

## THE IMPORTANCE OF LAND BANK FOR AGRICULTURAL DEVELOPMENT AND THE TECHNIQUE OF GRANTING RURAL LAND LOAN

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### **Abstract:**

*In Romania, with the liberalization of the land market, appears the prospect of functioning of a specialized agricultural bank which might be named „land bank”. In principle, this institution can buy and sell agricultural land and to provide priority "rural land loan" for farm development. Mainly, it may incorporate an advantageous loan system created for those who want to buy land for agriculture use, once of the liberalization of land market since 2014. In this article we present some details about importance of this credit institution and grant technique of rural land loan . Currently, the number of Romanian farmers grouped in associations is very small compared to the millions agricultural holdings. Young farm development can be possible only by appealing to an "engine" type "rural land loans" and which may more quickly solve their financial problems.*

**Key word:** land bank, land rural loan, land banking, land holdings, young enterprisers, land fund.

**JEL Classification:** E51, E52

### **1. Introduction**

In short time, starts land market liberalization in Romania that opens new possibilities for the development of agriculture in our country. Romanian rural economy is characterized by a visible poverty, reflected in low living standards and absence of alternative income sources.

Most of Romanian citizens lives at the countryside and primary agriculture has, in the rural economic structure, about 60% of the workforce compared to about 14-15% in the developed countries of the EU. Negative effects on employment of the active rural population derive from the fact that apart from land exploitation, Romanian peasant has no other job opportunities.

In the future strategy of Common Agricultural Policy, supporting more intense for young farmers, may be one of the measures to achieve a modern agriculture able to provide food requirements in the European Union.

An overall economic picture of agricultural holdings (of which we can mention that: 90.96% is subsistence farms, 7.55% - semi-subsistence farms and 1.49% - commercial holdings) of Romania, recommends the establishment of a land bank mainly to support farmers association. Food products from Romanian farming are very few.

In the period after EU entry, we also noted that there are requests to purchase in his own name agricultural land from Romania, and have developed some farms based on an industrial-agricultural smart work and well paid.

Romania's total agricultural area [9] is 13.3 million hectares, of which 8.3 million hectares of arable land. Although, in a ranking of farmland, Romania is sixth in the EU still 70% of food are imported annually. In our country are found over 4.2 million farms, of which over 99% are individual subsistence farms and 45% of them (1.9 million) have an area of less than one hectare and are not eligible for payment the legal subsidy on area.

EU food industry is facing many problems and some affected and Romanian who, as often said, has "first sight potential" to feed daily over 80 million people.

Why Romania does not produce the main foodstuffs necessary "daily basket" and importing so much? Firstly, because once with accession and integration into the EU, Romania has lost agricultural sovereignty and absence of means of capital leads to a lowest agricultural productivity. Although we lost agricultural sovereignty,

must not lose and food sovereignty. There are many young workers who arrived in unemployment but they can be retrained and integrated in agricultural farms.

Government programs regarding the granting of land to agricultural holdings "young workers" in the villages are experimental. Analyzing state of "young peasantry" may be observed some initiatives of the state, as well yesteryear a Romanian personality, said, "never to share peasants land, they should be placed in its power to multiply his fortune and be supported by the state to buy land. The economic condition of farmers can be raised by Rural Bank". [5]

Generally Romanian farmer is deprived of modern means of agricultural production and its processing. Romania is the last in the EU in terms of efficiency of using agricultural area. As we know agricultural raw products are sold to traders, at very low prices, exported, and after processing, Romanian peasant labor objects are returning like imported products required for daily consumption.

People living in rural areas are truly free their rights can be respected under the conditions similar to those of countries with a tradition of agricultural freedom. In vain they speak of "freedom of the farmer" if this freedom is stifled by excessive bureaucracy and farmers don't receive on time any European subsidy and don't have the security of everyday life.

A scientific understanding of "the internal structure of the family economy from agriculture" and facilities granted to individual agricultural producers can be the key of success in the development of agriculture, that providing quality products to food industry.

*"Every agricultural holding is characterized by a system that is the way they are joined together, quantitatively and qualitatively, land, labor and capital. The optimal combination of these elements ensures maximum income. When the organizer of exploitation has no capital or earth or workforce that can develop within the optimum exploitation, he builds at lower proportions, adapted to the factor, which is the minimum. As other elements can be combined with that factor in various technical reports, the organizer is required to find that combination that guarantees maximum revenue."*[4]

Interweaving of agricultural capital with industrial capital, through the "rural land loan" can create the conditions to develop agricultural industries.

