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# CREDIT ACCESS AND CREDIT CONSTRAINTS OF SMALL FARMS IN SLOVAKIA

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**Abstract:** The small farmers are increasingly an irreplaceable part of Slovak agriculture. Therefore, it is important to identify their main credit constraints and to analyse their access to credit as this input belongs to one of the main factors of farther development of small, young and family farmers. In other words, their access to credit is crucial for the improvement of the Slovak agricultural sector as a whole. In this paper we specify the main sources of credit for small farmers in Slovakia, why there are some difficulties in credit acquisition and what are the main challenges of Slovak small, young and family farmers.

**Key words:** access to credit, credit constraints, sources of credit, small farmers

**JEL Classification:** Q10, Q14, E51

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## INTRODUCTION

Small farmers represent a significant share of agricultural producers in post-socialist countries. Slovakia is not an exception and therefore it is crucial to identify their biggest barriers to develop in order to reach development of the Slovak agricultural sector in general. Although Eurostat states that there is no fixed definition for small farmers: there can be only taken into consideration two criteria – the economic size of a farm and UAA (Utilized agricultural area). European Commission (2018) defines a small farm as a farm whose economic size is less than 8 000 EUR. In the latest Farm structure survey, which was realized by Statistical office of Slovak republic (2016) there were 17 523 very small and small farms in Slovakia which is approximately 78% of all farms. When we look at the farm size in terms of utilized agricultural area, more than a half of the farmers are considered as small farmers (55.7 %) with less than 5 ha of UAA, however, they operate only on 1.5 per cent of all UAA. In comparison with the surrounding countries (Czech Republic – 18,7%, Austria – 31%, Poland – 54,3% and Hungary -81,4%), there are significantly more small farmers who operate on the UAA smaller than 5 ha in Slovakia than in Czech republic or Austria. (Eurostat, 2016) However, Koltun, Kocira et al. (2015) stated that in case of Slovak neighbouring country - Poland regarding developmental possibilities large farms have 12 times more possibilities than small farms. According to European Commission survey (2019) and the country report of European Commission (2015), the biggest difficulties of young and small farmers in Slovakia were the high cost of production, the access to credit and land, lack of machinery and problems arose from subsidies. The problem of lower access to credit is explained in the case study from Poland which shows how this problem is highly related to the strong risk aversion of the banks and therefore the farmers are not able to borrow as much as they desire. However, even they obtain the credit, they use it for non-productive purposes. For these reasons, the larger loans provided by banks to agricultural sector could be one of the ways how to avoid the problem of using the credit to finance the short-term consumption activities (Petrick, 2004). Another research paper which studied small farms in Slovenia showed that those with a low share of sold output and those with little indebtedness, had more credit constraints. This is consistent with the idea that potentially higher screening, monitoring and investment costs for small farms limit access to credit. Similarly,

farms that were less integrated into the market and which had less experience of receiving external loans were also more credit constrained. Farmers that were constrained before accession are even more likely to be willing to grow than less constrained farmers (Bojnec, Latruffe, 2010) The other way of solving the problem with lacking access to credit are investment subsidies that can mitigate some capital market imperfections such as interest rate volatility. However, in the long-term are crucial farm competitiveness and its ability to successfully compete in the output market: selling and gaining sufficient cash flow enable investment and thus ensuring competitive survival and farm growth. (Bakucs, Fertő, Fogarasi, 2009) The problem of the small farmers with subsidies was addressed by Pokrivčák et al. (2018) whose results showed that the 94% of direct payments goes to 20% of the biggest farms in Slovakia which is the biggest percentage in comparison with other member states of EÚ.

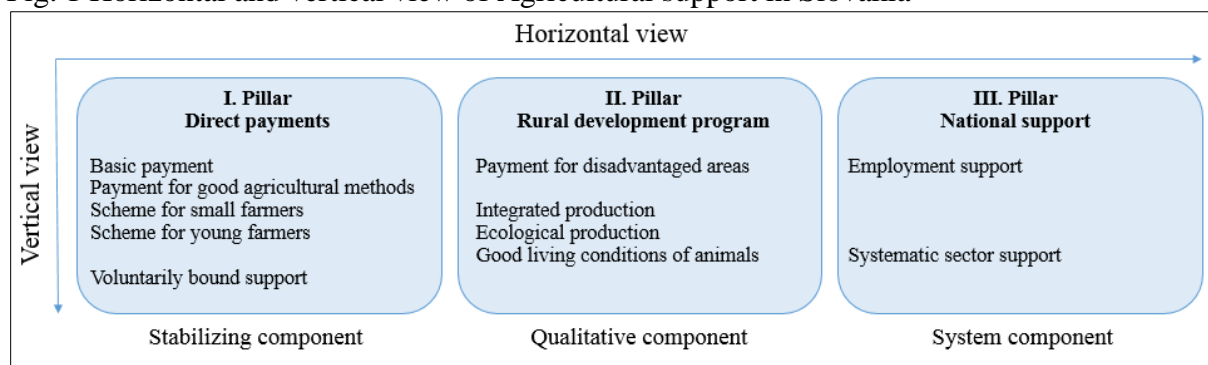
## THE MAIN SOURCES OF CREDIT

### National and EU support

The main sources of credit for small, young and family farmers can be divided into 3 categories: national support, payments from the European Union and financial resources acquired in a form of loan from loan providers (mostly banks).

The horizontal and vertical view show the two of three sources of credit. Moreover, they complement with each other while they have a different intensity and targeting of support. The supports in the I. pillar have stabilizing (saving) character. The aim of II. pillar is to support the qualitative component of production. Supports in terms of national assistance have a system character which means systematic support of sectors which brings a relatively high added value and is closely related with employment (MPRV, 2013).

