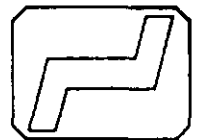


# The Financing of Dutch Agriculture



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## Foreword

The year 1982 saw the publication of an extensive report on the financing of Dutch agriculture. The report was the result of a joint study by the Agricultural Economic Institute - the most authoritative institution in the field of agro-economic research in the Netherlands - and the Rabobank group - with a share of about 90% of bank finance the major financier of Dutch agriculture.

The purpose of the publication was to provide an insight into Dutch agricultural finance for all those who, in some way or another, are interested in this subject. The publication increasingly aroused interest abroad, and for this reason an abridged version in the English language was published.

The English language version has been brought up to date with a view also to the CEA-CICA conference planned to be held in our country this year.

The contribution on the part of the Agricultural Economic Institute comes from Mr. S. Aukema and Mr. J. G. A. Overgaauw.

Rabobank Nederland's contribution was largely prepared by Mr. A. J. Neuteboom, in conjunction with the departments involved.

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's-Gravenhage/Utrecht, August 1985

# 1. Agriculture in the Dutch economy

## 1.1. Agricultural income

The position of agriculture as part of Dutch economy is reflected, among other things, in the contribution made by this branch of

industry to national income. While still standing at 10.6% in 1960 (table 1.1.), the share of agriculture in national income was a mere 4.3% in 1983.

Table 1.1. Share of agriculture (excluding forestry and fishing) in national income and in the working population.

	National income	Agricultural income	Share of agriculture in national income %	Working population		Share of agriculture in labor volume %
	Net factor costs (× 1 million guilders)			overall labor volume	employed in agriculture	
				(× 1000 man years)		
1960	34,721	3,666	10.6	4,182	449	10.7
1965	56,177	4,623	8.2	4,502	374	8.3
1970	93,824	5,776	6.2	4,696	316	6.7
1975	169,060	8,320	4.9	4,656	287	6.2
1980	271,300	9,310	3.4	4,807	266	5.5
1981	283,130	11,720	4.1	4,736	261	5.5
1982	295,810	12,820	4.3	4,619	257	5.6
1983	302,520	13,070	4.3	4,524	259	5.7

Source: CBS, National Accounts.

The significance of the agricultural sector for the Dutch economy is greater than is shown by the contribution of agriculture to national income. The agricultural sector is closely bound to the rest of the economy. On the one hand, there are branches of trade that supply goods and services to agriculture (for instance, machinery, fertilizer) and, on the other hand, there are branches of trade that buy produce from farms, which they collect, process, store and distribute. Table 1.2. shows what proportion of national income is directly and indirectly related to agriculture and the food industry. It appears that the share of agriculture (including forestry and fishing) has dropped more sharply than overall earned income directly or indirectly related to agriculture. The latter was 20.2% of national income in 1963 and 11.1% in 1981. This 11.1% is made up of 4.8% related to incomes earned in agriculture and ancillary agricultural industries, of 4.6% related to incomes earned in food processing industries and ancillary industries, and finally of 1.7% related to incomes earned in transporting and trading

produce (distribution phase).

The figures of table 1.2., however, also include incomes resulting from the processing of agricultural produce of foreign origine (for instance, feed grains, soya, coffee) and from the distribution of these products. If these incomes are disregarded, then the income directly and indirectly earned in agriculture, the food industry and the distribution phase is 7.6% of national income. In other words, 7.6% of national income in 1981 is related to Dutch agriculture.

## 1.2. Agricultural investments

Table 1.3. reflects the development of the joint gross investments of the industrial and public sectors as well as the share of Dutch agriculture in these investments. It appears that investments in agriculture increased sharply in the 1970s. The share in national investments is also growing. This development is quite the reverse of the trend shown by the share of the agricultural sector in national income (table 1.1.).

This clearly shows agriculture becoming more

Table 1.2. Income connected with activities of agriculture\* and the food industry  
(× million guilders).

	1963	1968	1975	1980	1981
Earned in:					
- Agriculture	3,852	5,273	8,564	9,619	12,160
- Food industry	1,658	2,822	5,987	7,676	7,405
Earned by supplies to:					
- Agriculture	247	377	737	1,440	1,514
- Food industry	968	1,499	3,496	5,158	5,725
Income directly and indirectly related to agriculture:					
- Distribution phase	6,725	9,971	18,784	23,893	26,804
	1,873	2,505	4,144	4,517	4,712
Overall agriculture related income (incl. distribution phase)	8,598	12,476	22,928	28,410	31,516
Ditto in % of national income	20.2	17.0	13.6	10.5	11.1
- of which agriculture itself	9.1	7.2	5.1	3.6	4.3

\* Including forestry and fishing.

Source: Calculated on the basis of input and output tables of the CBS (more recent data were not yet available).

capital intensive. The considerable increase in agricultural investments is closely related to the great structural changes that have occurred in agriculture since 1950 (enlargement of scale, trimming of the labor force, widespread mechanization). Moreover,

the propensity to invest has been encouraged from 1972 by the interest subsidy scheme and from 1978 by the introduction of the Wet Investeringsrekening (WIR - Investment Account Act).

Table 1.3. Share of agriculture in national investments.

	Gross investments by industry and government (× 1 million guilders)	Gross investments by agriculture (× 1 million guilders)	Share of agriculture in gross investments %
1960	10,073	384	3.8
1965	16,984	806	4.7
1970	29,446	1,164	4.0
1975	43,570	1,940	4.5
1980	70,790	3,870	5.5
1981	67,580	3,120	4.6
1982	67,150	3,280	4.9
1983	68,500	3,620	5.3

Source: CBS, National Accounts.

### 1.3. The share of agriculture in foreign trade

Both imports and exports of agricultural produce are of great significance for the Netherlands.

Agricultural imports largely consist of cereals and feedstuffs. Imports of feedstuffs are of

key importance to intensive animal husbandry and stock farming.

Animal products and products of vegetable origin are of about equal importance to agricultural exports.

The share of agricultural produce in total

imports remained fairly constant and stands at about 10% (table 1.4.). The volume of agricultural imports, however, rose more sharply than did the imports of other commodities, while the rise in prices of agricultural produce lagged markedly behind the rise in prices of other commodity imports.

Agricultural exports declined in relative terms in the 1970s and were, in 1983, 17.5% of the overall value of Dutch commodity exports. This deterioration in exports value is accounted for by the fact that the prices of agricultural exports lagged behind the rise in prices of all export commodities.

Table 1.4. Agricultural imports and exports\* in per cent of total imports and exports.

	1970	1975	1980	1981	1982	1983
<b>IMPORTS</b>						
Agricultural produce (× 1 million guilders)	4,390	8,940	14,240	16,500	17,100	17,850
- in % of total imports	9.0	10.2	9.4	10.0	10.2	10.2
<b>EXPORTS</b>						
Agricultural produce (× 1 million guilders)	9,240	17,330	24,910	31,200	32,300	32,700
- in % of total exports	21.7	19.6	17.0	18.3	18.3	17.5

\* Agricultural commodities produced and/or processed by Dutch farmers and market gardeners.

Source: CBS data, worked out by Agricultural Economic Institute.

## 2. Financial institutions

Various financial institutions are involved in the extension of credit to the domestic private sectors. They can be classified into the following categories:

### A. Credit institutions

1. money-creating institutions
  - universal banks (commercial banks and credit cooperatives not affiliated to a central cooperative)
  - other money-creating institutions, viz.:
    - banks organized on a cooperative basis and their central credit institution
    - security credit institutions
    - giro services
2. other credit institutions
  - mortgage banks
  - finance companies and the like.

### B. Institutional investors of a banking nature

1. savings banks
2. Post Office Savings Bank

### C. Other institutional investors

1. life insurance companies and mutual savings banks
2. pension funds
3. social funds

Credit institutions are financial institutions whose object it is to extend credit. The banks organized on a cooperative basis (agricultural credit institutions) originally catered primarily to the credit needs of agriculture and horticulture, whereas the commercial banks' bias is toward credit extension to trade and industry. The mortgage banks are fully specialized in the mortgage market and the finance companies mainly grant consumer credit.

