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Foreign Experience in Creditation of Agricultural Product Producers

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Abstract: Agriculture is one of the biggest contributors to economic growth in developed as well as developing countries, while also providing food security, employment opportunities, and improving the welfare of the rural population. How well these financing mechanisms work will have a decisive impact on progress in sustainable agriculture. The credit systems represent the main tool for mobilizing the financial resources needed by the agricultural producers as a liquidity mechanism to be able to conduct production and invest. Yet access to credit remains disparate, the institutional setup is not diverse enough and there are no working lending models to agricultural sector which restricts productivity, more than in developing context like Uzbekistan. The analysis of foreign experience in the development of systems of agricultural crediting revealed key institutional, financial and structural mechanisms designed to facilitate access to agricultural loans and improve their efficiency. Comparison of practices in USA, Canada, Germany, Great Britain and EU countries shows that diversified credit systems with water and credit unions, as well as mortgage and state loans, are assisting agriculture in many ways. The results suggest that both dedicated institutions, along with government-subsidized credit guarantees and interest-rate subsidies, are important in making sure capital is allocated to farmers. The findings illustrate both nascent structural and institutional mechanisms of agricultural lending overseas which can directly inform reforms undertaken in the developing world. Integrated credit systems with lowest rates, cooperative financing, mortgage-based mechanism should be implemented in Uzbekistan to raise the agricultural development sector and long-range sustainability of the industry as well.

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1. Introduction

Agriculture is an important sector of the economy of many developed and developing countries in the world, and its sustainable development plays an invaluable role in ensuring food security, increasing employment levels, and the socio-economic development of rural areas. At the same time, the most important factor determining the sustainable development of the agricultural sector is the level of its financing. It should be noted that the issues of financing agricultural producers can be solved in various ways. One of these approaches is lending, which allows for quick access to funds for financing current expenses and investment programs and helps to develop businesses [1].

An effective lending mechanism for agricultural producers undoubtedly determines the efficiency and sustainability of the agricultural sector and solves the problems facing the entire economic system. Bank loans play an important role in satisfying the needs of

agribusiness entities in terms of cash to implement their economic development plans. Lending is the most appropriate method of providing funds to meet the needs arising from deviations from the implementation of expanded reproduction [2]. Since the mobility of credit resources allows for their prompt use, the repayment and term of the loan activate and mobilize agricultural producers, and the purposefulness of the loan ensures control by the bank over the activities of agribusiness entities.

Therefore, the mechanism for lending to agricultural producers should be formed on the basis of a combination of various credit products, taking into account the characteristics of agricultural business entities of all forms of ownership and management [3].

Due to the lack of opportunities to independently solve all problems related to the financing of agricultural producers, lending is an important source of meeting the needs of agribusiness entities for financial resources. At the same time, the objective features of agriculture that require the use of loans to organize an expanded re-production process are manifested in factors related to the low profitability of agricultural producers or the seasonality of production, the duration of the production period, and the instability of product prices [4]. In particular, Imomov emphasized the need for state regulation of the process of providing long-term investment loans to farms by banks and their interest rates. It is also noted that due to a number of specific characteristics of agriculture (natural-climatic and soil conditions, long duration and seasonality of the production cycle), the agricultural credit market cannot operate continuously, which, in turn, requires constant active financial support of agriculture by the state in the form of direct preferential loans. According to Ergashev, it is necessary to develop cooperative relations between agricultural associations and structural entities of agroclusters, encourage financial support and increase added value in their activities, use it as a source of financing, and expand the practice of providing guarantees in lending by banks. At the same time, special attention is paid to small and medium-sized businesses, which are the main category of agricultural producers [5]. The world experience in the development of financing for small and medium-sized businesses in agriculture has varied results and instruments, most of which are mainly in the form of subsidies, credit guarantees, preferential loans, and incentives through taxes [6]. In developed countries, the developed infrastructure of the credit system in state financial support for agricultural producers allows for the coverage of a large number of entrepreneurs in the agricultural sector with financial support and access to financial resources. Secondly, there is a single operator for the effective implementation of all programs for the development of entrepreneurship in the agricultural sector. In addition, lending is carried out through a specialized bank, which allows all budget funds allocated under state financing programs to be concentrated in one financial institution. Thirdly, financing programs for agricultural producers are differentiated by region, which allows for targeted development of agricultural production, ensuring the organization and income generation. Fourth, the basic calculation of agricultural products allows determining the maximum selling prices of agricultural products and financing them before the harvest [7]. In today's conditions, agricultural producers have limited access to credit, primarily bank loans, especially since local banks and microfinance organizations focus on working with borrowers who ensure timely repayment of loans and accrued interest with minimal risk [8]. This, in turn, requires conducting extensive scientific research to improve the mechanism of lending to agricultural producers and study the important aspects of a developed state lending system. These studies should include an in-depth analysis of the mechanism of preferential lending to agricultural producers by commercial banks or non-bank financial institutions and financing programs aimed at developing the sector.

