

COMMISSION OF THE EUROPEAN COMMUNITIES

INTERNAL INFORMATION  
on **AGRICULTURE**

Credit to agriculture

IV. Denmark

**COMMISSION OF THE EUROPEAN COMMUNITIES**

DIRECTORATE-GENERAL FOR AGRICULTURE

Directorate Agricultural Economics – Division «Balance-sheets, Studies, Statistical Information»

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CREDIT FOR AGRICULTURE

## IV.- Denmark

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This study was recently published in English.  
There will be no other version in any of the  
official languages of the Community.

Among the problems involved in attempts to improve agricultural structures, that of financing the necessary investments is of major importance. For this reason, at the request of the Directorate-General for Agriculture a working party of experts has undertaken a study on agricultural credit to provide up-to-date information on the availability of finance and the granting of credit for agriculture in the Member States, and on the changes - in some cases far reaching - in the general terms and conditions for the granting of agricultural credit which have occurred in the last few years.

A similar study, covering the original Member States of the European Community, was carried out in 1972 and 1973. The reports for Belgium, France and Luxembourg were published in the series "Internal Information on Agriculture" N° 102, whilst the report for Germany appeared in N° 104, and that for Italy in N° 113.

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The study published in this issue relates to Denmark. The first part of the report contains a detailed description of the present situation regarding agricultural credit; the scale of this credit in relation to the economy as a whole is made clear. Details of the present indebtedness of the agricultural sector are given.

The influence of the State on the availability of credit generally, the granting of credit for agriculture and the structure and cost of such credit is then analysed. The first part of the report ends with an analysis of the influence of short- and long-term economic developments on agricultural credit.

In the second part, the authors describe the probable development of Danish agriculture up to 1985 and the ensuing effect on capital requirements and agricultural credit; particular reference is made to problems of legislation and the structure of agricultural credit.

The authors conclude that the demand for credit in agriculture, which has been increasing over the last ten years, will very probably continue to expand in the next few years for structural improvements. They do not believe, however, that any major changes in the laws at present in force in this field will be needed. In Denmark, legislation in force does not accord more favourable treatment to agriculture than to other sectors of the economy.

COMMISSION OF THE EUROPEAN COMMUNITIES

INTERNAL INFORMATION  
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Credit to agriculture

IV. Denmark

F O R E W O R D

The present study on Agricultural Credit in Denmark has been carried out within the framework of the study-programme of the Directorate-General for Agriculture, Commission of the European Communities, by

Mr. Erik KROGSTROP  
Director

and

Mr. I. Flyvstrup JENSEN  
Deputy-Director

Dansk Landbrugs Realkreditfond,  
Copenhagen

The results of similar studies for Belgium, France and the G.D. of Luxembourg (1), the F.R. of Germany (2), and Italy (3) have already been circulated.

The Divisions "Balance-sheets, studies, statistical information" and "Conditions of competition and market structures" of the Directorate General for Agriculture have participated in this project.

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The present study does not necessarily reflect the opinion of the Commission of the European Communities and does in no way prejudice its future standpoint on this subject.

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(1) Informations internes sur l'agriculture n° 102 (french, german)

(2) Informations internes sur l'agriculture n° 104 (german)

(3) Informations internes sur l'agriculture n° 113 (italian, french)

## N O T E

The present study relating to agricultural credit in Denmark as one of the New Member States has been prepared along the lines of the initial study carried out for the original six Member States. This was done to ensure a degree of comparability between the relevant chapters of the several country studies, though at times this has been difficult because of differences in institutional structure and statistical collection.

## C O N T E N T S (1)

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	<u>Pages</u>
FOREWORD	(I)
NOTE	(II)
Chapter I/1 Agricultural Credit compared to the Aggregate Issue of Credit in Denmark.....	1
Chapter I/2 The Indebtedness of Agriculture.....	16
Chapter I/3 The State Influence on the Availability and the Allocation of Credits in General as well as Agricultural Credits Specifically .....	19
Chapter I/4 Agricultural Credit - Organisation and Costs of Borrowing.....	33
Chapter I/5 The impact of the Economic Development on Agricultural Credit.....	90
Chapt. II/1 The General Development in the Money - and Capital Market the Development in the Agricultural Credit Area - a Prognosis for the Period until the Middle of the 1980s.....	97
Chapt. II/2 Investment - and Finance Problems in Agriculture - a prognosis to Mid-1980s based on Perspektiv Plan II (PP II).....	108
Chapter III Summary and Conclusions.....	130

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### A n n e x e s

- (1) a detailed Table of Contents is presented at the end of this Volume.



I/1 Agricultural Credit Compared to the Aggregate Issue of Credit in Denmark

By international comparison Danish agriculture is working with a considerable burden of debts. The debts liabilities in relation to the asset values have, during recent years, amounted to about 40 per cent.

Part of the reason for this relatively high encumbrance is that Danish agriculture, almost to 100 per cent, is based upon owner-occupancy where owner and operator is one and the same person.

One of the explanations why it has been possible at all for Danish agriculture to work with such high burden of debts is that agricultural credit has been, and still is, prevailingly characterized by rather long amortization of the loans, even if the repayment periods have been reduced concurrently with the dynamic economic development in the society during recent years where the agricultural production assets have also, necessarily, become subjected to short depreciation periods.

