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LONG-TERM LENDING IN AGRARIAN SECTOR

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Agriculture is the cultivation of animals, plants, fungi, and other life formsfor food, fiber, bio-fuel, medicinal and other products used to sustain and enhance human life.

The agrarian sector is one of important branches for developing the economy of countries. Therefore, the agriculture has huge potential and great reserves. Commercial banks have traditionally playedan important role in financing agriculture. The fluctuation in the market share isa combination of the adjustment in the volume offunds lent by banks to the agriculture sector and theadjustment in the number of banks lending to theagriculture sector.Many factors have ledto these fluctuations in agricultural lending. It is expected that recent deregulation ofcommercial banks has affected agricultural lending. The competition for loan able funds has aneffect on the cost and availability of loan finds toagricultural borrowers. Borrowing costs go up aslenders attempt to transfer some of these highercosts incurred in acquiring funds to borrowers.Loan funds to agricultural borrowers may becurtailed, for example, as banks seek to match theirinterest rate sensitive liabilities with interest ratesensitive, non loan assets. Banks might increasesecurity requirements, or decrease the term of theloan. Banks might also opt to increase thesupervision of the loans to increase performance. However, because increased supervision is costly tothe bank, loans may only be extended to thoseborrowers with a more than “usual” likelihood ofrepayment, thus excluding many potential farmborrowers. Lending is not done until the “desire” to lend exceeds a certain level[1].

There is a certain threshold beIow which a bank would not effect an agricultural loan transaction, although there would be variations between different borrowers and lenders reflecting transaction costs, risks, etc.

The agricultural loan has many risks: moral hazard, farming is a risky business, production and yield risk, price and market risk, lack of diversification, politicians may add to the risk. Firstly, in any lender-borrower relationship, there is a general problem of moral hazard that is the result of specific personal characteristics and decisions of each individual borrower. In this regard, farmers do not differ from any other borrower group in terms of information, incentives, monitoring and enforcement problems associated with the lending process. Secondly, crops may fail, weather influences the productivity and sale prices fluctuate and are difficult to predict when the crops are planted. If productivity is lower than expected, farmers may not be able to repay loans. These risks and many other aspects of agricultural risk will need to be identified, measured and actively managed in order to stop lending institutions turning away from this clientele. Thirdly, agricultural yields are generally uncertain, as natural hazards such as the weather, pests and diseases and other production calamities impact on farm output. Even slight changes in weather conditions - less rain than usual - can seriously impact on farm production. Pests and diseases may spread quickly, leading to a loss of part or all of the crop's produce. The soil quality of the plots as well as their location also significantly influence productivity and yield risk. Fourth, price uncertainty due to market fluctuations is particularly significant where market information is lacking or scanty, or where markets are imperfect – features which are prevalent in many developing countries. The relatively long period of time between planting a crop or starting livestock activities and the realization of farm output implies that market prices may change from what has been projected. This problem is particularly relevant for longer term agricultural activities, such as perennial tree crops like cocoa or coffee, as several years lie between planting and first harvest. Fifth, price and market risk, as well as production and yield risk, is higher for farmers concentrating on a single crop or livestock activity. Accordingly, many farmers apply risk diversification techniques alongside risk mitigation techniques to reduce these risks. Sixth, political interference in agricultural markets is a common feature to be found in many developing countries. Price intervention is popular for example, as low food prices are in the interest of urban consumers. Abolishing price ceilings for basic food products in former socialist states led to severe social unrest. Accordingly, stabilizing these prices has been a common feature of political interventions in many countries. On the other hand, fixed prices for agricultural produce are also frequently used by governments to ensure a certain level of income for small farmers. For all these risk management techniques, the experience of the small farmer is the core requirement for good results. The risk of inappropriate management is part of production risk. Seasonality of agricultural production provides an additional risk. People invest work in the present for a return in the form of a harvest several months in the future. If a harvest is insufficient to see people through to the next one, they are weakened by malnutrition and in extreme situations can die from starvation [2].

An important function of bank capital is to reduce risk. First, it provides a cushion for firms to absorb losses and remain solvent. Second, it provides ready access to financial markets and thus guards against liquidity problems caused by deposit outflows. Third, it constrains growth and limits risk taking. It is likely that owner-operators would be interested in developing and maintaining a more long term relationship with their lenders than tenant farmers. Thus, in general, lending to an owner-operator would be less risky than lending to a tenant farmer because owner-operators would likely have a longer farming history and loan collateral on land. In fact, several credit scoring studies have found land ownership to be an important factor in discriminating between potentially good agricultural loans and bad loans. However, there are other important credit factors such as management ability, repayment ability, and borrower integrity, factors that are not unique to owner operators. Moreover, tenant farmers may not have as much equity capital as owner-operators and may require more non real estate financing.

Comparative advantage across the international trade can be measured by various indices using import, export and trade statistics. Agricultural trade between Korea and Brazil has greatly increased from USD 130 million in 1998 to USD 2,240 million in 2012. The share of agricultural trade in total trade between two countries has been continuously increasing from 5.2% to 13.7% during the same period of time. It means that agricultural sector is very important in the bilateral trade between Korea and Brazil. Brazil is the fourth largest country which exports large amount of agricultural products to Korea following United States, China and Australia. Korea's agricultural import market. However, research on Soybean is the top exports of Brazilian agricultural products. Soybean export had continuously increased from USD 3,000 million in 2002 to USD 17,200 million in 2012 at the average rate 22 percent annually. Korea imports approximately 1,100 thousand ton per annum from overseas market, mainly from USA., Brazil and China. As of 2012, each country's market share in soybean import market of Korea is 44%, 35% and 16% respectively. Traditionally, Korea has imported soybean from USA, Brazil and China. It is because United State and Brazil have been major soybean exporting countries in the world. The land of Brazil is the 5th largest following Russia, Canada, United States and China in the world and it is about 37 times that of the Korean Peninsula. Agricultural land in Brazil occupies 2,750,300 square kilometer, approximately 33% of its total area, which is fourth largest following China, Australia and United States in the world. In Brazil, agricultural export has played a vital role in the national economic growth and stabilization. Brazil is a substantial agro-food exporter which obtains huge trade surplus in agricultural industry around USD 73,300 million in 2012 while non-agricultural sector is under the chronic trade deficit amounting USD 53,900 million. Major agricultural exports are grain and livestock products such as soybean, soybean cake, corn and soybean oil, and beef, pork and chicken. Other exporting items are coffee, leaf tobacco, orange juice, sugarcane, refined sugar and cotton. Particularly soybean is the top exporting commodity in Brazil. Brazil is the second exporter of soybean following USA in the world [3].

In conclusion, the agrarian sector is one of important branches, so we should improve the main bank's functions. Today, we should avoid disadvantages. In particular, the impact of increased commercial bank reliance on interest sensitive deposits after deregulation on funds that banks allocate to agriculture relative to other investment opportunities was examined. Also, independent banks were compared to multi-bank holding company affiliates to determine the impact of bank organization on the share of agricultural loans in bank asset portfolios. Our population increases thanks to agrarian sector. So, we should improve on relationship between farmers and banks. It is vital to know, commercial banks playsan important role in financing agriculture.

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