	Crop Interest Rate	Livestock Interest Rate	Average Agricultural Credits Interest Rate
1982	11319416	100.00	20	20	20
1983	12680567	112.02	20	20	20
1984	11253821	99.42	32	32	32
1985	12068881	106.62	32	32	32
1986	18124518	160.12	32	22	27
1987	19203422	169.65	32	22	27
1988	13900165	122.80	41	32	36
1989	14045015	124.08	47	39	43
1990	13413036	118.50	47	39	43
1991	14755492	130.36	47	39	43
1992	17457214	154.22	47	39	43
1993	20275847	179.12	47	39	43
1994	12464196	110.11	47	39	43
1995	21443936	189.44	47	39	43
1996	17234571	152.26	47	43	45
1997	18528643	163.69	60	51	56
1998	30267199	267.39	68	57	62
1999	34195314	302.09	65	54	60
2000	36648819	323.77	48	48	48
2001	18667952	164.92	94	94	94
2002	13308711	117.57	68	68	68
2003	13150755	116.18	52	52	52

Source: T.C. Ziraat Bank records, various years

Table 4: The Relationship between Agricultural Credits Cooperatives (ACC) and T.C.Ziraat Bank, and Credits Breakdown loaned to the members of ACC

Years	ACC Credits Amount (\$)	T.C. Ziraat Bank Contribution (\$)	T.C. Ziraat Bank Financial Contribution Rate (%)
1990	925,306,457	726,975,060	78.5
1995	915,844,314	794,675,518	86.7
2000	1,181,836,600	1,033,365,319	87.4
2005	786,120,596	107,414,302	13.6

Source: Tarım Kredi Kooperatiflerinin Yeniden Yapılanma Sürecindeki Çözüm Bekleyen Problemleri, T.C. TKK Merkez Birliği Genel Müdürlüğü, 2006.