## **2. Land bank**

Anchored in achieving EU agricultural policy program in most European countries, the financial institution by the generic name of "land bank" may have as its principal activity, granting "rural land loans" while landowners and farmers who want to create farms, to associate and to develop on European standards.

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Its activity object is to mobilize the available agricultural land and give it to young farmers use. Granting of the loan rural land at preferential rates for the purchase of agricultural land purposes may be merging the original purpose of a land bank in the country agricultural use.

„Land banking (banking operations with agricultural land) are structural acquisition and temporary administration of rural land by an impartial state agency (or institution credit), in order to redistribute it and / or give on lease those land to improve the agricultural structure and / or reallocation of land to other purposes of public interest.”[11]

Granting of the rural land loan will be the "engine" agricultural holding type "private and family" and this type of private farm can be the keystone of Romanian agriculture development, based on performance agriculture model in the EU and North America.

One of the solutions could be to transform State Domains Administration in "land bank" that can be organised on several divisions of operations banking, financial and commercial.

According balance 31.12.2012, ADS [10] has about 340,000 hectares of land, of which the largest areas in Braila (69,000 ha), Calarasi (52,000 ha), Dolj (20,000 ha), Constanta (18,500 ha) and Giurgiu (18,000 ha). There is a "land fund" of the state and called on trade experience agricultural land.

Land Bank through its organizational divisions may introduce in business through rural credit, underdeveloped natural wealth of the Romanian village. Interweaving rural land capital to financial capital and the quality of land, and rural labor and romanian "agroecosystem" in general, advised by a strong land bank, may be strong guarantees that transform villages rural economy into rural, agro-industrial and commercial European economy.

## **3. Granting rural land loan technique**

### **3.1. Notes**

For accessing European funds for the establishment, development of small and medium farms by "active farmers" should be promoted "land loan".

Overall, lending to individuals is known as retail banking and lending companies and agricultural associations - corporate banking. Romania is considered still a country with a B category risk; with banking system where bad loans continue to rise, however, a new banking product for agriculture is needed. Should be noted that credit institutions grant loans for agriculture but only with "certain guarantees" that are sometimes difficult. Thus the majority of individual farmers, agricultural land owners who wish to borrow only for seasonal work, experiencing different weights to request loans because the owners can not get into small areas "payment system" within common policies for agriculture.

Although there are some credit institutions that have "innovated" banking operations, transforming traditional banking products in the "land loans" that can be given to those who prove that they have title to land, however these loans are granted on the same terms like any other bank loan. The novelty of these loans is that under certain conditions the agricultural land is taken into account as "collateral precautionary" to the credit agreement. These loans are granted to farmers only after they shall, where appropriate, with the loan application, a number of documents from the Agency for Payments and Intervention in Agriculture, from Rural Credit Guarantee Fund (RCGF) or the National Credit Guarantee Fund for Small and medium Enterprises (FNGCIMM). The use of land and other agricultural assets as bank guarantee is greatly influenced by changes in prices caused by the current economic crisis. The value of agricultural land is determined by an expert of the bank or a technical expert approved by the bank, according to the market price, without taking into account soil fertility.

There is not currently scientifically proven assessment methods, universally recognized by institutions specialized in agriculture, which to establish "land trusts" and the value of agricultural land by zone of relief and depending on their fertility.

### **3.2. Execution stages of lending technique, based on the "land fund"**

Romanian Land Bank with experts in agriculture will develop procedures, regarding on application of European norms and standards in construction costs, specific to the agricultural sector.

According to the EU "banking practice", loans based on the "land" lending procedures provide that:

- granted "land loans" to cover expenses incurred, without exceed 90% of the value of work performed or agricultural services provided; fee fertilizers, herbicides, pest control substances purchased and managed by specialized units. The same credit condition applies to bills on agricultural mechanical work performed, including the repair of tractors and agricultural machinery, transportation etc.
- agricultural credit is granted to the actual expenditure necessary for creating, processing and recovery of stocks, without exceeding 80% of their value due to the delivery price for the stocks of fruits and wild mushrooms, agricultural, fishery, hunting, medicinal plants aromatic and nursery equipment, set up units in forestry, which are to be sold.
- credit is granted for the products that have sales operators at actual costs, without exceeding 90% of their value delivery price for industrial or semi-industrial activities of farming products.
- credit is granted for 100% of the value of stocks and the costs of storing and preserving for old wines and stocks of finished goods held for increasing their quality or to realize the initial state for a highest period. The same credit condition applies to stocks bills of materials and spare parts, as well as other stocks that are economically justified and consumed in a period exceeding a quarter in agricultural holdings.

The value of agricultural land brought as credit collateral must be in civil circuit and cover the amount paid by the customer's bank (the principal) and annual negotiated interest.

