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# STUDY ON THE IMPORTANCE OF CREDIT AS FINANCIAL LEVERAGE IN AGRICULTURAL DEVELOPMENT

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**Abstract:** *Romanian agriculture is closely related to Romanian village life and is defined as the creatures and the whole of eternity. To think that there is little work to invest in land fertility, agricultural durability invest without having in mind that in Romania the whole eternity of mankind was born in the country. I forget a fundamental truth, proven time and space. Under state law defining Roman in all investments are taken into account the principle of Corpus en Animo where body is the earth that is more stable investment. The study examined a mistake exercised due modernism and of which we Romans have come to praise and idolism mess. It is said that we Romans did not have the capacity, nor the call to use and to modernize agricultural structures. At the beginning of the sixteenth century, Thomas More was a descriptive statement of England considering it as "country where sheep outnumber people." Somewhere in England in 1901 when industrial explosion occur only 9% of the farming population has chosen to respond to migration of rural population to urban areas. It is true that later happened industrial expansion and depopulation of villages in England, but the agricultural sector did not happen to be neglected and fall in disuse time. Structural changes in the agricultural sector have been made with specific consequences, but the same sector at a time proved to be a key ally of England leading the way to becoming the most powerful industrial countries. Romanian agriculture required to adapt perpetual metamorphoses upgrades, misuse, dismantling disuse and writing his own history as the volume and whole chapters*

**Keywords:** *Romanian agriculture, investments, Roman law, principle.*

## INTRODUCTION

Before 1989, the policy on agriculture in Romania has common characteristics with that of all the states with centralized economy.

Prices of most agricultural products not by the market but administrative centrally and support farmers' incomes did not cover agriculture, but increase yields in food products considered basic and keeping consumer prices. By issuing the decree No. 141/1968 Agricultural Bank establishing the Romanian Communist Party to lead to improvement of economic management and planning within a framework established and the establishment of specialized banks. The allocation of credit units required for the development of agriculture and trade was centrally directed and performed by a limited number of state enterprises

After 1989 agricultural reform measures were deficient and accompanied by the beginning of a financing system to be provided technical and technological modernization and the formation of cooperative-based marketing channels or private property system.

Agricultural reform delayed and took place without a legislative basis to facilitate the formation of market structures.

## MATERIAL AND METHOD

Scientific truth can be revealed only by assessing concrete realities of Romanian agriculture outdated stages throughout history. Ally undisputed to conduct objective scientific approach, is the numbers. In this regard, information sources are generous, considering yearbooks report of the National Bank of Romania National Bank and Financial Authority ASF directories that have information on indicators stringent lending credited sectors and the proportion of investments made during the next in some sectors. Were taken in this way, data on agricultural loaning 4 years and there have been studies collected data to highlight developments in agricultural investments.

The main method of investigation and data processing was the index method.

Evolution of the credit system has been carefully studied by comparative analysis of centralized communist era and during the recent post-Ceausescu.

