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Bayadyan Anna

*PhD in Economics, Associate Professor
Armenian State University of Economics
ORCID: 0000-0002-3303-2215*

ISSUES OF THE INTERNATIONAL EXPERIENCE OF CREDITING OF AGRICULTURAL FARMS

***Summary.** Agriculture is one of the most important sectors of the production of material goods of the economy, it provides the country's population with high-quality food, and the light and food industry with raw materials. Agriculture is the most complex and labor-intensive sector not only of the agro-industrial complex, but also of the entire economy.*

The study of international experience in lending to agricultural farms makes it possible to analyze and apply the experience of advanced countries in our country. We consider it necessary to note that at present it is not very correct to point out the negative impact of credit on agricultural products. Due to its characteristics, the agricultural sector is deprived of long-term and medium-term equity and is forced to apply for loans for technical and technological re-equipment.

The study of international experience allows us to state that the financing of agricultural farms in different countries occurs according to several scenarios, between which there are no clear boundaries. In each country, different forms of organizing lending to agricultural farms are manifested.

The article presents the features of lending to agricultural farms in the international market and the issues related to them. Reforms in that sector, trends and impacts on other sectors of the economy.

Key words: *agricultural farms, lending, international experience, issues, agricultural products.*

Statement of the problem. Agricultural farms play an important role in the economy. At present, the role of agriculture is emphasized in almost all countries. The largest share of services provided by the banking system belongs to crediting, and crediting to agricultural farms differs in its features.

The novelty. To study the international experience of crediting to agricultural farms and identify the obstacles in the way of their crediting.

Formulation purposes of article. The purpose of the article is to study the general characteristics of agricultural farms, their structure, lending characteristics, changes and trends at the international and regional levels, the analysis of future forecasts of agricultural lending and the role of the state in the management of this economic sector.

The main material. The main reason for the success and longevity of farms is that they are not interested in maximizing the profits of investors (owners), but in meeting the needs of society. It requires efficient organization according to current requirements [1, p. 7].

In developed countries, approximately 80% of food production is provided by agricultural farms.

The advantages of agricultural farms are:

- ✓ The income of the members is more and the cost is less because the costs and risks are shared among several subjects.
- ✓ A stable market with shared economic activity is more accessible.
- ✓ Joint wholesale purchases. Low price when buying necessary aggro and other materials.
- ✓ The activities of individual villagers are carried out only at a low technological level, and it is possible to introduce new technologies by joining forces.

- ✓ Agricultural farms are considered creditworthy and credit resources are more accessible to them than for farmers.

The principles of agriculture are also important.