The banks organized on a cooperative basis are the major lenders to agriculture. These banks are members of Rabobank Nederland and they are called Rabobanks for short. Of the total amount of credit outstandings of the Rabobank group in 1983 (see table 2.1.), more than 30% had been granted to the agricultural sector (about 25% to agricultural

and horticultural operations). This also shows that the Rabobanks do not confine themselves to the agricultural sector. In addition to farms, the Rabobanks finance other types of business, as well as being major lenders in the area of housing finance.

Credits extended by the commercial banks to agriculture are relatively few and do not amount to more than 1% of overall lending by these institutions.

Loans extended to agriculture by the mortgage banks (excluding lending by the Rabo Mortgage Bank which is included under Rabobanks) and the finance companies are also nominal.

The institutional investors are financial institutions with an ancillary lending function resulting from their main task.

lendings by the life insurance companies to agriculture are decreasing in significance to the point of being virtually negligible, as are also lendings to agriculture by the other institutional investors.

There is a sharp rise in lending by the financial institutions to the domestic private sectors. Credits extended to agriculture have also increased substantially. While standing at 6.5% in 1968, the share of agriculture in overall lending fell to 5% in 1973 and subsequently moved gradually up to almost 6% in recent years.

There is, however, also a flow of funds from agriculture to the capital market. Up to the beginning of the 1970s the supply of funds from agriculture exceeded the demand for funds. Agriculture's demand for capital market funds then expanded to such an extent, however, that calls on the capital market far exceeded the supply of funds. In 1983, agriculture and horticulture accounted for capital market borrowing of f 20 billion, with the supply of funds of the entire agricultural sector reaching f 7 billion.

Table 2.1. Credit extension by financial institutions to domestic private sectors ( $\times 1$  million guilders).

	At the end of 1979	At the end of 1980	At the end of 1981	At the end of 1982	At the end of 1983
<b>Money-creating institutions:</b>					
- Universal banks	94,830	105,680	113,150	118,090	120,330
- Other money-creating institutions <sup>1)</sup>	67,580	73,900	75,900	76,260	80,480
(of which Rabobank <sup>2)</sup> )	(61,120)	(65,790)	(67,740)	(68,200)	(74,040)
<b>Total</b>	<b>162,410</b>	<b>179,580</b>	<b>189,050</b>	<b>194,350</b>	<b>200,810</b>
<b>Other credit institutions:</b>					
- Mortgage banks <sup>3)</sup>	19,630	21,940	20,420	16,640	14,850
- Finance companies <sup>4)</sup>	7,680	8,080	7,910	7,470	7,000
<b>Total</b>	<b>27,310</b>	<b>30,020</b>	<b>28,330</b>	<b>24,110</b>	<b>21,850</b>
<b>Institutional investors of a banking nature:</b>					
- Savings banks					
(including Post Office Savings Bank)	25,110	27,200	29,110	32,270	33,260
<b>Other institutional investors:</b>					
- Life insurance companies	29,640	32,120	33,530	35,030	37,790
- Mutual savings banks					
- Pension funds (including General Public Service Pension Fund)	49,020	54,410	57,640	62,450	64,090
- Social funds	2,340	2,470	2,180	2,050	1,450
<b>Total</b>	<b>81,000</b>	<b>89,000</b>	<b>93,350</b>	<b>99,530</b>	<b>103,330</b>
	<u>295,830</u>	<u>325,800</u>	<u>339,840</u>	<u>350,260</u>	<u>359,250</u>
<b>Overall credit extended of which to agriculture and horticulture <sup>5)</sup></b>	<b>17,000</b>	<b>19,500</b>	<b>19,800</b>	<b>20,200</b>	<b>20,600 *</b>
(i.e. in % of overall credit extended)	(5.7)	(6.0)	(5.8)	(5.8)	(5.7)
<b>Share of agriculture in added value of businesses (%)</b>	<b>4.4</b>	<b>4.2</b>	<b>5.1</b>	<b>5.4</b>	<b>5.3</b>

1) Agricultural credit banks, security credit institutions and giro services.

2) Credit extension by the Rabobanks (including Rabo Mortgage Bank), according to annual reports of the Rabobank group.

3) Only Westland/Utrecht Mortgage Bank, Friesch-Groningsche Mortgage Bank, Tilburgsche Mortgage Bank (until 1983) and Ned. Ship Mortgage Bank.

4) Including municipal and semi-municipal credit banks.

5) Derived from the balance sheets of Dutch agricultural and horticultural operations (see Chapter 5; \* = provisional figure).

Sources: Annual reports of the Netherlands Bank, the Mortgage Banks and the Rabobank group;

CBS monthly financial statistic.



### 3. Agriculture's capital requirements

#### 3.1. Distinctive features of the capital requirements

Characteristic of agricultural enterprises is the need for capital tied to the land holding. In agriculture the land holding not only fulfils the role of a location factor as it does for manufacturing industry, but it is primarily an indispensable factor of production. This is notably true of arable farming, of horticultural field crops and of stock farming. Only in the case of modern operations engaged in intensive animal husbandry, which are very much in the nature of industrial operations, does the land holding chiefly fulfil the role of location factor.

The other capital goods are comprised of raw materials, machinery, plant, livestock, buildings and glasshouses. Further balance sheet items are cash resources and debts receivable. For an adequate level of all these assets to be achieved, money is needed, adding up to the industry's capital requirements.

Because the cost of the labor factor has increased more sharply than that of (most) capital goods, labor is progressively being

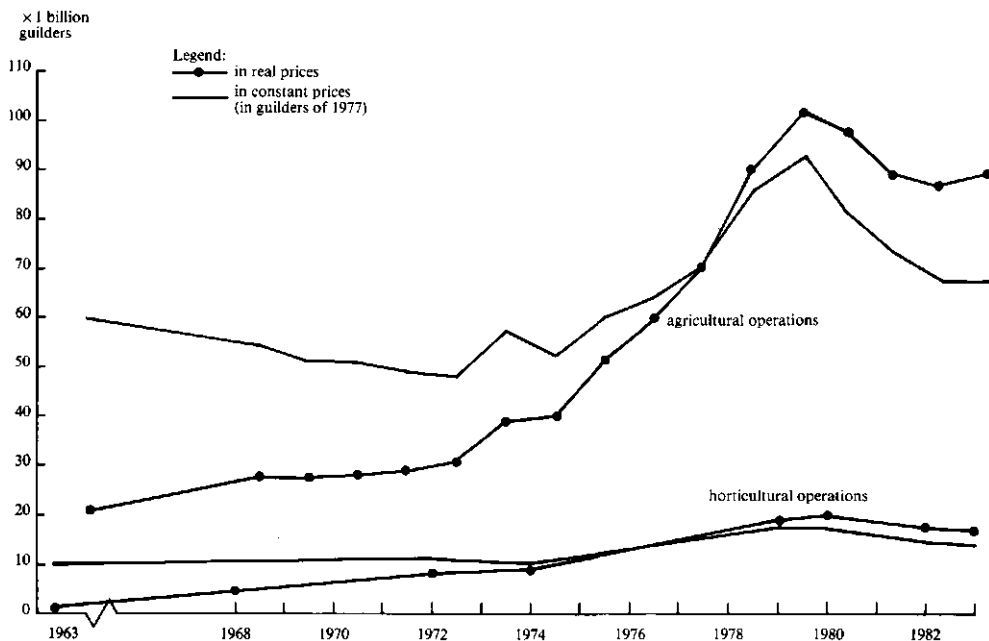
replaced by capital, making agriculture a more and more capital intensive industry. This has considerably expanded the need for capital. The high level of mechanization and adaptation of farm buildings went hand in hand with an upscaling process. These factors in their turn accelerated the capital requirements per holding.

