



Original Contribution

**BANK FUNDING FOR AGRICULTURAL PRODUCERS –
OPPORTUNITIES AND REALITIES**

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ABSTRACT

The present article considers the opportunities provided by the commercial banks to the agricultural producers while funding them and becoming their active partners. In order to achieve this objective of theirs, the banks elaborate specialized credit products with which to support the development of farms and farmers. Their strategy for agriculture crediting is a part of the common credit strategy, and an important part of this strategy is to alleviate the access of farms and farmers to bank loans.

Key words: commercial banks, agricultural producers, bank loans.

INTRODUCTION

The development of economic sectors mostly depends on enterprises' access to funding. Agriculture is no exception. When we research Bulgarian agriculture's need of fixed tangible assets' renewal we highlight the assets like agricultural equipment, productive livestock, and permanent plants (1). Banks are among the institutions that could impact investments' activation (2). Furthermore, they create prerequisites for investments' activation, including in agriculture (2).

When it comes to agricultural producers, the commercial banks have been working for years in two directions:

- Be active partners of the agricultural producers, yet not only in crediting;
- Elaborate credit products with which to support the agricultural producers.

The standard loans that agricultural producers could receive from commercial banks in our

country are the following: investment loans, turnover loans, overdrafts, and revolving loans. The parameters of these loans are objective, amount, currency, collateral, term, utilization, extinguishment, interest rate – regular and penal, fees and commissions. These are the factors that predefine whether the agricultural producers would prefer them for funding their business.

The investment loans are also called loans for acquiring long-term, assets and in view of their term these are mid-term (from one to three years) and long-term (from three to five years). The commercial banks refer them to the category of high-risk loans (3). In turn, these loans in agriculture could be divided into:

- loans for acquisition of agricultural equipment, productive livestock and permanent plants;
- loans for new construction of farms, and their repairs.

Loans for turnover means are short-term loans. These are released to agricultural producers for covering the current needs or short-term regular needs, satisfying extraordinary and occasional needs, and are being serviced according to the extinguishment plan that was prepared in advance.

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The overdraft loan is also a short-term loan that is subject to renewal in the years to come considering commercial banks' credit policy. The credit amount is bound with the credit turnover to the agricultural producer's current account. It is being used for effecting payments at an amount higher than the account balance (3). That is why the overdraft loan is allowed by the commercial banks solely to their long-term clients being serviced in a comprehensive manner that they trust. Loan's amount is being transferred to the borrower's current account and from it, it could pay and deposit cash, i.e. it is a combination of payment and credit transactions hence it is being significant convenience for each and every agricultural producer. What is typical to the overdraft is that in this case no extinguishment plan is prepared since the client constantly uses and extinguishes the loan until the agreement expiration.

The revolving loan shares some of the overdraft's features. In banking practice, it is well-known as a renewable loan (3). It is also provided to the agricultural producer's current account. When it comes to this type of loan, no extinguishment plan would be drawn. Its essence is about recovering the extinguished part immediately or after a particular period, i.e. the client has the right to be using new loans to particular amount, i.e. the client has the right to be using new loans to a particular amount, yet after extinguishing the already issued ones. The revolving process ends in two weeks' time before the deadline for loan extinguishment. It is quite beneficial for agricultural producers that are borrowers and who nevertheless have a rapid turnover of the invested funds.

These are the main features of these loan types. The banking practice has proven that commercial banks are flexible when it comes to some of their parameters, which oftentimes are presented as bonuses. These are:

- Extension of turnover loans' term – via renewal for up to 5 years;
- Extension of investment loans' term – for up to 15 years;
- Introduction of grace period – for the turnover loans – 3 months and 6 months – in view of the investment loans;

- Without commission due and payable in the case of preterm extinguishment of the loan (most often it is bound with a term – for example, after the second year as of receiving the investment loan);
- Without requirement for the presentation of business plan, long business history, forecast cash flows throughout the term of the requested loan, yet only in the case of collateral as cash or highly liquid assets.