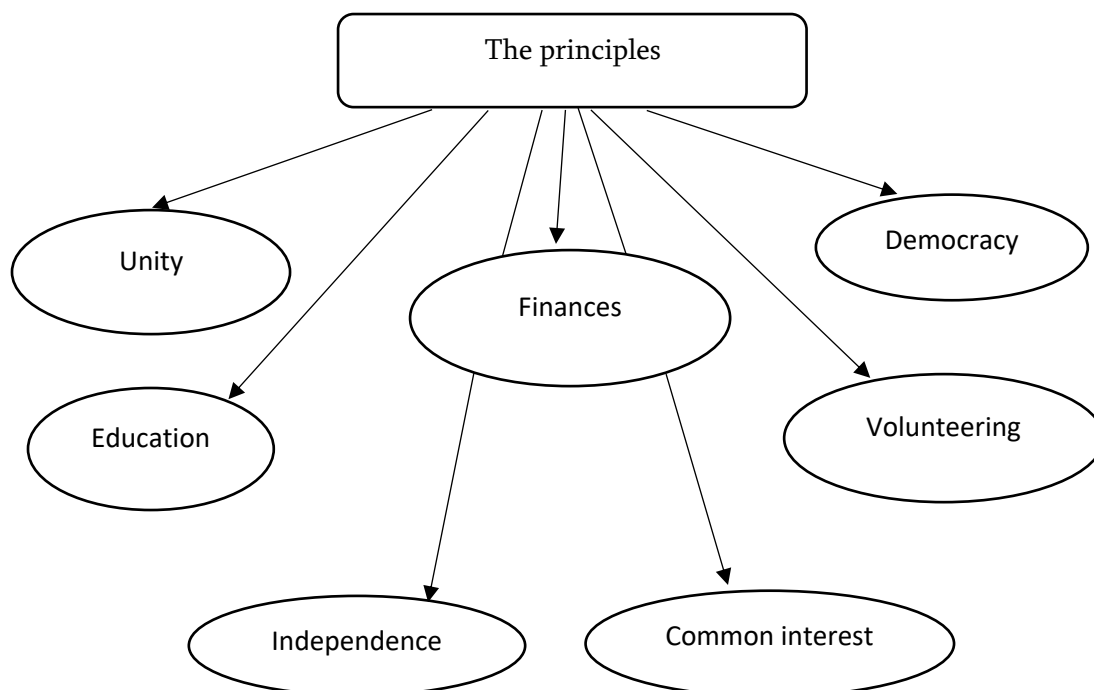


Fig. 1. Principles of formation of agricultural farms

Source: created by author

Their creation is primarily based on the principle of voluntariness, that is, each person is free and makes his own decisions when creating a farm. Democracy and equality, which is represented by the principle of one member, one vote, are also important here.

The advantages of creating agricultural farms and working together. As a result of joint action, they have the opportunity to enjoy a number of advantages of working together instead of overcoming difficulties alone.

During joint activities:

- the efficiency of agricultural operations and the competitiveness of businessmen in the field increases,
- the capacities of existing farms are expanded,

- joint activities contribute to the development of rural communities,
- the employment level of the rural population increases,
- the volumes of agricultural products and products obtained from their processing increase, as a result of which the incomes of the population will increase, and the level of food security of the country will increase,
- issues of production technical services and supplies of agriculture, sales of products, export, preferred specialization of production, introduction of new technologies, problems of re-equipment of production are easily solved through agricultural farms.

In the conditions of joint working activities, the possibility of using financial resources increases, and the process itself becomes easier than as a result of individual activities, strengthening not only economic, but also social capabilities of people. Management of financial resources is one of the components of agricultural development. And since it is an economic-social targeted activity, the financial management implies the organization of the mechanism of collection and effective use of the financial resources necessary for it.

Agricultural farms have a lot of independence, it is controlled by members. Education, training and effective development of members are ensured in agricultural farms. And finally, agricultural farms have a common interest, so there is unity around common interests and their protection.

In Great Britain, China, Holland and Austria, it is widespread to involve commercial banks in agriculture through state guarantees and subsidized interest rates.

For example, **Great Britain**, which has a developed agricultural credit system, is characterized by the absence of specialized agricultural banks, and the credit policy for agricultural products is carried out according to the same principles as in other sectors of the economy. Depending on the financial

situation of the farmer, the bank annually agrees with him the amount of the loan and the interest rate.

Specialized non-banking organizations have become widespread. For example, a dairy corporation lends money to farmers to buy large milk tanks, or buys them and rents them out to needy farmers. The English Land Reclamation Company provides loans to farmers at a fixed rate for up to 40 years [2, p. 42-43].

In recent years, the "commercialization" of the banking system has been carried out in *China*, as a result of which a number of banks have been transferred to the category of commercial, specialized state banks that provide state support to the agricultural sector. The purpose of their formation was to contribute to the development of agricultural production with the support of the state. The assets of this bank are aimed at the acquisition, preservation, processing of agricultural products, as well as providing assistance to needy rural areas for the comprehensive development of agricultural resources [3, p. 77-78].

In late 2016, the Agricultural Bank of China (ABC) was the fourth largest bank in the world and ranked 29th among the Fortune Global 500 companies. In rural China, this bank provides an inclusive finance package, focusing on three areas: basic financial services for farmers, financial poverty alleviation, and loans to rural households [4, p. 3].

Providing credit and deposit services for farmers is confronted by three main obstacles:

1. *High service cost*. Most farmers live in remote rural areas with poor transport connectivity. Commercial banks must incur substantial financial and time costs for onsite pre-lending checks and post-lending management.

2. *High business risk.* Information asymmetry between banks and farmers is aggravated by the absence of a sound rural credit system and the lack of credit information on farmers.
3. Farming households are unable to provide lawful, effective and full loan guarantees. Most farmers do not have assets to serve as property or security interest that financial institutions require.