2. Materials and Methods

The methodology for this study is based on a comprehensive review of the agricultural credit systems in both developed and developing countries, using a combination of qualitative and quantitative methods. Initially, the study conducts a literature review, analyzing existing scholarly works and reports on agricultural crediting systems, with a focus on the financial mechanisms in countries like the USA, Germany,

Canada, and the UK. A comparative analysis of these systems is central to the research, allowing for the identification of key differences and similarities in the lending mechanisms, such as state-supported loans, preferential interest rates, and specialized agricultural banks. The study also incorporates descriptive statistics to analyze the data on agricultural credit access and its impact on production efficiency in these countries. The primary data for the analysis is obtained from statistical reports, government publications, and international financial institutions, which provide insights into the performance and accessibility of agricultural loans. In addition, the research uses a case study approach, focusing on specific lending programs and their outcomes in select countries. The results of these case studies are then compared to the current agricultural credit mechanisms in Uzbekistan. This approach aims to draw practical recommendations for improving Uzbekistan's agricultural credit system by adopting best practices from international experiences. The study also integrates expert opinions and interviews with financial professionals and agricultural producers to understand the real-world challenges and opportunities in agricultural lending. Through this multi-method approach, the research provides a robust framework for analyzing agricultural credit systems and suggesting feasible improvements.

3. Results

Among the developed countries in lending to agricultural producers, the current credit system implemented in the USA is of particular importance. A highly efficient agricultural credit market has been formed in the USA. The agricultural policy pursued in the country has led to the development and improvement of the credit system for many years. For many years, commercial banks and private lenders have provided farmers with the main part of the credit funds necessary to meet their agricultural needs. Commercial banks are one of the most important sources of short- and medium-term loans for the production activities of farms. Of the 14,000 commercial banks in the USA, approximately 11,250 commercial banks provide financial services to specific areas of the agricultural sector [9]. Commercial banks participate in financial transactions related to agriculture, including: leasing equipment and managing financial flows of farms. They assist their clients in farm management, accounting and product sales, investment operations, marketing and other areas.

The Federal Farm Credit System was established in 1946 by the US Congress to provide loans to farmers and their cooperatives. Today, this financial institution is a nationwide network of large financial institutions that directly serve borrowers. Currently, the financial institution has 7 banks (Farm Credit Banks) that provide loans to farmers and provide 232 local borrower associations with capital. The main task of this organization is to ensure the flow of capital to the agricultural sector. Short-term loans to farmers are allocated through the Commercial Credit Corporation and are aimed at financing direct production. From the above, it can be concluded that agricultural producers in the US have wide opportunities in the credit resources market. The state has formed a system of crediting farmers by regulating agricultural production [10].