Fig. 1 Horizontal and vertical view of Agricultural support in Slovakia



Source: MPRV (2013)

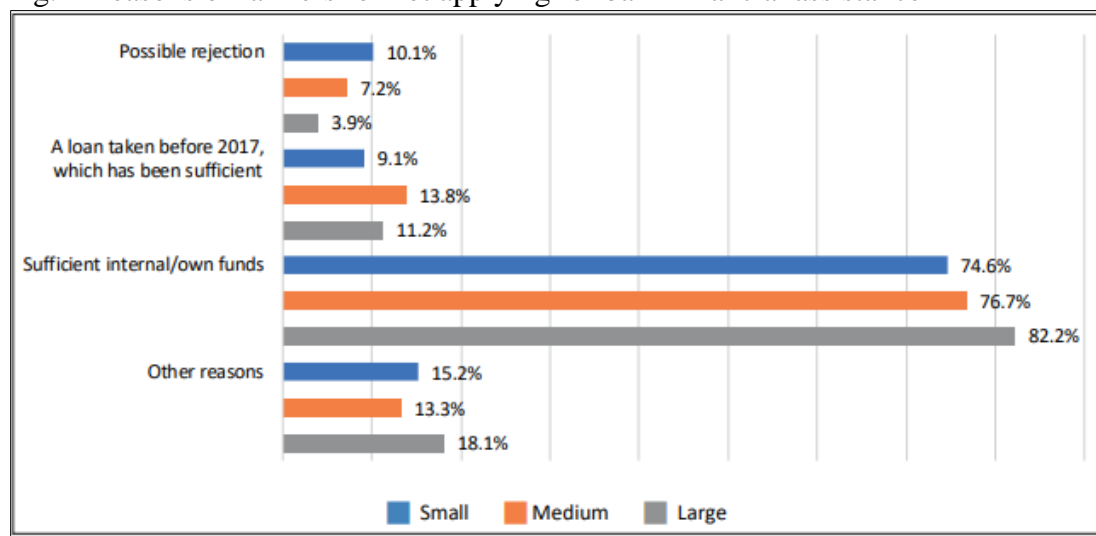
### Agricultural loans

The third sources of credit for small, young and family farmers are loan providers. The significant growth has been reported mostly in taking middle-term and long-term loans by agricultural holdings. From this we can conclude that the overall access of farmers to credit has increased through the years 2013 to 2017 (Green report, 2018). The biggest bank loan providers are SZRB bank, Unicredit bank, VÚB bank with loans that are especially adjusted for clients who are farmers. While SZRB is oriented mostly on the starting and young farmers as well as small farmers, Unicredit bank specified many different types of loans to meet the financial needs of regular farmers. The other banks are providing mostly short-term loans that aim to cover the gap between the expenses of the farmers and the time when they receive the direct payments. SZRB is the only provider of the microloans from the mentioned banks.

## ACCESS TO CREDIT AND CREDIT CONSTRAINTS

The survey realized by the European Commission (2019) that studied farmers from all 27 countries of EU shows that almost 60% of the farmers who have more than 100 hectares applied for finance as opposed to less than 30% of the small farmers – those who were defined to have less than 20 hectares. For medium farmers – having from 20 to 100 hectares it was approximately 40%. The gap is wider for bank finance, with less than 14% of small farms applying against nearly 49% of large farms. Moreover, small farms are more likely to request finance from friends and relatives (15% against around 10% for the other two categories). Small farms apply for loans less often which can be caused by their fear from rejection.

Fig. 2 Reasons of farmers for not applying for bank financial assistance



Source: European Commission (2019)

Small farms have the highest share of applications rejected by the lender for all four bank products (17%, against 8% for medium-size farms and 3% for large farms). Another reason of not applying for finance is that the interest rate/cost is too high for medium-term and long-term loans. Small farm applications are rejected in higher rate than in case of large farms due to the risk aversion of loan providers (investment or a small farm business is considered as too risky). Moreover, in comparison with large farms they have not enough developed business plans that are not accepted by banks. The other difficulties in applying for loans for small farmers are lack of collateral, both immovable and movable. Ciaian, Falkowski and Kancs (2012) found the use of variable inputs and capital investment increases up to 2.3 percent and 29 percent, respectively, per 1,000 EUR of additional credit. They estimated also that the access to credit of a farm increases the total factor productivity up to 1.9 percent per 1,000 EUR of additional credit. This supports the statement that the access to credit is crucial for farther development of small, young and family farmers.

## CONCLUSION

In the recent years the small, young and family farmers have become an important part of Slovak agriculture. Approximately 78% of all farms are small farms with economic size less than 8 000 EUR. The other definition of small farms considering their UAA show, that there are 55,7% of farms in Slovakia that have less than 5 hectares. The recent research show the role of credit in future development of small farmers as well as the difficulties to access the credit for this group of farmers due to lacking collateral and risk aversion occurred in bank institutions. The main sources of credit in Slovakia were identified as national support, subsidies from the

European Union and loans. National support is applicated mainly through employment support and systematic sector support while the EU subsidies are paid through direct payments and rural development program. The last source of credit provided mainly by Slovak banks are loans. There are several banks providing agricultural loans adjusted to needs of the farmers. From the year 2013 to 2017, Slovakia has experienced a significant increase in middle-term and long-term loans applied by agricultural holdings. The recent study (2019) from the European Commission showed that the small farmers who have less than 20 hectares are less likely to apply for a long term loan as they are more likely to borrow from their friends and relatives and they are much higher fear of rejection by bank than the large farmers.

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