In *Austria*, agricultural investment loans are most common in the agricultural sector, where the bank interest rate is determined based on the interest rate of the lending bank and is adjusted several times a year by the Austrian National Bank. The Ministry of Agriculture and Forestry provides subsidies to agricultural producers in the amount of 50% of the interest rate of a bank loan provided to agricultural organizations engaged in mining for the construction of greenhouses and 14% for the use of alternative energy sources.

The Ministry of Agriculture and Forestry provides subsidies to agricultural producers for the construction of greenhouses in the amount of 50% of the bank loan interest rate, and for the use of alternative energy sources in the amount of 14%. The preferential lending period is up to ten years [5, p. 42].

Rabobank, a specialized agricultural bank operating in the *Netherlands*, provides up to 90% of credit financing for the agricultural sector. According to the results of the analysis of the activities of agricultural farms, the crediting conditions are determined. It is possible to change the interest rate during the term of the credit agreement.

Rabobank is a cooperative bank with a mission. They have been dedicated to creating a future-proof society and tackling major societal challenges for 125 years. In the Netherlands, they serve retail and corporate clients; globally they focus on the food and agriculture sector [6].

On June 30, 2022, the geographic split of the private sector loan portfolio (based on debtor's country) was as follows: [7, p. 15]

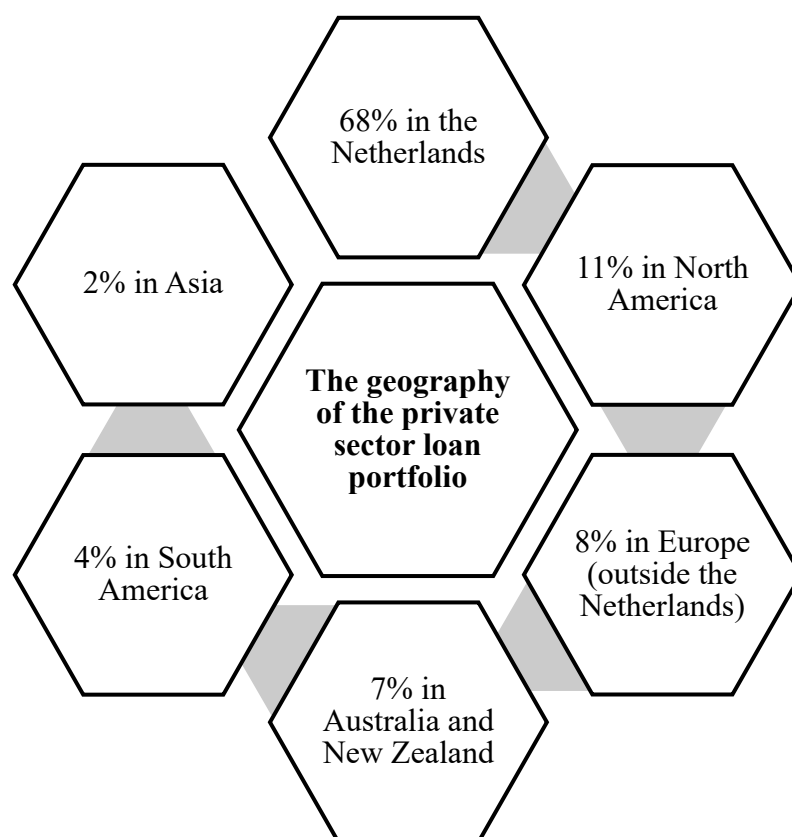


Fig. 1. Geography of Rabobank's private sector loan portfolio as of June 30, 2022

Source: created by author

In France, Germany, Japan and Poland, lending to the agricultural sector through loans to cooperatives is widespread. They account for about 75% of agricultural loans in France and 44% in Germany.

In **France**, until 1990, the French agrarian bank, Credit Agricole, had a monopoly on agricultural lending and provided about 90% of lending.

The state, in accordance with the specifics of the agrarian policy, provides preferential loans and adjusts the terms of their provision. Farm lending is licensed by banks that have a good reputation among local farmers and are able to provide cheaper loans at preferential rates.