In the process of granting "land loans" for purchase of agricultural land and for special loans granted to farmers based on "the land" collateral must be followed:

- **Information and documentation phase.**

Natural or legal person shall be informed of the conditions for obtaining rural land loans, on repayment, actual cost (interest plus bank charges), insurers conditions. In this phase, bank collects informations from "Credit Office" from Credit Risk Bureau and Payment Incident Bureau. Agricultural stock companies and companies organized as a "farm group" operating from banks, considerable amounts in dealing with business partners and major customers for these banks who develop a special strategy for attracting and keeping them. In this phase "land bank" is a non-financial analysis of the borrower about its historical performance and specialization in agriculture

○ **Learning phase, verification and analysis of data submitted by borrowers.**

For individuals is verified documentation faster than the legal entities and necessary, for efficiency, standardization of granting "land loan" to the operational units, depending on the areas of land owned. Evaluation can be based on a "scoring sheets" which will highlight the standard risk factors set by established procedures.

Bank specialists check for legal entities, the legal details on status company agreement, registered with the Trade Registry, specific authorization for normal operation, the management team and their business ethics. Checking economic data is linked to submission economic-financial situation of society, (balance, situation account profit & loss, Annexes to balance sheet), previous month balance of credit request, the business plan, the cash flow and the actual calculation of the customer indicators of creditworthiness. If necessary, shall be checked contracts, purchase orders, pay state obligations and materials guarantees provided by the client. Economic and financial indicators analysis at agricultural firm is different from that of industrial societies. In agriculture there is made budget of revenues and expenses on "growing season" and all revenues and expenses are reflected in the actual monthly trial balances. We can compare values from the balance sheet, calculating "state" indicators, especially assessing "dynamic" indicators, in the income statement made on "land" exploitation. Whatever is evaluated and analysed the indicators calculated by the bank fall into:

- financial indicators, which reflects financial activity and liquidity of agricultural societies;
- operations indicators, of current activity, reflects products sells efficiently of the company agricultural and is rotation of working capital. To ensure recovery of debts attached (interest and fees) and credit, along with the financial analysis are established and the guarantees for bank risks was drafted "collateral" appendices to the credit agreement.

○ **Land loan identification phase, establishing interest and negotiation of bank charges.**

Setting the amount of "land loan" to be granted is according the requirements of financing agricultural entities. Deficit of resources that covers the "land bank" is observed on the "cash flow" prepared by the client. Main source of credit - "principal" repayment, proceeds from the sale of agricultural production or sale of products resulting from the processing of agricultural products.

Fees and other bank charges are set out in "business conditions" of the bank and should be changed into a "service agreement". The nominal interest rate on the mortgage loan for small farmers should be subsidized and about a certain turnover, interest must be negotiated depending on the size of "the land".

For "mortgage loan" may be establish a maximum level of indebtedness of the borrower according to each self "land fund".

○ **Approving "land loan" phase**

The decision on granting land loan is made at the Central bank or by branches based on "loan land application".[1] Credit Analyst submit 'Credit Committee' application that includes: client presentation, nonfinancial and financial analysis, credit object, granting period, the price of credit, repayment sources, insurers and guarantees of the credit, lending proposals including bank reserves.

The European practice of granting "land loan" are taken into account and guarantees made by third parties on behalf of the debtor. In Romania, Credit Guarantee Fund takes, under certain conditions, the principal obligation of repayment the credit for agricultural entities.

Collateral agreements for loan land gives for the bank a higher degree of safety on the risks involved in grant amount of money to customers, especially for seasonal holdings. After approval "loan land application" shall be concluded "credit agreement" on which agricultural entity will receive the loan.

○ **Monitoring of land loans phase**

Loan land monitoring is both a factual and scripted credit check and a check destination during the repayment period. The main of the monitoring activity is to check the conditions were chosen to granting of the loan and conditions of loan land insurance and reinsurance.

It aims "debt service" customer and eventually proceed to rescheduling, or extend the duration "problem loans". In conclusion, loan monitoring is carried out to prevent that a loan land advanced as a good loan becomes non-performing because deteriorating of its financial and economic situation of agricultural entity.

## Conclusions

Under European community development, in Romania, a country with an agrarian tradition, young farmers should be a government priority, and efforts to establish a land bank should be initiated.

Romania has many natural resources has been considered one of the richest European countries in terms of natural diversity, with a stable banking system that can support the economic development of agriculture.

A possible solution for "land bank", may be passing Agency of State Domains, like specific division of agriculture, under CEC Bank administration, which already has a network of operational units covering the whole country.

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