A number of developed European countries also have their own experience in agricultural lending. For example, in Great Britain, unlike other developed countries, it is of particular importance that credit is not regulated by the state. The leading role in agricultural lending belongs to four large banks with extensive branch networks throughout the country. Mortgage loans are widely used in the agricultural lending system. For this purpose, the Agricultural Mortgage Corporation has been operating in Great Britain since 1998 [11]. The founders of the Mortgage Corporation are the country's 5 leading banks. Currently, the Mortgage Corporation is the largest agricultural lending institution in Great Britain, this financial institution provides long-term loans to farms from 5 to 40 years. In the British agricultural lending model, commercial banks mainly provide short- and medium-term loans, that is, loans for a period of 1 to 5 years, and in some cases up to 10 years. In practice, farms often use bank overdrafts instead of traditional bank loans. The main advantage of this is that interest rates are calculated on the basis of the amount of money given each day [12].

However, in the process of analyzing foreign experience in organizing mortgage lending based on the collateral of agricultural land plots, it is necessary to take into account not only the presence or absence of such a practice of financing agribusiness entities, but also the traditions and features of the formation of the land-mortgage lending system, as well as legislative restrictions. Many economists, analyzing the experience of mortgage lending in foreign countries, pay attention to the features of organizing the lending process, institutional support, and the development of the secondary mortgage lending market [13]. However, it is also necessary to take into account the development of the land market, the turnover characteristics of agricultural land and the possibilities of using it as collateral, which are important aspects of mortgage lending.

In Germany, a specialized agricultural bank, established by law, plays a key role in lending to agricultural producers. The provision of long-term loans by this credit institution is closely related to state support for capital investments in agriculture and rural areas. The bank's lending programs are exemplary for the country's agricultural lending system. In recent years, the bank has been actively allocating loans for the modernization and technical re-equipment of agricultural production. In addition to the state agricultural bank, savings banks also play an important role in providing long-term loans to agriculture in Germany, accounting for almost a third of loans allocated to agriculture. Within the framework of the investment incentive program and the general agricultural credit program, farms can use preferential loans with an annual interest rate of 1 percent [14].

4. Discussion

Canada's AgriStability program is designed to support agricultural producers in managing business risks, which are aimed at supporting the income of agricultural producers when their annual income from agricultural production decreases significantly (below 70% of the average level). The goal of the AgriStability program is to provide agricultural producers with a permanent risk management tool that protects them from large losses that threaten their operations and are beyond their means, which is especially important for small farms. The program, in which the federal, provincial and territorial governments of Canada have invested \$ 3 billion to strengthen the agricultural and food sector. Under the program, farms accumulate funds for investment projects in special deposit accounts. Farmers can deposit up to 100% of their sales proceeds (up to \$1 million) into the account, and the government will calculate an annual interest rate of 1%. Farmers can withdraw their funds at any time. The Advance Payments Program is a federal loan guarantee program that allows agricultural producers to access cash advances in a simplified manner. Under this program, producers can receive advances of up to \$1 million per year based on the value of their agricultural products. At the same time, the Government of Canada pays the producer interest on the loan amount advanced up to \$100,000. For agricultural producers, preferential loan rates are established for advances of more than \$100,000. Loans in the form of advances, the funds received by the producers of agricultural products on the basis of advances are returned from the proceeds of the sale of agricultural products, and this process must be carried out within 18 months (up to 24 months for cattle). For example, today the bank lending rate in Canada is unchanged at 4.95 percent. Canada's bank lending rate averaged 7 percent from 1955 to 2025 (Figure 1).