#### 3.2. Overall capital requirements

Chart 3.1. clearly reflects the sharp upward trend in capital requirements over the years. While still standing at f 21 billion in agriculture and f 3.5 billion in horticulture in 1963, the need for capital had risen to f 102 billion in agriculture and f 19 billion in horticulture in 1979. After May 1979 the capital requirements in agriculture dropped to f 86 billion (May 1982), owing mainly to lower land prices.

The sharp increase up to 1979 was largely caused by inflation and the rise in land values. When the effect of inflation is eliminated, the increase in capital requirements is shown by the chart not to have set in until after 1972.

Chart 3.1. Increase in capital requirements of agricultural and horticultural operations <sup>1)</sup>



<sup>1)</sup> The capital requirements for agricultural operations have been calculated as of May 1, those for horticultural operations as of January 1.

## 4. Provision of capital for agriculture

In what follows, two types of capital provision will be dealt with, viz. landowners' capital and borrowed capital. Farmers' own funds will be discussed in the following chapter.

### 4.1. Landowners' capital

Landowners' capital is characteristic of agriculture. It represents the value of land and buildings held on lease, and consequently does not stand for borrowed capital required by farmers or market gardeners to finance their operations.

Owing to the continuous decline in the acreage of leasehold land, the provision of capital by landowners has also decreased. Because the price of land rose more sharply after 1973 than did those of other means of production, the contribution by landowners to overall capital provided increased up to 1979.

Table 4.1. shows this proportion to have dropped to 25% in 1973, to have risen to 32% in 1979 and to have fallen again to 26% in 1983.

Table 4.1. Magnitude and cost of landowners' capital in agriculture (excluding horticulture)<sup>1)</sup>.

	May 1963	May 1968	May 1973	May 1979	May 1982	May 1983
Value of leasehold land and buildings (× 1 million guilders)	6,800	7,300	9,700	32,800	23,000	23,400
Contribution to overall capital provided for agriculture	32%	28%	25%	32%	26%	26%
Rent paid (× 1 million guilders)	175	208	255	323	392	427
Rent paid, in per cent of landowners' capital	2.6	2.8	2.6	1.0	1.7	1.8

<sup>1)</sup> All agricultural operations, excluding very small ones.

Table 4.1. shows rent paid (which actually represents the cost of landowners' capital) to have gradually increased from f 175 million in 1963 to f 427 million in 1983. Expressed as a percentage of landowners' capital, this was equivalent to a drop by 2.6% in 1963 to 1.0% in 1979, followed by a rise to 1.8% in 1983. This trend of the gross return on landowners' capital, however, does not quite reflect the return on landowners' capital invested, due to the wide difference in value between leasehold land and freehold land in the years 1978 through 1980. In 1979 the value of leasehold land was about half the value of freehold land, and on the basis of the value of leasehold land this year's return would therefore work out at about 2%. This, however, does not alter the conclusion that leasing land is a cheap way of financing land for the tenant. On the other hand, the landowner only makes a slight return on land and buildings previously let on lease, since the property expenses involved have to be paid out of the (gross) rent revenues. This makes letting land rather unattractive. Many landowners therefore have proceeded to sell

land let on lease, despite the fact that only a part of the rise in land prices could be realized as capital gains.

Owing to the greater disinclination to lease out agricultural land, the acreage of farm land let on lease has declined considerably of recent years. This has made the financing of farm land more difficult for many (notably young) farmers.

In horticulture, the share of landowners' capital in the overall financing package is much more modest than in agriculture. Landowners' capital accounts for about 8% of the finance provided to meet the horticultural sector's capital requirements. Its role in horticulture under glass is hardly of any significance, but capital requirements of the rest of horticulture are covered about 15% by landowners' capital.

### 4.2. Long-term borrowed capital in agriculture (excluding horticulture)

Long-term borrowing includes all loans contracted for more than one year. It also comprises the utilized part of credits on which

entrepreneurs can freely draw up to a certain limit and for which no redemption schemes have been established. The underlying assumption is that these credits will serve to

meet long-term financing needs. The long-term loans have been classified into 6 categories, as shown in table 4.2. This chapter focuses on their growth, while the size

Table 4.2. Growth of long-term borrowed capital in agriculture <sup>1)</sup> (excluding horticulture).

Loans (in per cent)	May 1963	May 1968	May 1973	May 1979	May 1982	May 1983
Rabobanks	25	43	53	69	76	74
Other banks <sup>2)</sup>	9	7	6	8	6	8
Institutional investors <sup>3)</sup>	6			0	0	0
Relatives <sup>4)</sup>	45	41	31	18	14	15
Other private individuals and institutions	13	6	5	1	1	1
Public bodies <sup>5)</sup>	2	3	5	4	3	2
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
(ditto × 1 million guilders)	(2,130)	(3,050)	(4,610)	(11,610)	(13,960)	(15,080)

<sup>1)</sup> All agricultural operations, excluding very small ones.

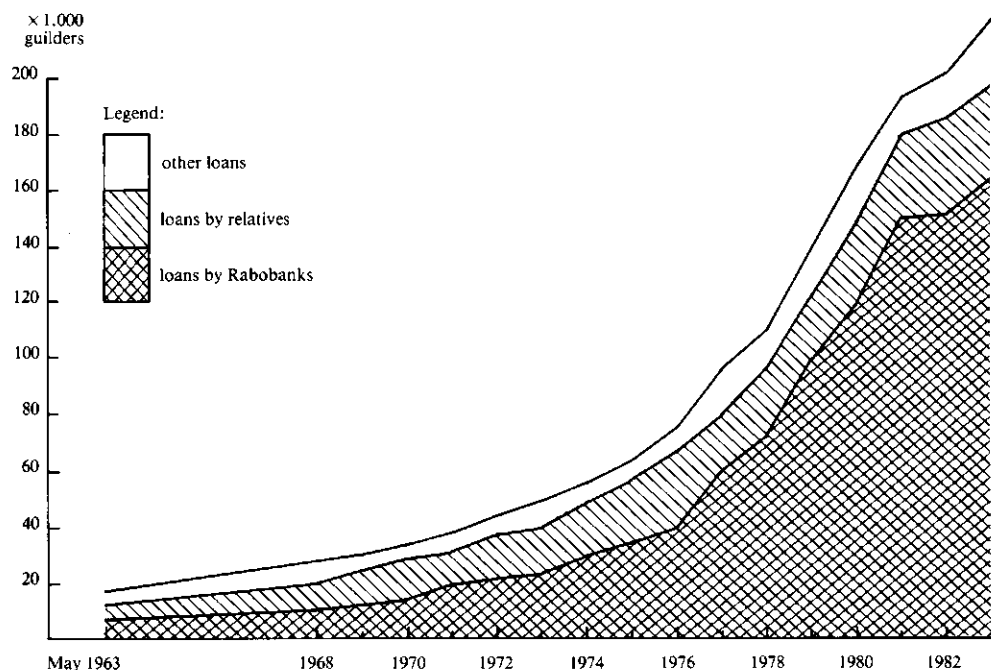
<sup>2)</sup> Including finance companies.

<sup>3)</sup> Insurance companies and pension funds.

<sup>4)</sup> Relatives up to the third degree inclusive.

<sup>5)</sup> Capitalized land consolidation commitments and loans contracted within the framework of National Group Schemes for the Self-Employed.

Chart 4.1. Trend of long-term loans in agriculture (excluding horticulture) (averages per holding)



of the various loans is discussed in the next chapter under balance sheets. Table 4.2. clearly shows the share of the Rabobanks in overall lending to have increased significantly (25% in 1963; 74% in 1983).

From 1963, the loans provided by relatives have more than doubled in absolute terms, but in percentage terms they have dropped from 45% (in 1963) to 15% (in 1983).

Chart 4.1. reflects the average increase in loans per holding.

#### 4.3. Long-term borrowed capital in horticulture

In horticulture too, the level of borrowed capital has increased sharply, as shown in table 4.3.

Table 4.3. Growth of long-term borrowed capital in horticulture <sup>1)</sup>.