In 2021, as part of its Societal Project, the Crédit Agricole Group presented a programme with 10 ambitious commitments in the area of climate, social

cohesion and inclusion, and agriculture, embedded within the activities of the Group [8, p. 5].

At present, lending to farmers is carried out mainly by cooperative banks. The competition between them to provide the best service is stimulated by the state, which suppresses the monopoly of credit services.

About 70% of the total volume of preferential loans in France is directed to the modernization and improvement of agricultural farms. The state changes the conditions of preferential lending in accordance with the current needs of the economic policy [9].

In **Germany**, the crediting system of agricultural farms was created within 150 years, at that time the first credit office was created. Currently, it is formed by national banks, the association of Raiffeisen association banks, the Agricultural Leasing Bank of Frankfurt, the German Settlement and Mortgage Bank of Bonn, private mortgage banks, as well as associations at the national level.

The state actively implements a preferential policy towards agricultural producers. Farmers under the age of 40 are mainly supported, they are provided with preferential loans for capital investment in production infrastructure, housing construction, and purchase of a rented farm. The state exercises control over the activities of the German Settlement and Mortgage Bank, which carries out large-scale commercial banking activities and owns more than 50% of the authorized capital [10, p. 41-42].

The modern system of lending to agricultural farms in Germany is recognized as a classic in the world. At the same time, more than 44% of loans are provided by cooperative banks to finance the activities of farms and agricultural enterprises. The interest rate, despite widespread preferential lending, remains relatively stable at around 7.0% per annum [11, p. 21-22].

The United States and Canada are characterized by the activity of non-bank credit organizations in the agricultural sector. In the USA, the main role of

lending to the agro-industrial complex belongs to the farmers' lending system, which is formed by the mixed state-credit organizations of some states, which belong to the borrowers themselves.

The American farm credit system includes the Federal Mortgage Corporation, the Federal Farm Loan Fund, the Leasing Loan Company, the Farm Loan Assistance Bureau, and the Financial Assistance Corporation.

Of particular importance in the system of crediting farmers is the administration of farmers, created in the 1970s. It administers credit programs, categorizes loans to farmers, supports farm management, and implements a credit program to support the ongoing operations of farms in cases where there are insufficient resources for the current costs of agriculture. These loans are provided for a period of 1 to 15 years. Most often, young farmers participate in this program. The Farm Bureau often uses a program in which the US government reimburses up to 90% of loaned funds when they are not repaid by the farmer [12, p. 1-4].

Central and Eastern European countries are characterized by the organization of a system of credit cooperatives for microcrediting of small farms. The growing role of the credit cooperation system is related to the lack of conditions for attracting commercial banks to agricultural lending. In this case, the state provides direct assistance to the formation of non-commercial and non-banking credit institutions, sometimes also using the funds of international organizations.

Conclusion: The analysis of lending characteristics of agricultural producers in Eastern European countries showed that:

- ✚ Up to 90% of agricultural loans in Poland go through the system of cooperative banks.
- ✚ Savings and Credit Services Union was established in Slovenia.
- ✚ In Bulgaria, with the financial support of the European Union, a system of mutual credit funds for small farmers has been formed.

- ✚ Savings and credit associations are created in Estonia with the financial support of the state, united in the Central Union.
- ✚ In Lithuania, 12 credit unions were established on a cooperative basis with the direct participation of the state, with the development of a unified system of income tax exemption, accounting, management and marketing.
- ✚ A micro-credit system of agricultural farms has been created in Moldova, consisting of savings and credit associations.

The generalization of the foreign experience of agricultural farms crediting allowed us to identify some features of its organization, which, in our opinion, should be taken into account during the development of credit business and the improvement of internal crediting of the agricultural sector of the economy. Commercial, cooperative and specialized banks, insurance companies, savings and loan banks and other financial and credit organizations provide financial services to farmers in different countries. Various forms of non-bank lending, through which targeted loans are provided, have been widely developed in a number of countries.

It should also be noted that there is a well-established system of credit cooperatives, whose members are united by cooperative property and common interests. The accumulation of funds of the population is carried out in credit cooperatives that provide state guarantees for part of their obligations. This scheme has proven to be very successful in various countries.

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