Banks' relations with the agricultural producers include but are not limited to the request and release of loans. The banks could support their development via the introduction of alleviated terms and conditions for the bank services offered by them, for example opening, servicing and closing bank accounts. In this light, their costs would be significantly decreased whereas the banks provide them with:

- Free current accounts' opening in EUR and BGN;
- No costs for maintenance of current accounts;
- No fees for instalment and maintenance of POS terminal devices;
- Use of online banking for lower monthly fees whereas the clients not only receive information about the status of their accounts, but also have the right to order BGN and currency transactions, effect massive payments, etc.

Banking operations' digitalization (including online banking) and the opportunities the agricultural producers could take are also very important part of commercial banks' operations when it comes to agriculture. As a matter of fact, the global economy is undergoing transformation into a digital economy at a fast pace (4). Banks are among the financial institutions that work actively in this direction. They strive for not lagging behind the global digital business that is fast advancing. In this light, they elaborate products and services while using actively computer technologies.

Online banking offers almost everything that clients would have received in the branch that services them, for example except for cash depositing and drawing at a counter. These are bank operations that the companies effect almost daily. The bank services that the agricultural

farmers and farms could use from the bank that services them are the following:

- Transactions – in BGN and in currency in real time, in order to extinguish the obligations for loans or credit cards, for the extinguishment of debts to the budget, transactions for purchase and sale of currency, for payments abroad and inlands, opening, changing and closing accounts etc.
- Reference – issuance of daily or regular excerpts for client's accounts, presentation of credit card's current status, extinguishment plan of the loan; central or commercial exchange rates, etc.;
- The submission of a request for the provision of each and every type of loans designated for the agriculture.

The main advantages of online banking are the following:

- Time-saving because the ordered banking operations are effected and confirmed instantaneously, no other clients should be waited who already engage bank employees with their operations;
- Cutting down the costs because online banking is cheaper for bank's clients compared to the traditional banking services rendered in the bank offices.

BANK LOANS ISSUANCE – AN IMPORTANT FACTOR FOR AGRICULTURAL PRODUCERS' DEVELOPMENT

While supporting the agricultural producers, many banks in our country elaborate and offer specialized products namely for them. The loans on offer are: investment loans, turnover loans, overdraft loans and revolving loans. The short-term bank loans of agricultural producers provided by some commercial banks are with the following terms and conditions:

Fibank offers a product with which it funds agricultural producers' turnover needs – revolving loan (5). The loan is designated for physical persons, legal entities, sole traders and cooperations, and has important advantages:

- In addition to the agricultural producers with history in the bank, clients that are new to the bank are accepted;
- The bank accepts as a collateral pledge of receivables under schemes and measures of

the Common agricultural policy (CAP (2020)0443 dated the 28th of May 2020) and all the present and future receivables from State fund "Agriculture";

- The revolving loan term could be extended up to 5 years;
- It is released as turnover means, as well as for investments.

UniCredit Bulbank also offers the agricultural producers turnover loans collateralized with pledge of subsidies according to schemes and measures of the Common agricultural policy, including the Single payment per area scheme (6). The positive aspects of this product refer to the fact that loans are issued for turnover means, revolving loans, and overdraft. The advantages of this credit product could be summarized in the following:

- Up to 100 % is funded of subsidy's total amount in conformity with the certificate issued by State fund "Agriculture";
- Two opportunities are provided in the case the agricultural producers apply after filing an application for assistance, namely – they could receive the lower of the two sums – the amount of the expected subsidy according to the order and the amount of the subsidy paid for the previous year;
- The required collaterals are: pledge of receivable over the means that the agricultural producer expects to receive; promissory note and other collaterals, if necessary;
- The effective term is – up to the 30th of June of the year following the one of filing the application to the attention of State fund "Agriculture".

The overdraft provides its clients – agricultural producers and Raiffeisen Bank (7). Loan is overdraft and it is worth the attention because of the terms and conditions on offer, namely:

- Significant amount – 1 million BGN.
- 100 % of the amount of the expected subsidy is being funded;
- The collateral is only the incorporation of pledge onto the subsidy approved by the Disbursement agency and correspondingly, pledge onto agricultural producers' receivables to his or her account in Raiffeisen Bank;

- The loan effective term is up to 18 months, but not later than the 5th of July the next year;
- The payment is the lump sum that fully extinguishes the principal under the loan when the subsidy is received to agricultural producer's account;
- The required business history is 24 months.