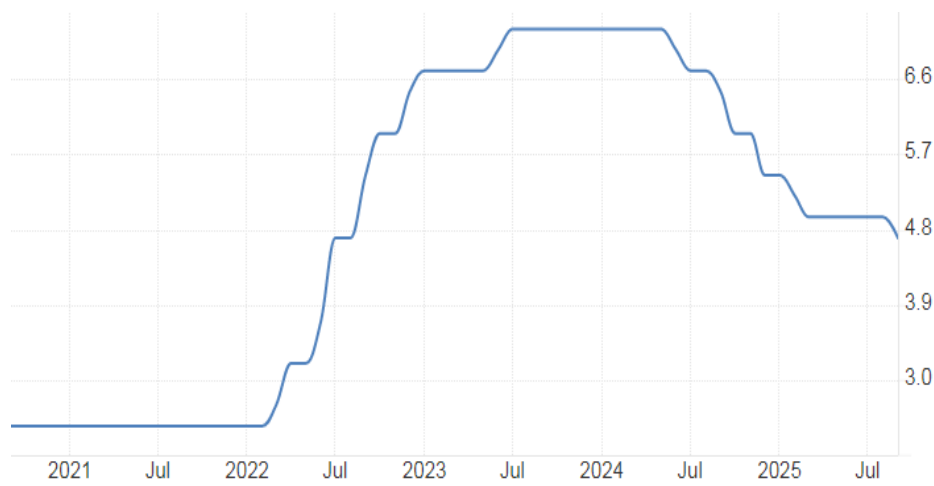


Figure 1. Dynamics of loan interest rates of Canadian banks, in percent

Source: <https://ru.tradingeconomics.com/canada/bank-lending-rate>.

In a number of countries, non-profit and non-bank credit organizations specializing in providing microcredit to agricultural producers are being actively established. Such organizations may operate on the basis of public-private partnerships or rely entirely on private financing. Microcrediting allows small and medium-sized farmers to access the necessary financial resources to develop their production activities, which in turn serves to increase the volume of production and improve economic conditions in the regions [15]. The following features can be observed in the practice of lending to agricultural producers in Europe:

In Poland, joint banks play an important role in providing agricultural loans (up to 90%);

In Slovenia, there is an association of savings and credit services for the purpose of financing farms;

In Bulgaria, with the support of the European Union, a system of mutual credit funds was developed for the financial support of small farms;

In Estonia, the model of savings and loan associations united in a central union, which is financially supported by the state, is widespread;

In Lithuania, there are 12 credit unions established on the basis of cooperative principles and state participation for lending to agricultural producers, which are exempt from profit tax. They also have a single accounting, management and marketing system.

Analysis shows that some countries in the European Union, such as England, Germany, France, Italy and Belgium, have a particularly high impact on agricultural production. For example, in England and Germany, total debt accounts for about 50% of all agricultural capital (excluding real estate). In France, this share exceeds 40%, and in Italy and Belgium - more than 30%. In Finland, a large part of loans granted to agriculture (58%) is allocated by cooperative banks. In the Netherlands, the share of banks in lending to agricultural producers reaches 90%. A similar situation is observed in Japan, France, Austria and Portugal, where cooperative banks provide more than 80%, 75% and 60% of loans to agriculture, respectively. In Belgium, Sweden, Germany and Spain, this indicator is somewhat lower, but still remains at very high levels. In the US, cooperatives provide approximately one-third of loans to farmers for land purchase. This is one-fifth of all short- and medium-term loans in the country. Comparative analysis data shows that the level of lending by commercial banks to agricultural businesses in our country is low compared to developed countries.

5. Conclusion

An analysis of the experience of developed and developing countries in the field of agricultural lending shows that they are characterized by the almost complete absence of monopolies; a networked system of commercial banks, non-bank credit organizations,

institutions, including leasing and other companies and organizations, operates in lending to agricultural producers. The role of non-bank financial institutions is unparalleled, based on methodological approaches and special state programs in agricultural lending, which provide for a lending system with preferential credit terms in developed countries.

The credit mechanism should include preferential lending of a part of long-term loans, reduced interest rates, direct lending from state sources through collateral operations, development of mortgage lending in commercial banking systems, creation of a system of credit organizations (agricultural credit banks, commercial banks, credit cooperatives, financial-industrial groups, etc.). Of great importance is the development of special state funds for preferential short- and long-term lending to agricultural producers, mortgage and leasing funds, which allow for the effective use of credit resources.

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