

Micro-credit for Urban Agricultural Activities in Bulgaria

Traditionally, agriculture plays a significant role in the Bulgarian economy.

Agricultural employment in Bulgaria is high by European standards (in 1999 it was close to 26%) and has been growing in the last twelve years.

Since 1997, the government has made rapid progress in implementing wide-ranging reforms in the agricultural and financial sectors, and in the economy in general. Some agricultural lending programmes have been introduced, but the funding levels are insufficient to compensate for modest bank credit. The banks persist in their conservative approach to lending in general, and to agriculture in particular.

Small urban farmers form a substantial and increasing part of the agricultural sector.

Most urban agriculture in Bulgaria is for subsistence, providing additional food and a means of survival for socially weak groups, and employment for elderly people or unemployed family members. The social effects of urban agriculture are numerous and without question; yet, small-scale, non-commercial agriculture is not considered important in the national economic restructuring process. Therefore there are no special programmes to support urban agriculture, and the small urban farmers are not eligible for credit. In fact, due to the low profitability and the risks involved, only a small percentage of these gardeners seek loans. As the State does not recognise urban agriculture as an economically viable activity, the banks in turn consider farming activities to be risky. A survey by SWF under the SWAPUA Programme (1) showed that 55% of the urban farmers lacked capital for inputs, but that only 9% had taken loans, while another 20% said that they would like to take loans. Most of these loans however are from relatives and friends and not from the banks. The commercial farmers (rural and periurban) have access to bank loans, but the non-commercial urban farmers have to rely

on their own means or on informal credit.

Apart from relatives and commercial bank credit, rural and urban agriculture in Bulgaria currently relies on several international lending programmes, discussed briefly in the following sections.

SWISS CREDIT

The Swiss Agency for Development and Co-operation (SDC) and the United Bulgarian Bank (UBB) have developed several projects related to the agriculture sector, two of which are: *FAEL*, providing credit for small and medium enterprises, and *FibL*, giving credit to private farmers (micro-investment credit), which fill a gap in the existing credit system. This assistance is meant to convince the Bulgarian banks that such guarantees can be useful and successful for those farmers who are capable of managing their loans and repaying them in time. The Swiss Foundation *FibL* is a small-scale venture, and aims at improving the capacity of farmers to apply for loans and the capacity of bank staff to review and appraise loan applications from the agricultural sector. Mechanisms for encouraging and promoting the involvement of commercial banks in providing loans to private farmers on a much broader scale are being tested. The credit is oriented to farming in general, but not specifically to urban agriculture. It concerns family farming, mainly with family labour and additional labour hired seasonally. *FibL* sub-



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sidises the preparation of business plans and applications for loans. The maximum value of the loans for farmers is up to US\$12,500 for a period of 3 years. The interest rate is relatively low: equal to the basic annual interest rate of the Bulgarian National Bank plus 7%. The requirement for collateral by the banks is usually a minimum of

Most urban agriculture in Bulgaria is subsistence

120 -130% of the loan value, but may increase up to 200% in practice. The farmers use their own means (real estate - buildings, machines, technical equipment) as their part of the collateral (up to the equivalent of 100%, or US\$12,500), while *FibL* provides the balance of 80 - 100%, and more if necessary. During the last three years *FibL* has provided 25 loans to local farmers, which have all been paid back.

The Swiss foundation *FAEL* started in 1995 and supports the development of independent, private, small (up to 10 employees) and medium (up to 50 employees) enterprises in the sphere of processing and services. The structure of the *FAEL* foundation's activities are divided into three departments: "Credit support", Management

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Consulting” and “Technological Support”. The first loans to farmers were extended in 1999. The volume of the credit was US\$800,000 for the first three years from the start of the project. During that period, many individual consultations and training courses were provided to the firms. Of the activities for which credit has been allocated under this programme, 16 are related to urban agriculture. Together with the support provided to private farmers (25 loans) – a total of 41 loans have been in support of agricultural activities in the urban environment during the last three years.