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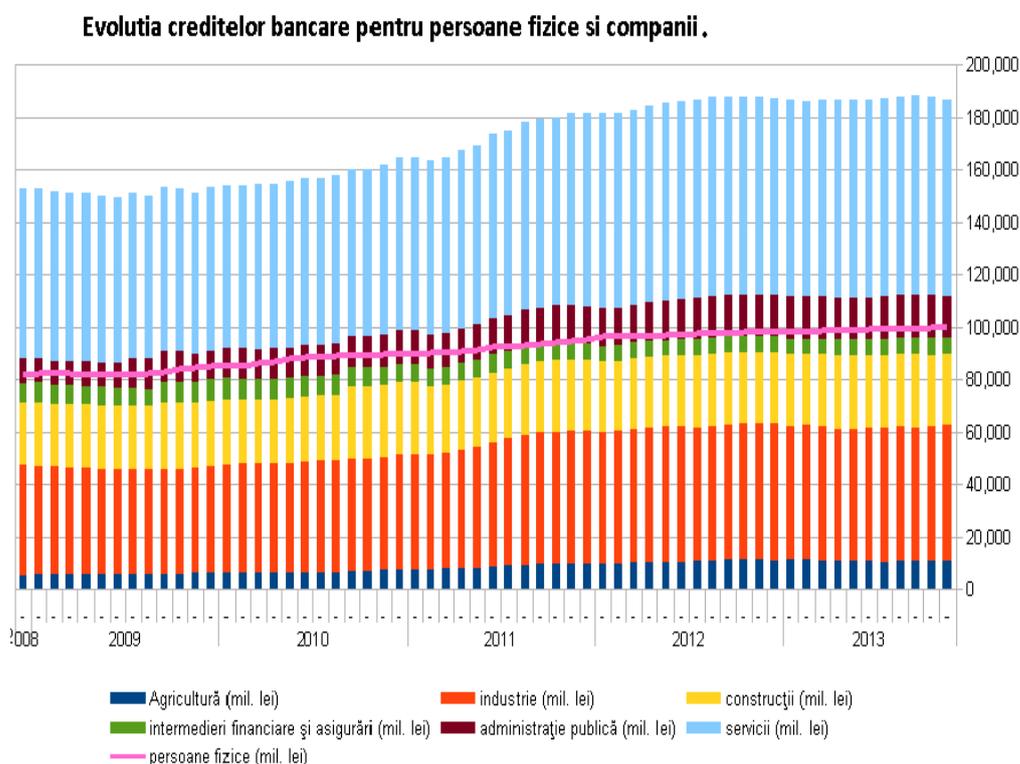
## RESULTS AND DISCUSSION

Statistical analysis on the two periods mentioned, undoubtedly prove some feedback about resource utilization degradation in agricultural investment plan. True, Romanian agriculture is still treated poorly lacking basic safeguards that can be transformed immediately in liquidity is far from ensuring a decent living, but this disability has very deep historical roots.

### 1. Potential agricultural credit

Agriculture, the third branch of the national economy in terms of gross value added share in GDP by services and industry, are experiencing reduced access to loans from commercial banks, as they perceive agriculture as one risky high compared to other areas to which the bank oriented financial resources.

This phenomenon is due to the factors related to the environment and economic stability at the national level and specific factors that influence the demand and supply of credit to agriculture, detailed in the following chart:



In the mentioned period it was found that the volume of agricultural loans by these banks had a constant evolution in the sense that they were marked by a reduction of approximately 5% compared to the same period of 2012 and in December 2013 they increased by 1.6% compared to December of 2012.

The main factors that contributed to the reduction of agricultural loans granted year 2012 were mainly reduced efficiency and productivity of agriculture, involving poor state unfavorable economic circumstances. A negative impact on the evolution of agricultural loans and to repeal legislation had under which farmers been receiving state subsidized interest loans. Giving to grant facilities by the state is reflected in the higher volume of loans outstanding / doubtful recorded.

Overall, between 2012 - 2014 agricultural loans increased by 11.9%., This type of loan volume is directly related to specific agricultural domain, the period in which agricultural activity is marked by the completion of the harvest and preparation land in order to obtain future crops.

In table. Use one or the destination is observed agricultural loans

Table no. 1

Financial institution	Loan name	Destination	Maximum amount
CEC Bank	For stocks	Stocks start	-
CEC Bank	Loan line	Current activities	-
Transilvania Bank	Multiannual farms	Work capital	-
Transilvania Bank	Crops maintenance	Crops	75%
Transilvania Bank	Machinery buying	Machinery	80%
Carpatica Bank	Agriculture	Current activities	-
Carpatica Bank	Rural development projects	Rural development	500.000 USD
BCR	Investments needs	Investments	85%
Intesa Sanpaolo Bank	Agriculture umbrella	Crops expenses	80%

Source: Statistics National Institute

Overall, the share of credit to agriculture in total credit portfolio of banks has remained at a low level, since, as outlined above, the high risk that it involves placing cash in this sector, because of the action of factors presented in detail.