Loans (in per cent)	Jan. 1963	Jan. 1968	Jan. 1974	Jan. 1979	Jan. 1983
Rabobanks	58	62	69	83	80
Other banks and institutional investors	8	12	8	6	7
Relatives	24	22	21	9	8
Other lenders	10	4	2	2	5
Total	100	100	100	100	100
(ditto × 1 million guilders)	(620)	(1,090)	(1,620)	(4,490)	(5,760)

<sup>1)</sup> All horticultural operations, excluding very small ones.

#### 4.4. Short-term borrowed capital in agriculture and horticulture

This includes all debt repayable within one year. Income tax liabilities are not shown, though, because they are not known on the balance sheet dates in question. The trend of

The increase in borrowed capital is mainly accounted for by the Rabobanks; in the period 1963-1983 the share of the Rabobanks in lendings rose from 58% to 80%, which in money terms is, in 1983, nearly 13 times the figure recorded in 1963.

Although - just as in agriculture - loans by relatives more than doubled in absolute terms, their share in the overall capital provided to horticulture dropped from 24% in 1963 to 8% in 1983.

Overall, long-term borrowed capital rose from f 620 million in 1963 to f 5,760 million in 1983. As can be inferred from tables 4.2. and 4.3., this increase was larger in horticulture than in agriculture.

short-term borrowed capital in agriculture is shown in table 4.4. Suppliers' credit continues to be the main component, although it is increasingly being superseded as such by overdraft finance (provided more than 90% by the Rabobanks).

Table 4.4. Trend of short-term borrowed capital in agriculture <sup>1)</sup> (excluding horticulture).

Credits (in per cent)	May 1963	May 1968	May 1973	May 1979	May 1982	May 1983
Overdraft finance	20	32	29	37	28	30
Suppliers' credit	57	52	55	46	53	46
Other short-term debts	23	16	16	17	19	24
Overall short-term borrowed capital	100	100	100	100	100	100
(ditto × 1 million guilders)	(650)	(710)	(950)	(1,390)	(1,220)	(1,290)
In per cent of overall borrowed capital	23	19	17	11	8	8
In per cent of overall liquid assets	28	33	24	29	20	21

<sup>1)</sup> All agricultural operations, excluding very small ones.

While short-term borrowed capital more than doubled during the period under review, its share in the overall debt position fell from 23% to 8%.

In horticulture, overall short-term borrowed capital shows the same trend, relatively, as in agriculture. It increased from £200 million in 1963 to £780 million in 1983; its share in overall capital borrowed, however, declined from 24% to 12%.

#### **4.5. The cost of borrowed capital for farms (excluding horticulture)**

The cost of borrowed capital includes interest paid on short and long term loans and on

farming debts as well as loan fees.

In the years under review the interest rates paid were below the level of market interest rates in those years, because loans from relatives were frequently obtained at lower interest rates than those ruling on the market and because interest rates applying to current loans were not immediately adjusted to rises in market interest rates. Moreover, no interest is usually charged for short-term farming debts other than those having the form of overdrafts.

Interest charges paid on the total amount of borrowed capital rose from 4.2% in 1968/69 to 9.3% in 1983.

## 5. Agriculture's capital position

Naturally, the level of own funds is largely determined by the valuation of privately owned means of production.

Particularly because of sharply increased prices of land the own funds level has increased. Young farmers too, generally enjoy a favorable capital position, because the majority of farms are taken over by them from their parents. A study covering the years 1977 through 1979 has shown that the take-over price of land, at approx.  $f 8,000.$ — per hectare, was considerably below its (lease) value. Because the market value of the land was appreciably higher, these young farmers started right away with a large amount of own

funds. A simple example may be illustrative in this respect. Suppose 25 hectares are taken over at  $f 8,000.$ — per hectare; then a sum of  $f 200,000.$ — has to be paid. Given a (market) value of this land of  $25 \times f 25,000.$ — =  $f 625,000.$ —, then  $f 625,000.$ — less  $f 200,000.$ — =  $f 425,000.$ — of own funds has been 'formed', due to the difference between the value and the take-over price of the land alone.

Table 5.1. shows that the share of own funds in overall capital provided was virtually unchanged in Dutch agriculture and horticulture in the period under review.

Table 5.1. The capital structure of overall Dutch agriculture and horticulture (in %).

	Jan. 1964	Jan. 1969	Jan. 1974	Jan. 1979	Jan. 1983
Landowner's capital	28	24	22	30	24
Borrowed capital	15	17	17	14	20
Own funds	57	59	61	56	56
<b>TOTAL CAPITAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Own funds as per cent of own funds + borrowed capital	79.6	77.3	78.5	79.9	73.2

The capital structure of agriculture and horticulture is strongly determined by developments in the market for land. Despite the decline in acreage let, the share of landowners' capital in the financing of agriculture and horticulture increased by the end of the 1970s owing to sharply increased land values. It should be noted in this context that leasehold land has been valued at the same price as land in ownership.

The important part played by borrowed capital in the financing of agriculture and horticulture is not adequately reflected in the share of borrowed capital in the overall capital

of the agricultural sector. On January 1, 1983 it was 'only' 20%, but in money terms this proportion was equivalent to  $f 26.1$  billion (against  $f 4.1$  billion as of January 1, 1964; see table 5.2.).

If landowners' capital is not included, then the own funds proportion appears to have risen more sharply than the proportion of borrowed capital up to 1979, due mainly to the appreciation of land in ownership. The solvency ratio (= own funds as a percentage of own funds + borrowed capital) declined subsequently, reaching 73.2% on January 1, 1983.

Table 5.2. Balance sheet of overall Dutch agriculture and horticulture ( $\times 1$  billion guilders).

	Jan. 1964	Jan. 1969	Jan. 1974	Jan. 1979	Jan. 1983
<b>ASSETS</b>					
owned land and buildings	9,2	13,1	19,4	57,1	48,4
leased land and buildings	7,7	8,4	11,5	40,6	30,5
other capital goods	6,5	8,7	14,0	22,6	26,6
liquid assets and investments	4,4	4,6	7,6	16,8	22,4
<b>BALANCE SHEET TOTAL</b>	<u>27,8</u>	<u>34,8</u>	<u>52,5</u>	<u>137,1</u>	<u>127,9</u>
<b>CAPITAL</b>					
landowners' capital	7,7	8,4	11,5	40,6	30,5
borrowed capital:					
- loans from Rabobanks	1,1	2,4	4,2	12,3	17,8
- loans from relatives	1,3	1,7	1,9	2,8	3,2
- other loans	0,8	0,7	1,0	2,1	2,7
total long-term borrowed capital	3,2	4,8	7,1	17,2	23,7
total short-term borrowed capital	0,9	1,2	1,7	2,2	2,4
total borrowed capital	4,1	6,0	8,8	19,4	26,1
total own funds	16,0	20,4	32,2	77,1	71,3
<b>BALANCE SHEET TOTAL</b>	<u>27,8</u>	<u>34,8</u>	<u>52,5</u>	<u>137,1</u>	<u>127,9</u>

## 6. The granting of finance by Rabobanks

### 6.1. Financing of agricultural and horticultural enterprises

In the matter of finance a distinction is made between fixed-term loans and overdrafts. A fixed-term loan stands for finance raised by the debtor (farmer) in a lump sum and repaid by the debtor after a certain lapse of time either in a lump sum or by periodic installments (yearly, monthly etc.). By overdraft finance is understood the opening of a credit in the bank's books up to a fixed amount, which the debtor can draw out as and when required either by transfer or in cash.

As much of the finance as possible is granted in the form of a fixed-term loan, the overdraft part being confined to a minimum of additional finance required, because overdraft charges are generally higher than are costs attached to a fixed-term loan. The level of the overdraft depends largely on the seasonal nature of costs payable (animal feedstuffs, basic materials, energy etc.) and on revenues from produce sold. The Rabobank group offers various types of finance by way of loans or overdrafts (schematized in table 6.1.). Three aspects of these types of finance are important, viz.:

#### *a. provision of security*

The (collateral) security required by the bank for the finance serves as an additional guarantee to keep the risk for the bank down to a minimum. As to this, it should be borne in mind that the bank's funds have been entrusted to it by customers who have to be sure that the bank will onlend these funds in as safe and sound a manner as possible. Another reason underlying the provision of security for finance is the solvency requirements imposed by the Netherlands Bank on the banking sector.