USAID SUPPORTED MICRO-CREDIT

The US Government also supports the development of micro-financing organisations in Bulgaria. USTOI and Nachala are two of the USAID-supported NGO programmes. USTOI extends credit through cooperative structures, and supports three main activities – trade (91%), services (6%), and production of food (3%). In order to obtain loans under USTOI, entrepreneurs have to set up a guarantee group with no less than 7 members. Group members mutually guarantee loans that they receive from USTOI. The members of each guarantee group also become members of the USTOI cooperative that is registered in the respective region. A first-time client of USTOI can apply for a loan of US\$300 – 450 for a 4-month period. Creditworthy clients can submit successive applications with the maximum loan size increasing with each additional submission. All loans have a flat monthly interest of 2%. No material guarantees or collateral is required. If a member fails to provide his or her instalment upon the agreed day of payment, all other members are held responsible to settle the payment. USTOI especially stimulates women entrepreneurs with small family businesses.

The Nachala Foundation, which is a global coalition of micro-financing institutions, was established in 1993 with support from

Opportunity International (OI). Nachala provides individual loans in the range of US\$500 to 1,500 for first-time borrowers. The maximum loan size for third-cycle borrowers is US\$8,000. In special cases, Nachala can approve a loan for up to US\$20,000. The average size of loans as of December 31, 2001 was US\$1,990.

SCOPE FOR FINANCING URBAN AGRICULTURE

The results of the international programmes described above are positive and encouraging – new jobs have been created, ecological food production has increased, and small businesses have developed. Though urban farming is not a specific target for support, the activities for which loans were provided are in fact performed in the cities and deal with production and processing of agricultural products. The total number of loans found under this survey amounts to 341.

The role of intermediate financing organisations is very important. More institutions to assist in setting up the methodology to work with credit are needed. Regional organisations of farmers that can provide guarantees for its members should be supported, just as exchange of experience with other EU member countries.

Though these donor programmes are very good examples of how international support can work with local institutions to allocate small loans, the poor are still excluded, as they do not have access to the formal banking system. Farmers are reluctant to mortgage their houses, which is the only form of collateral acceptable to banks. Land is not accepted as collateral, because a proper land market has not yet developed. In addition to the pledged security, borrowers are usually required to obtain guarantors.

There is no policy support for urban agriculture, as it does not have official recog-

inition by the State and is not considered in the sectoral (macro)-economic reports and strategies. Urban farmers are non-commercial by nature as they do farming for subsistence and self-employment. They do not sell their products and it is difficult for them to pay back loans, as they do not gain stable revenues. This is also the reason why it is difficult for them to obtain commercial loans. On the other hand, these urban farmers are eligible for small-scale “consumer credit” provided by many banks, which is the easiest and the simplest credit to obtain. One can apply for it without collateral, only with a recommendation from guarantors. However, this form of credit is not popular as the interest rate of 16% is too high.

Emerging commercial urban farming needs political support

RECOMMENDATIONS

A policy is needed for improvement of the financial sector. Since the provision of grants is not sustainable, the allocation of (small-scale) credit would be better. The role of intermediate financing organisations, which can provide guarantees, is very important. Enhancement and strengthening of local structures, like the mutual *kasas* (see Box), would also be effective.

Emerging commercial urban farming needs political support in the form of credit, a framework of rural cooperatives in the country, a well-functioning land market, and efficient market and non-market transactions. Additional measures in the banking system targeted at urban farmers are also needed, like flexible collateral, legal procedures, longer repayment time, and lower interest rates are among these measures.

Furthermore, a less bureaucratic approach of banks towards their clients is required. Training of both bank officers as well as small-scale urban farmers is essential in developing procedures for smooth handling of applications and management of loans.

Notes

1) The survey was done under the EC/INCO funded project “Soil and Water Management in Agricultural Production in Urban Areas OF CEE-/NIS countries” SWAPUA

Mutual Kasas

Mutual support among farmers is one of the ways to improve access to credit. Employee Mutual Kasas existed in most companies and industries during the communist era and served as a means for employees to take small and relatively inexpensive loans. In this system, members are responsible for the rules. Members make a contribution directly from their salary (US\$2.50 – 1 per month) to the co-operative on which they are paid a market rate of interest on their share balance. Mutual Kasas provide loans to members range from US\$157 to a maximum of US\$1,000, if they have accumulated a balance corresponding to a share to loan ratio of 1:3 to 1:5. The main benefit of membership is to have access to a small loan. These *kasas* would be appropriate for urban farmers.