## 2. Factors with positive influence on the demand and supply of agricultural credit

High agricultural potential in all areas of the country, Romania with natural pedo-climatic conditions most favorable in Europe.

Convention with more flexible conditions, meaning that FGCR warranty for any type of loan that you can get the farmers from banks, not only for long-term loans bound for making investments.

## 3. Factors with negative influence on supply and demand of agricultural loans

- Delays in the privatization and sectorial restructuring;
- Market malfunction earth with a negative structural features combined with land ownership, such as fragmentation, incomplete restitution of property titles, the registration of their improperly make the earth be too risky collateralized;
- High prices charged by storage agencies (state owned) discourages farmers to call on the services.

## 4. The behavior of market participants

Bank-client partnership suffers because:

- Lack of transparency of the real situation of heritage undertakings, which enables "correct" performance indicators for their activity in the analysis of creditworthiness for grant funding requested. In this context it should be mentioned and "dressing" made due to cancellation / rescheduling debts of state enterprises, without regard to principles of competitiveness objectives;
- Failing the principles of corporate governance;
- Poor use of specific tools of risk management.

Last but not least, low education level and economic, especially banking, actual and potential consumers of banking products / services and professional training still deficient, thus, on the one hand, many economic agents do not appeal funding needs banks than the last court, and, on the other hand, there are still banks that do not give enough importance to include aspects of their offer consulting services for clients.

## 5. Proposal / estimates for encouraging and stimulating agricultural credit to agricultural investments

Based on the reasons hampering the development of products / banking services subject to study, and considering the trends recorded in the international financial market, we identified possible measures to boost banking activity in general, and the products analyzed, in particular, presented in detail in each product description.

Therefore, the purpose of the study is to establish the administrative measures to boost growth product markets analyzed, but only to identify possible measures to facilitate stakeholder efforts to remove barriers which hinder the development of these markets.

In this context, we emphasize the importance that is close cooperation between the competent institutions in different fields affecting product markets analyzed.

Last but not least it should be mentioned that under the National Bank of Romania supports the need to develop banking products analyzed, the direct intervention of the central bank in these markets will follow only the objectives of monetary policy and currency and maintaining balance in the banking sector.

### ***5.1 General Measures***

1. Increase the legal and institutional stability and avoiding legislative inconsistency regarding foreign investment regime.

2. Simplification of administrative procedures required to start a new business.

3. Provide tax incentives to beneficiaries of mortgages in the income tax or the tax deductibility of the interest rate and repayment mortgage paid in the first phase to a certain percentage or to a certain absolute level of the amount monthly payment; such facilities should receive a greater extent newlyweds or credit applicants is the first purchase of a property.

4. Insurance legal framework needed to create mortgage bond market.

5. Create the conditions necessary to ensure market liquidity of mortgage debts by enacting legislation allowing their securitization and the establishment of a fund mortgage to purchase mortgages and privileged debts held by banks and to issue securities based on them.

### ***5.2 Specific measures types of agricultural loans***

1. Accelerate competition undertakings storage industry, the state sector still dominates, so that the quality of services and prices to encourage farmers to seek their services.

2. Scroll with support from the state information of a share of the rural population on the necessity of concluding insurance contracts agricultural production.

3. Provide government support to stimulate involvement of private banks in financing the rural sector.

4. Attractiveness growing for bank guarantees provided by the National Credit Guarantee Fund for Small and Medium or extending guarantees and the interest, the existence of an explicit guarantee from the state and changes the current procedure of recovery of such guarantees.

5. Accelerate completion of structural reforms to strengthen private property by releasing all titles of ownership of agricultural land restitution to former owners of agricultural land and forestry and the privatization of agricultural enterprises owned by the state;

- Issuing regulations to provide that, to the formation of new agricultural farms, land to be sold to people with specialized training preference and experience farm; be supported farmers to purchase agricultural land by allowing them to pay in installments agricultural land question;

- Stimulate competition undertakings storage industry, state sector still dominates, so that the quality of services and prices to stimulate farmers to seek their services;

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