The securities provided can be classified either according to the value attached to them, viz. adequate securities (including mortgage and personal security) and inadequate securities (assignment of debts, fiduciary transfer of property), or according to their nature, viz. personal security (suretyship) and collateral security (mortgage, right of lien).

#### *b. level of finance to be provided*

The level of finance depends on the security provided and is expressed either as a percentage of the value of the collateral (i.e. the estimated value in the event of a judicial sale) or as a maximum credit limit (in case of a personal guarantee).

#### *c. life of the loan (redemption scheme)*

While it cannot be divorced from the nature and life of the collateral security, the life of the loan to be granted is, in principle, geared as much as possible to the object of the investment.

All these aspects together partly determine the level of interest payable.

According to their possibilities and purposes the types of finance can be divided into two groups, viz. those applying to the overall financing of the enterprise and those used specifically toward the financing of equipment.

### 6.1.1. Overall financing of the enterprise (business financing)

The majority of lending to the agricultural sector by the Rabobank group is based on overall business financing. Overall financing means that the business's overall financing needs are considered, while such types of finance are selected as are most fitting for the business in question. In selecting suitable types of finance, important criteria are the adequacy and durability of the securities to be provided. Overall financing packages differ from equipment finance in that less attention is paid to collateral to be provided with a view to the purpose of the loan. Overall financing offers the borrower the advantage that the finance charges are geared in the best possible way to the situation of his business and costs are kept as low as possible. If there is any need for an expansion of the business's finances, the existing bank loan is often restructured and the whole financing package is adapted to the new situation and existing possibilities. Short-term capital requirements are met by overdraft finance. To provide for the annually recurring need for specific borrowing in addition to the overall financing package, seasonal and crop loans are granted.



Generally eligible as collateral for normal business finance (overall finance) are certain types of security such as:

- mortgage (on freehold farms);
- transfer of rights to compensation for demolishing obsolete plant (on leasehold farms);
- suretyship (personal security and provision of guarantee by the Agricultural Loan Guarantee Fund\*);
- fiduciary transfer of property (inventories, dead and live stock);
- assignment of debts.

\*) see section 6.5.

### 6.1.2. Financing of equipment

In equipment finance there is a clear relationship between the purpose of the loan and the securities provided, so it is a specific type of finance for specific farming equipment. Equipment finance is provided only in special cases, and is applied when others (cooperatives or private concerns) are involved in the provision of security through, e.g., suretyship, as in the case of livestock financing arrangements in intensive animal husbandry and in financing heavy equipment. The relevant types of finance are mentioned under 13 and 14 in table 6.1.

A large number of schemes exist for the financing of intensive livestock farming. Such schemes are often devised in conjunction with animal feedstuff suppliers and/or meatpacking industries. These businesses

- either cooperative or private - are prepared to guarantee (part of) the finance. Such loan packages are what are called 'tied' schemes or contract financing arrangements. Under the scheme, the borrower undertakes the obligation to buy feedstuffs from a certain supplier and/or supply his produce to a certain purchaser.

For so-called 'free' arrangements, where the security for the finance is limited to transfer of property of the livestock plus assignment of debts and where there is no further guarantee, a somewhat lower level of finance is provided per animal than in the case of the tied schemes. The borrower is then also free to choose a feedstuff supplier/buyer of his produce at his discretion.

The relevant overdraft finance, which is administered on an account specially opened

for this purpose, can only be withdrawn for the purchase of livestock and for relative expenditures such as feed costs and veterinary charges.

### 6.2. Terms and conditions and characteristics of Rabobank finance

Aside from showing some general characteristics, the following special conditions are attached to Rabobank finance:

- borrowers have to be members of their local Rabobanks, that is, if the loan in question is to be used for business purposes;
- there may be interim interest rate reviews for loans/overdrafts (variable interest rate). Any such reviews depend on interest rate movements on the money and capital markets where the funds needed have to be raised;
- although for each loan a redemption scheme is established, advance repayment is permitted without any penalty being charged;
- all lendings must be covered by personal or collateral security.

### 6.3. Financing costs

The costs involved in raising a loan consist of interest and commission charges. The local banks establish both interest and commission rates at the level recommended by Rabobank Nederland. Although the banks are free to depart from the rates thus recommended, they normally do so only in exceptional cases. Slightly different rates from those recommended may apply to loans wholly or partly provided by the Rabohypotheekbank (Rabo Mortgage Bank).

#### *Interest charges*

The level of interest rates is determined by various factors. The principal factors underlying the fixing of rates are movements on the money and capital markets as well as competitive considerations. Lending rates are fixed with reference to a basic rate. This basic rate is applied to loans covered by first-class collateral such as mortgage on farm land/farm holdings or a guarantee by the Agricultural Loan Guarantee Fund. Chart 6.1. shows the previous decade's trend in (basic) lending rates, charged by the local banks for new loans and overdrafts in the past years. For loans and overdrafts covered by

Table 6.1. Principal types of finance in agriculture and horticulture.

Security	Object	Level of lending	Maximum life
1. mortgage	land, buildings, glasshouses	up to 70% of the valuation	agriculture: 30-55 years horticulture under glass: 15-20 years
2. mortgage	buildings, on right of building/long-term lease	up to 50-70% of the valuation	15-20 years
3. maximum-sum mortgage	land, buildings, glasshouses	up to 20% of the valuation (on top of the normal mortgage)	15 years
4. transfer of demolition right	buildings and glasshouses on leasehold land	up to 25% of the valuation	agriculture: 15 years horticulture under glass: 10 years
5. transfer of right to compensation	buildings and glasshouses on leasehold land	up to 50% of the valuation	agriculture: 15 years horticulture under glass: 10 years
6. personal security	the guarantors' financial status	limited	20 years
7. guarantee by the Agricultural Loan Guarantee Fund	viable business	not applicable	20 years
8. transfer of ownership	dairy herd, tools and implements, machinery	up to 50% of the valuation	15-20 years agriculture: 5-8 years horticulture under glass: 5 years
9. transfer of ownership of harvested crops etc. and assignment of debts (crop credits for arable farming)	arable farming crops	up to 25% of prospective proceeds	8 months
10. transfer of auction money	auction money	up to 15% of auction money	8 months
11. transfer of ownership of bulbs etc. and assignment of debts	reproductive flower bulb stock	up to 50% of prospective proceeds	8 months
12. assignment of accounts receivable	accounts receivable	up to 60-70% of the accounts receivable	to be established from year to year
13. transfer of ownership, assignment of debts, if necessary, supplemented by suretyship	stock of pigs and poultry (livestock financing)	dependent upon type of livestock; varies from arrangement to arrangement	continuous
14. transfer of ownership + suretyship or repurchase undertaking	heavy equipment and machinery	75 to 100%	4 to 5 years

securities other than those mentioned above higher rates generally apply, because of the increased risk incurred by the bank, particularly in the case of inadequate collateral. Interest rates are charged on a half-yearly, quarterly or monthly basis.

#### 6.4. Financing of agricultural cooperatives

The term agricultural cooperatives stands for those cooperatives that on the basis of their objective include only farmers and market gardeners among their membership.

For that reason, the cooperative Rabobanks and the majority of mutual insurance companies operating in the indemnity insurance sector in the Netherlands cannot be classed with the agricultural cooperatives.

