

Bucharest, 8 May 2015

TO: Government of Romania  
Mr. Victor Ponta

Prime Minister

TO: Ministry of Agriculture  
Mr. Daniel Constantin

Minister

**Subject: Measures for stimulating financing of agriculture**

Dear Mr. Prime Minister,

Dear Mr. Minister,

In public consultations for drafting Ministry of Agriculture's Strategy for the Development of the Agri-Food Sector on the medium and long-term, horizon 2020-2030, the insufficient financing of agriculture was reported as THE main constraint in developing this sector (44.9%). The other identified constraints were land fragmentation (14.7%), ageing population (11.5%), and lack of competences (9.33%).

Although insufficient financing is undoubtedly important for the development of the sector, the other above-mentioned constraints can also be considered as obstacles in financing the sector: land issues (land fragmentation, land registration, functioning land market), inadequate/non-economical farming structure (small farms, older age players, insufficient knowledge and data to base sound decisions on). When adding specific (natural) risks to this picture, the result is a very unattractive perspective for bank financing, especially at a time when risk aversion is still high.

Bank credits for agriculture, forestry and fish breeding in 2014 accounted for 4% of total bank credits, 9% up as against 2013 (total economy credit amount increased 2% in 2014 as compared to 2013). In turn, IFN credits for agriculture accounted for 8,5% of total credits granted to the NGO sector. According to BNR, at the end of 2014, the breakdown of credits granted for agriculture was 75% - commercial banks, 25% - IFNs.

It is not realistic to expect a dramatic change in the behavior of banks towards agriculture in the short run. As the agri-sector becomes more professional and competitive, banks themselves will find it more attractive and will actively look for clients from this sector.

In this context, the Agriculture Task Force of the Coalitia pentru Dezvoltarea Romaniei proposes the following set of measures to stimulate financing of the sector:

**1. Mutual fund for covering risk**

Creating a structure for insuring risks not currently covered by specialized operators, based on a functional model from EU countries with a similar agricultural profile to Romania.

**2. Setting up a public investment sovereign fund for agriculture and processing industry (exclusive for raw materials from domestic production).**

The fund:

- would be financed by restructuring the budget of the Ministry of Agriculture and from resources of the Administration of State Properties etc.;
- would invest cash for shares in companies managing and owning land plots larger than 200 ha (for instance);
- would encourage partnership, registration and fair evaluation of land value;
- would allow capitalization of agriculture companies and tax collection increase;
- would be managed by a specialized private company (preferably part of a financial group not active on the Romanian market) and supervised by a board of directors comprised of foreign specialists – unrelated to the Romanian economy.

Cash would be exclusively destined to guarantee necessary financing for working capital and investment.

The state would receive shares in the companies but would not be able to get actively involved in managing the companies (conditioned on respecting professional, accounting and fiscal regulations).

Profits would be partially used exclusively to pay back shares from the fund up to the moment of total exit of the fund.

**3. Guarantees for specific natural calamities**

The Government could take into consideration reflection for identifying a possible solution for guarantee in case of calamity in agriculture, as private insurance companies are not currently able and open to cover the demand. These would work similarly to insuring houses in case of earthquake

**4. Prudential norms for the agriculture sector should be redesigned to take into account the specific of the sector**

BNR could decrease the amount of provisions banks are required to book and initiate discussions at the European level for more relaxed regulation

**5. Completion of National Agricultural Cadastre**

Difficulties in utilizing the agricultural land as collateral are a consequence of the generalized lack of Cadastre. Frequent legal issues related to historical property transfer of the agricultural plots that involve legal risk for annulment of any mortgage right in favour of banks. Cadastre Identification would be possible only after completion of National Agricultural Cadastre.

The Agriculture Task Force of Coalitia pentru Dezvoltarea Romaniei has identified a longer list of measures, described below:

- Creating an institution responsible for continuous and transparent publishing of all transactions of farming land as the cornerstone to set up a real stock exchange for land (including leased land); this would turn land into a real liquid and bankable asset;
- Co-financing via non-reimbursable EU funds;
- Revival of Warehouse Receipts financing product under the former generic structure. The assets (other than stock of cereals) owned by the farmers might be used for attracting financing for investments; revising the Law for Warehouse Certificates (101/2014);
- Creating a Cereal Merchandise Exchange that would improve the transparency with regards to traded cereal prices;
- Adapting the taxation system for farmers in order to generate a natural increase of the shareholders equity position (through retained earnings);
- Improvement of farms shareholders' equity position through an equity investment fund specialized in agribusiness;
- Improve the know-how of small farmers by attracting them to cooperatives through a specialized taxation system. One of the suggestions would be that the cooperatives would benefit from specialized taxation system only if they have the ability to prove that members have constant access to technical and financial up to date know-how;
- Building a virtual database of all financing sources for agriculture (EU budget, national budget, facilities regulated through legislation – guarantees etc.);
- Promoting subsequent PNDR legislation for enabling access to private finance for beneficiaries of EU funds projects eligible under PNDR 2014-2020 and regulation of functioning mechanism of financial instruments;
- Improving legislation to allow for financing part of the insurance premium for crops/animals;
- Developing a micro-equity fund for agriculture built on an infrastructure of internal consultancy aimed at helping farmers to competitive productivity standards;
- ANEVAR evaluation standards for agricultural businesses could be adapted strictly for the purpose of allowing banks to finance the sector;
- Legislative initiative to generically solve specific legal issues related to transfer of property with regards agricultural lands.

**What banks could do is to:**

- agree on what is the description of a bankable farmer (good accounting, taxable sales, collateral etc.). What are banks missing, what are the obstacles, compared to players from other sectors;
- try to understand better the sector and its specificities by having dedicated experts in their teams (experts who know how a farm looks in reality and not just on paper);
- develop financial products adapted to the particularities of the sector/sub-sectors (grace periods, payments correlated with the production cycle/revenues);
- try to partner up with processors when assessing credit applications of supplying farmers; also for securing farmer loan repayment by obtaining guarantees from processors;
- take into consideration a modified accounting year for agriculture, while abiding to accounting and fiscal regulations in place.

We believe that solving the problem of insufficient financing actually means solving the structural problems of Romania's agriculture. Therefore, **measures that should be paid attention to** are those addressing land consolidation, sector organization: producer organizations, cooperatives, strong professional and inter-branch (chain) organizations, education, training, knowledge transfer, rural infrastructure and living conditions and a better/simplified access to EU subsidies.

These measures will help increase the share of *commercial agriculture* and decrease the one of *social agriculture*, where **commercial agriculture** means *bankable agriculture*.

We are ready and would like to start working with the Ministry of Agriculture to bring to completion the top five measures proposed in this position paper.

With respect,

Jean Valvis

Leader of the Agriculture Task Force

Coalitia pentru Dezvoltarea Romaniei