The banks elaborate and offer the agricultural producers investment loans as well. It is worth paying attention to Pro Credit Bank that issues two investment loans – Agricultural loan for subsidy and Loan for purchase of agricultural land (8).

The advantages of an Agricultural loan compared to the subsidy could be defined:

- It should fund the versatile needs of agricultural producers – for seeds, fertilizers, preparations, fodder, fuels; for agricultural machines and agricultural equipment; for the construction and purchase of bases and warehouse premises; agricultural land;
- The collateral is only pledged to the subsidy under schemes and measures for direct payments;
- The effective term is 5 years.

The second investment loan is for purchasing agricultural land. It is useful to agricultural producers because the required collateral is a mortgage to own or newly purchased agricultural land and a mortgage to real estate. The bank provides the opportunity to incorporate collaterals that are partial when it comes to purchasing agricultural land.

Raiffeisen Bank offers the agricultural producers loan for land purchase (7). The terms and conditions of this loan are profitable to them because of the following reasons:

- The effective term of the loan is significant – up to 10 years;
- The Bank answers back rapidly – in up to 5 business days;
- The amount is significant – up to 1 million BGN or 500 thousand BGN;
- The required business history is at least 12 months;
- The permitted grace period is up to 6 months;
- One could choose the extinguishment plan – equal instalments under the principle and the particular interest onto the loan residual or

flexible extinguishment plan according to agricultural producer's needs;

- Collateralization of the loan and the agricultural land being purchased yet the bank is rightful to request additional collateral whereas this is up to the loan amount and the features of the land being purchased.

In addition to the turnover loan, Fibank has elaborated a loan for land purchase (5). When it comes to its advantages, we could mention:

- Extensive term – up to 15 years;
- Significant utilization term – up to 12 months, including in instalments;
- Funding amounts to 100 % of the investment amount in the case additional collateral is proposed except for the value of the land being purchased and correspondingly up to 80 % if the collateral is just the value of the land being purchased;
- One could choose the extinguishment plan – annuity instalments, equal instalments under the principle or individual extinguishment plan according to agricultural producer's needs.

Fibank offers other investment loan for the agricultural producers – for the purchase of agricultural equipment and appliances according to the following terms and conditions:

- Loan effective term – up to 5 years;
- Up to 100 % of equipment or appliances' value is funded;
- Beneficial extinguishment plan – it is being elaborated while bearing in mind the revenues and in the case of funding the agricultural producer under the project with grant agreement, the loan is being partially extinguished with the subsidy means;
- The collateral is a special pledge to the equipment or appliances, a special pledge to the receivable under grant agreement or other collateral permitted by law.

The present research of the terms and conditions according to which the leading commercial banks issue loans for the agricultural demonstrate the following main advantages:

- Versatility of loans offered by the banks;
- Availability of especially elaborated credit products for agricultural producers;

- Most banks bind the loans with special pledge onto receivables according to the schemes;
- The minimum and maximum loan amounts are sufficient in order to satisfy the needs of agricultural producers when it comes to turnover means or for investments;
- The terms for extinguishing turnover loans are up to 5 years, whereas in the case of investment loans – from 5, through 10 to 15 years, which is in conformity with the features of agricultural production – plant-growing or animal-breeding;
- When it comes to purchasing land, the required deductible is up to 20 %, if the collateral is the purchased land itself. When it comes to providing additional collateral, no deductible is required.

CONCLUSION

The abovementioned demonstrates the opportunities provided by the banking sector to agricultural producers so that they could be developing their business. As a matter of fact, the banking environment for turnover and investment loans issued to agricultural producers is favourable. The shortcoming we should mention is the absence of commercial bank specialized in crediting agricultural producers. Such an attempt was made in the 90-ies of the XX century, yet unfortunately it proved futile. The Agricultural Credits Bank was declared bankrupt in 1997 and its operations were accompanied by scandals.

In conclusion, we could summarize that the development of agricultural producers requires the establishment of harmonic relations and dependencies between them and the banks, which of course should be beneficial to both parties. In this light, the combination of credit products offered by the commercial banks with funding schemes is a successful practice in the current circumstances. Changes could be sought in two directions:

- Elaboration of new specialized loan products;
- Alleviation of the requirements towards credit applicants when it comes to collaterals, credit history, interest rates, fees and commissions.

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