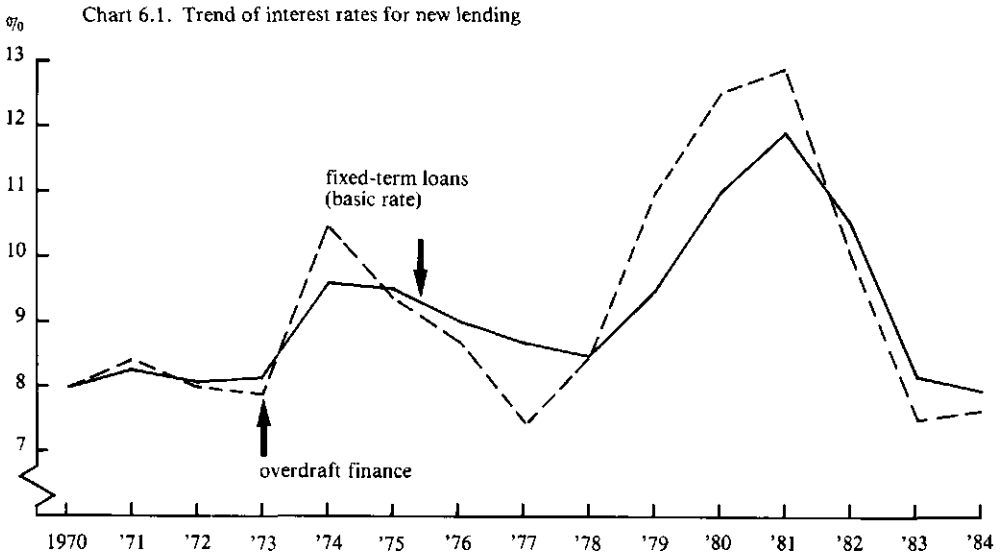
Dutch agricultural cooperatives, in 1983, had a total membership of 370,000. Because Dutch agricultural holdings number about 140,000, it may be inferred that the majority of individual farmers and market gardeners are members of two or more agricultural cooperatives.

Dutch farmers and market gardeners regard the agricultural cooperatives as extensions of their individual operations. In the matter of funding, this is reflected in the agricultural cooperatives being to a certain

extent financed from funds made available by their own members.

Moreover, the members generally have assumed financial liability - laid down in the cooperative's articles of association - for any deficits that might occur on the cooperative's liquidation. Consequently, such financial benefits as may accrue to members in the form of special prices applying to members, are offset by the risks incurred by them when they fund the cooperative directly, or when they are called upon to make good any deficit under the above liability arrangement. It should, for that matter, be noted that the financial risks for members are limited in nature because the agricultural cooperatives have built up reserves over the years primarily as a cushion against possible financial losses. Thus, as at December 31, 1983, the Dutch agricultural cooperatives commanded reserves totaling some f 2.4 billion, against a joint balance sheet total of more than f 13.5 billion (see table 6.2.).

Although the members are joint owners of the cooperatives, the latter's reserves cannot be held to belong to the assets of the individual members, because the cooperatives' articles of association do not permit a pro rata distribution of their reserves among resigning members. On the other hand, the following types of finance made available to the



cooperatives do belong to the assets of the individual members:

- Suppliers' credit;
- Members' accounts;
- Share capital.

Suppliers' credit provided to agricultural cooperatives does not differ essentially from debts due to farmers and market gardeners for produce sold to non-cooperative enterprises.

Members' accounts are a form of finance frequently met with in Dutch agricultural cooperatives. They owe their origin to the practice that members' discounts or post-payments, usually allotted by the cooperative to its members at the end of the financial year, are not paid in cash or are paid only partially so, but are credited either in whole or in part to special accounts made out in the individual members' names. Under the articles of association such transfers are blocked on the members' accounts for a number of years. The cooperative usually pays a certain rate of interest on such accounts.

Capital contribution by members in the form of share capital are not very common among Dutch agricultural cooperatives. As a result, reserves built up from retained profits are the only form of own capital funds for the great majority of Dutch agricultural cooperatives.

As can be seen from table 6.3., the share of bank finance in overall funds available to Dutch agricultural cooperatives averaged 22% as at December 31, 1983. Bank finance comes part in the form of fixed-term loans, part in the form of overdraft finance. Some 90% of overall bank finance is being supplied by the Rabobank group.

As for the profitability of Dutch agricultural cooperatives, it should be noted that this is often not fully reflected in the cooperative's profit figure since cooperatives do not seek to achieve maximum profit. In assessing a cooperative's profitability, account should therefore also be taken of the prices paid or charged by the cooperative to its members. Another point of consideration in judging of a cooperative's eligibility for finance is the level of risk involved in its specific line of business. Cooperatives show marked differences in this respect. The level of risk is particularly low for marketing cooperatives that do not themselves incur any market risk, such as horticultural auctions, or where the market risk is fully passed through in the prices paid to the members, as in the case of dairy cooperatives.

Table 6.2. Agricultural and horticultural cooperatives' aggregate balance sheet total as at the end of 1983 (in millions of guilders).

Dairy cooperatives	5,600
Marketing and supply cooperatives	3,275
Potato marketing and processing cooperatives	1,100
Sugar union	1,470
Flower auctions	770
Fruit and vegetable auctions	620
Livestock marketing cooperatives	290
Other agricultural cooperatives	400
<b>Total</b>	<b>13,525</b>

Table 6.3. Joint agricultural and horticultural cooperatives' average build-up of capital as at the end of 1983

Liabilities: own funds	18%
investment premiums (WIR)	3%
provisions	7%
members' accounts	7%
fixed bank loans	11%
bank overdrafts	11%
other borrowed capital	43%
<b>Total</b>	<b>100%</b>

### **6.5. Agricultural Loan Guarantee Fund**

The Agricultural Loan Guarantee Fund was established in 1951 with the aid of funds (£25 million) from the American government's Marshall Plan. Underlying the creation of the Fund was the need to catch up arrears in the modernization of agricultural and horticultural operations. In order to meet this need it was considered desirable to activate and expand the extension of credit to agriculture and horticulture. It was understood that skilled farmers with insufficient capital resources had to be able to borrow money toward modernizing their farms, even if they could offer no or inadequate collateral, which in those days still mainly consisted of mortgage and personal security. The Loan Guarantee Fund tries to achieve its aims by standing guarantee for the servicing and repayment of loans made by the banks to farmers. So it acts as an institutional guarantor and therefore does not lend out money itself.

It provides guarantees only when the security offered by the farmer in question is inadequate for the loan requested from the bank. The Fund fulfils a supplementary function, which means that not until all feasible securities have been provided for the loan can an application be made to the Fund for the unsecured proportion of the loan. In the years 1952 through 1972 more than 40,000 guarantees in all were provided, representing an amount of more than £900

million. Guarantees provided up to and including 1983 number well over 50,000, representing a total amount of £2,560 million. Of the aggregate of Fund-guaranteed loans, 97.4% is accounted for by the Rabobanks.

The Fund's overall liabilities have increased from £462 million at the end of 1972 to £899 million at the end of 1983. The Fund's guarantee commitments as of December 31, 1983 aggregated an estimated 4.5% of total long-term bank lending to agricultural and horticultural operations.

At the end of 1973 the Fund's commitments stood at as much as about 12%.

The Fund's resources - returns on investment less operating costs and incurred losses - have, on balance, increased over the years from £25 million to about £40 million at the end of 1983. Because the Fund's financial capacity afforded insufficient scope for the unlimited provision of guarantees, the government has strengthened the Fund's financial base over the years by injecting funds as and when required, totaling £175 million, of which, after charging off incurred losses, £146 million remained at the end of 1983.

A limit is set on the Fund's guarantee commitment in that the Fund is permitted to undertake aggregate liabilities of five times its total capital resources. Losses incurred by the Fund from its inception to the end of 1983 have been confined to less than 2% of its overall commitments.

## 7. The organization of agricultural credit

### 7.1. Introduction

The major institution in the area of agricultural credit is Rabobank. About 90% of bank lending to the agricultural sector derives from the Rabobank organization, with the remainder, about 10%, being provided by the commercial banks.

This chapter is confined to the discussion of the Rabobank group in view of its large share in the provision of loans and overdrafts to the agricultural sector.

The rapid improvement in transportation possibilities by sea and land in the second half of the 19th century made Europe accessible to products from far-flung agricultural areas around the world. The massive flow of farm products to Europe caused an enormous drop in prices.

Between the years 1870 and 1895 grain prices fell to less than half their previous level.

Because many arable farms had been converted into livestock farms, dairy prices and beef prices dropped as well in our country after 1885.

The agricultural crisis brought great scarcity of money among the farmers, which led to social abuses such as buying by instalments, loans at usurious rates of interest and financial dependence of the individual farmers on itinerant traders and on shopkeepers.

In 1888 a government-appointed study-committee emphasized the need for a soundly based agricultural credit system, which, however, would have to be set up by the interested farmers themselves. It recommended the establishment of credit cooperatives on the model of the Raiffeisenbanks in Germany.

In 1896 the first cooperative farmers' credit banks were set up, based on the principles of the German Raiffeisenbanks. As early as in 1898 the local cooperative banks started to cooperate by setting up two central banks (Coöperatieve Centrale Raiffeisen-Bank and Coöperatieve Centrale Boerenleenbank).

Two central banks were thus formed, for which the main underlying reason was the controversy surrounding the banks' legal form. Members of the Centrale Raiffeisen-Bank were those farmers' credit banks which had been established as cooperative societies, whereas those belonging to the Centrale

Boerenleenbank did not have the legal status of cooperatives but were associations set up with Royal assent.

Finally, the comparatively long-distance traveling of those days warranted the establishment of two central banks - one for the north (Centrale Raiffeisen-Bank) and one for the south (Centrale Boerenleenbank). In 1970 the two central banks decided to aim at the closest possible form of association.

The policies pursued by the two systems in establishing offices and branches were, in effect, on a collision course and induced them to find ways of coming to a merger.

There was a growing awareness that from an efficiency and competition viewpoint with respect to the non-cooperative banking institutions, a merger was indispensable. Moreover, the former motives for setting up two central institutions were no longer relevant.

The decision made in 1970 to pursue the closest possible form of association resulted, in 1972, in the creation of one new central bank as umbrella organization for all local farmers' credit banks in the Netherlands, viz. the Coöperatieve Centrale Raiffeisen-Boerenleenbank (Centrale Rabobank for short).

From June 1980 the Centrale Rabobank has presented itself both at home and abroad as 'Rabobank Nederland'. The two former central banks brought their assets and liabilities into the new bank and went into liquidation subsequently (December 1972). As of December 31, 1972, 1,187 banks were members of the Centrale Rabobank. Due to further concentration tendencies this number had declined to 942 by the end of 1984. The total number of offices is 3478 (2385 branches and 1093 agencies).

**7.2. The legal organization of the Rabobanks**  
Legally, the Rabobanks can be distinguished as follows:

- a. the local Rabobanks: independent cooperative banks, each having their own geographic area, within the confines of

which they perform their operations on behalf of their clients, living within the area, and,

- b. Rabobank Nederland: a separate cooperative institution (apex cooperative) which has for its object to promote the interests of the local Rabobanks in the Netherlands. All local Rabobanks are members of Rabobank Nederland.

The Rabobanks are also associates in various other (affiliated) institutions, of which the most important is: Rabohypotheekbank N.V. (Rabo Mortgage Bank).

### 7.2.1. The local Rabobanks

The principal features of the local Rabobanks are:

#### - *Members' liability*

The members are liable, in equal parts, for any losses or deficits incurred by their local bank, up to a maximum of f 5,000.— per member. This liability takes the place of a capital contribution by the members. Together with the reserves which the banks have built up over the years from retained profits, members' liability enhances the solidity of their own credit institution. Members' liability serves as an extra stimulus to the Rabobanks to pursue a cautious banking policy.

As a result, the cooperative banks have, since their inception, never experienced the need to have recourse to their members' liability.

#### - *Profit retention*

Profits are not distributed among members, but have to be added to reserves. This provision aims at enabling the cooperative banks to constitute their own capital, needed both to shoulder any losses and to expand their service capabilities for the benefit of the local community.

An adequate capital position is also required in connection with the control over bank solvency exercised by the Netherlands Bank. The Rabobank group, for that matter, applies its own organization objective with regard to capital adequacy.

### 7.2.2. Rabobank Nederland

Rabobank Nederland's duty is to protect its members', i.e. all local Dutch Rabobanks',

interests by the maintenance and expansion of the existing cooperative banks, if necessary also by the creation of new cooperative banks, and by carrying on the business of banking in the widest sense of that term.

The definition of this objective has been extended to include: among other purposes, for the financing of agriculture.

This shows that, while the cooperative banks still regard the financing of the agricultural sector as an important element of their objective, they have departed from their original objective in that they no longer cater solely to the financial needs of the agricultural sector.

In view of their origin and special know-how in the area of agricultural finance, however, the cooperative banks will continue to be the main source of finance for agriculture. Rabobank Nederland manages the local banks' liquid assets, insuring that they will be put to the best possible use.

Rabobank Nederland has an issued capital stock divided into shares of f 1,000.— par value that have been fully paid by its members. Each local bank is obliged to take shares in Rabobank Nederland's capital stock up to an amount keyed to the average balance sheet total over the last three years. At December 31, 1984 Rabobank Nederland's capital stock totaled about f 750 million.

### 7.2.3. Affiliated institutions

By affiliated institutions are here understood institutions in which all Rabobanks participate.

The discussion of the affiliated institutions will be confined to those institutions which are involved in financing activities.

#### - *Rabohypotheekbank (Rabo Mortgage Bank)*

The Rabohypotheekbank N.V. is an incorporated company with a capital stock of f 400 million. Its shares have a par value of f 1,000.— each, with 25% being paid up on the issued shares. All shares are owned by Rabobank Nederland and its member banks. The Rabohypotheekbank N.V. has a complementary financing task to fulfil for the benefit of the clients of the member banks. If the funds generated by the local banks from their own operating areas are insufficient to meet their clients' demand for borrowing, or

if they can no longer comply with the liquidity requirements imposed by Rabobank Nederland, any further requests for mortgage loans are passed on by them to the mortgage bank.

*- Onderlinge Waarborgmaatschappij Rabobanken B.A. (Mutual Guarantee Association)*

Through a Mutual Guarantee Association (the 'Onderlinge Waarborgmaatschappij Rabobanken B.A.') the cooperative banks have made provision against any losses that may be incurred in the conduct of banking business, for example the loss of money and securities, damage to buildings, and insurance of mortgaged property.

For this risk cover, the banks pay a premium on a mutual basis. Any operating deficits that occur are apportioned among the member banks.

In addition, the 'Onderlinge Waarborgmaatschappij' provides cover to the member banks in so far as these should turn out insufficiently solvent to meet all outstanding commitments to their creditors.

If necessary, the banks pay pro-rata contributions toward covering the payments made by the 'Onderlinge Waarborgmaatschappij'.

### **7.3. Equity investments of Rabobank Nederland**

The local banks are no formal partners in these investments, in contrast to their being shareholders in the affiliated institutions. Nevertheless, being members of Rabobank Nederland, the local banks do exercise influence on the investments in that they can influence Rabobank Nederland's decision-making bodies.

Rabobank Nederland's major equity investments are the following:

*- Finance Company 'De Lage Landen' N.V.*

Finance Company 'De Lage Landen' is a majority participation of Rabobank Nederland. The latter owns 95% of the shares issued by 'De Lage Landen'.

Finance Company 'De Lage Landen' was established with a view to enabling the granting of finance which through its maturity, security or special nature does not

fit in with the balance sheet structure of the member banks.

A finance company like 'De Lage Landen' is capable of granting loans which through its special expertise and experience are eminently suited to be included in its product package.

Lending by 'De Lage Landen' to the agricultural sector mainly consists in the financing of plant, tools and implements. The Company raises its funds on the capital market.

*- London and Continental Bankers Ltd.*

In conjunction with various foreign organizations, which are related as to both character and banking operations, and with an English banking house, this merchant bank was established in 1973. On behalf of the participants and their members, the bank performs activities in the international financial field.

*- ADCA-BANK AG*

At the end of 1983 a participation of 84% was acquired in Allgemeine Deutsche Credit-Anstalt AG (ADCA-BANK AG) Frankfurt.

Through branches in Frankfurt, Hamburg, Hanover, Berlin, Düsseldorf, Bonn, Stuttgart and Munich a complete range of banking services is offered in West-Germany.

*- Foreign offices*

A new foreign branch was opened in Antwerp, Belgium, in November 1984. Business at the New York branch is growing according to plan. Lending operations expand vigorously as does the involvement of Rabobank in the agricultural sector. Operations of the Curaçao subsidiary also give cause for satisfaction.

The transformation of the representative office in London into a full branch and the opening of a representative office in Paris are scheduled for late 1985.

In the first half of 1986 an off-shore branch will be opened at Singapore and representative offices will be established at Hongkong and Jakarta.

### **7.4. Customer service**

Since the time of their inception the



Rabobanks have built up an extensive range of services. Underlying the growth in their service package, which has thus expanded over the years, are the following three elements.

1. Diversification within the traditional service package, including:
  - the granting of loans and overdrafts;
  - the attraction and management of savings deposits and other money entrusted;
  - payment services.
2. The extension of service capabilities by undertaking non-banking services, such as stock exchange dealings, insurance and travel agency, safe custody of securities.
3. The widening of their circle of customers to include not only farmers but other types of industry such as small and medium-sized business and, increasingly, major corporate customers. Lending to the private sector (for instance, residential mortgages) is also of great significance.

This threefold extension is aimed at spreading the banks' risks, urged by the need to keep their business going in the interest also of their

members. Moreover, the expansion of customer service capabilities enables the Rabobanks to hold their own in competing with other banking institutions.

Table 7.1. shows the breakdown of new loans granted in 1984. In the past decade, the share of agricultural operations dropped to between 25% and 30%.

The agricultural sector's investment activity has declined from the level reached in the second half of the 1970s.

Investment activity was more buoyant in those years, as a result, among other things, of the pursuit of scale economies and the process of modernization. Another major contributor was EC-guideline 72/159 under which farms with a potential for growth could qualify for interest grants on farm improvement loans. Of essential importance was, moreover, the introduction of the WIR Investment Account Act in 1978. High lending rates in 1981 and in particular the EC's milk surplus problems have curbed the agricultural sector's demand for credit. In horticulture under glass, where prospects are apparently not unfavourable, investments have particularly been diverted to energy saving methods in the last few years.

Table 7.1. New lendings by Rabobanks in 1984.

	In millions of guilders	In per cent
to agricultural operations	3,563	25
to other businesses	2,935	21
to private customers	7,654	54
Total	14,152	100

But times have changed in the matter of fund-raising. The bank's former deposit-acquiring stance has changed over time into a more dynamic approach to the raising of funds.

This active acquisition of funds is necessary in order to be able to meet the customers need for finance. Moreover, motives of competition play a role here as well.

Table 7.2. Breakdown of funds entrusted to the Rabobanks in 1984 (1975).

	In millions of guilders	In per cent
Savings deposits	57,455	61 ( 72)
Credit balances on current account	13,674	14 ( 17)
Time deposits	23,513	25 ( 11)
Total funds deposited	94,642	100 (100)

Table 7.2. shows the total amount of funds deposited in 1984 with the 1975 figures (per cents) shown in brackets.

The perceived shift from ordinary savings deposits to time deposits is accounted for by money and capital market trends.

Savings deposits can be divided into demand savings deposits and fixed-term deposits with terms ranging from three months to six years. They also include private customers' bank deposits.

Savings deposits are an important source of funds for the cooperative banks. Of the total amount of savings balances held with all Dutch banking institutions, more than 40% has been deposited with the Rabobanks. About 15% of the savings entrusted to the Rabobanks derives from the agricultural sector (including those formerly engaged in agriculture).

Payment services have come to be an important element in the array of services which the bank provides its customers. The underlying reason is the huge increase in the 1960s in the number of current accounts

(business accounts) and personal checking accounts. In 1963 current accounts totaled 280,000; and in 1984 they had moved up to 475,000.

In their year of introduction, personal checking accounts numbered 160,000, while they had risen to 1,925,000 in 1974 and to more than 3.2 million in 1984. Mainly responsible for this enormous increase was the massive switch by businesses from cash payment of salaries to their payment by transfer to bank or giro accounts.

The use of personal checking accounts as well as of guaranteed checks and the eurochecks introduced in 1974 has greatly added to the significance of money transfers. In order to insure smooth and speedy processing of transfer payments, the Dutch banks have set up a central clearing institute, the N.V. Bankgirocentrale.

#### *Some key figures*

To wind up this customer service section, the 1984 balance sheet and income statement figures as well as some key figures of the Rabobank group are given.

Table 7.3. A. Rabobank Group Consolidated Balance Sheet as of December 31, 1984.

Assets	Cash and money at call	f	977,078,000		
	Treasury paper	f	3,535,956,000		
	Banks, domestic and foreign	f	23,260,874,000		
	Securities	f	5,177,688,000		
	Advances against Treasury paper and/or securities	f	194,634,000		
	Bills	f	291,363,000		
	Advances to or guaranteed by public authorities	f	16,371,624,000		
	Debtors	f	74,332,219,000		
	Equity investments and amounts due therefrom	f	339,509,000		
	Premises and equipment	f	2,938,108,000		
			f	127,419,053,000	
Liabilities	Own funds	f	6,398,005,000		
	Capital debentures	f	50,000,000		
			f	6,448,005,000	
	Minority interests	f	43,948,000		
	Negotiable paper and unsecured loans	f	13,880,124,000		
	Savings deposits	f	57,455,327,000		
	Time deposits	f	9,583,149,000		
	Creditors	f	20,685,831,000		
	Banks, domestic and foreign	f	17,848,346,000		
	Borrowed funds	f	1,474,323,000		
			f	127,419,053,000	
	Contingent liabilities:				
	guarantees	f	2,560,298,000		
	irrevocable letters of credit	f	251,861,000		
bills discounted with recourse	f	159,990,000			

Table 7.3. B. Consolidated Statement of Income for the year ended December 31, 1984.

Income	Net interest	f	3,508,822,000	
	Commission	f	455,577,000	
	Other income	f	121,492,000	
	Total income			f 4,085,891,000
Expenses	Personnel	f	1,731,365,000	
	General expenses	f	634,697,000	
	Depreciation	f	220,415,000	
	Total expenses			f 2,586,477,000
	Income before provision and taxes	f	1,499,414,000	
	Addition to provision for general contingencies	f	650,763,000	
	Income before taxes	f	848,651,000	
	Taxes	f	(228,115,000)	
	Minority interests	f	(1,975,000)	
	Net income	f	618,561,000	

Table 7.3. C. Rabobank Group Allocation of Net Income.

Added to retained earnings in 1984	<i>f</i>	616,014,000
Added to reserve for undistributed results of minority holdings	<i>f</i>	2,547,000
	<i>f</i>	618,561,000

Table 7.4. Rabobank Group Key Figures.

Amount in millions of guilders	1975	1980	1982	1983	1984
Balance sheet totals	43,220	96,784	110,158	118,286	127,419
Investments and loans:					
Netherlands Treasury Paper	1,805	3,194	4,666	4,621	3,536
Securities	1,832	2,698	3,966	4,649	5,178
Loans and advances to the private sector	26,586	65,788	69,204	75,323	81,015
Other investments	4,880	6,822	8,331	7,258	7,370
Funds entrusted:					
Medium and long term borrowings and time deposits	3,788	18,777	19,983	22,309	23,513
Savings deposits	25,734	47,350	54,759	54,783	57,455
Current accounts: private	3,126	5,492	5,780	6,145	6,527
other	2,992	4,230	5,238	5,941	7,147
Number of					
Member banks	1,050	978	964	955	942
Employees	20,932	26,914	28,020	28,536	29,211
Members (× 1000)	850	986	892	886	880
Savings accounts (× 1000)	6,940	8,300	8,720	8,825	8,975
Current accounts: private (× 1000)	2,055	2,745	2,945	3,080	3,225
other (× 1000)	400	405	420	440	475
Loans (× 1000)	745	920	910	930	965