The main sources of agricultural credit are bond loans, banking institution loans and mortgages issued to private lenders. Compared to the agricultural credit in most other countries in Western Europe the credit issue to Danish agriculture has to a larger extent been based upon bond loans, whereas credit given by banking institutions has prevailed in other countries.

It is a noteworthy observation that the lendings from the banking sector to Danish agriculture have been rather stagnant in spite of very considerable borrowings. Inversely, the bond market has, to an ever increasing extent, catered for the credit.

The position is, however, that the banking institutions are involved in part of the bond borrowings because the banks are mediating agents of the bond-issuing institutions. It must, therefore, be understood that the role of the banks - savings as well as commercial banks - in the financing of agriculture is considerably larger than indicated by the bare figures for bank loans issued to agriculture.

(a) Danish agriculture procures its loan capital mainly from the following sources; this chapter deals solely with the primary agricultural sector:

- (i) Bond loans through the mortgage credit institutions;
- (ii) Cash loans through the banking institutions;
- (iii) State loans;
- (iv) Loans from private persons;
- (v) Suppliers' credit.

(i) Bond loans taken through the mortgage credit institutions are long-term loans<sup>x)</sup> with repayment periods between 10 and 30 years. The nominal debtor interest rate on bond loans is unchanged during the repayment period.

Table 1 shows the proportion of loans taken by Danish agriculture in the bond market.

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x) In the present report the definitions of loan terms are the following:

- long-term loans - more than 15 years' repayment period;
- medium-term loans - from 1 to 15 years' repayment period;
- short-term loans - less than 1 year's repayment.

Table 1

Net Issue of Bonds and the Proportion of Issue to  
Agriculture

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1963

Circulating Volume of Bonds at end of year,  
nominal value 29.299mn kr.  
Net Issue during year: nominal amount 3.607mn kr.  
realized proceeds 2.900mn kr.  
Agriculture: 8.3 per cent

1968

Circulating Volume of Bonds at end of year,  
nominal value 62.131mn kr.  
Net Issue during year: nominal amount 9.265mn kr.  
realized proceeds x) 6.700mn kr.  
Agriculture: 9.9 per cent

1972

Circulating Volume of Bonds at end of year,  
nominal value 115.553mn kr.  
Net Issue during year: nominal amount 16.900mn kr.  
realized proceeds x) 13.000mn kr.  
Agriculture: 13.9 per cent

1973

Circulating Volume of Bonds at end of year,  
nominal value 138.653mn kr.  
Net Issue during year: nominal amount 23.100mn kr.  
realized proceeds abt. 16.600mn kr.  
Agriculture: 14.3 per cent

Housing : 70.3 per cent  
Industry : 10.6 per cent  
Others : 4.8 per cent  

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100.0 per cent

Source: Danmarks Nationalbank

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x) The relative increase in the proceeds from 1968 to 1972 is due to the introduction of bonds with higher nominal interest rates: it is not caused by any reduction in the effective interest.

The table shows that Danish agriculture has increased its proportion of loans through the bond market.

The break-down of the bond loans for 1973 shows that the housing sector is the predominating borrower in the Danish bond market. Agriculture has also increased its relative borrowings through the bond market during 1973 but not as much as the housing sector.

The following statement specifies the movements in agricultural borrowings through the bond market for the years 1963/64, 1967/68 and 1972/73 (the fiscal years from 1 April of one year to 31 March the year following):

	million kroner
Outstanding balance on bond loans 1.4.1963	4.880
New bond loans taken 1963/64	659
Repayment on bond loans 1963/64	175 x)
Net borrowings bond loans 1963/64	484 x)
Outstanding balance on bond loans 31.3.1964	5.364
-----	
Outstanding balance on bond loans 1.4.1967	7.226
New bond loans taken 1967/68	1.091
Repayment on bond loans 1967/68	263
Net borrowings bond loans 1967/68	828
Outstanding balance on bond loans 31.3.1968	8.054
-----	
Outstanding balance on bond loans 1.4.1972	11.967
New bond loans taken 1972/73	2.692
Repayment on bond loans 1972/73	457
Net borrowings bond loans 1972/73	2.235
Outstanding balance on bond loans 31.3.1973	14.202

Source: DLR - The Mortgage Credit Fund of Danish Agriculture and De samvirkende danske Landboforeninger (Landøkonomisk Oversigt) - The Federation of Farmers' Unions.

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x) Estimated figures.

(ii) The cash loan market in the banking institutions (commercial banks and savings banks) provides loans at variable debtor interest and on short to medium-term repayment.

In principle there are no differences in credit terms offered by commercial and savings banks.

Table 2 shows the proportion of loans issued by savings banks to agricultural debtors during four selected years.

Table 2

Savings Banks Loans against Mortgages in Agricultural Properties in Proportion to the Total Loan Issues by Savings Banks. Data from Savings Banks with a Deposit Volume of at least 5 million kroner.

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1963, end of year	million kroner
Total lendings	7.453
Proportion of agricultural mortgage loans:	20.1 per cent
1968, end of year	
Total lendings	11.865
Proportion of agricultural mortgage loans:	13.4 per cent
1972, end of year	
Total lendings	16.412
Proportion of agricultural mortgage loans:	8.9 per cent
1973, end of year (estimate)	
Total lendings	20.500
Proportion of agricultural mortgage loans:	7.3 per cent

Source: Statistiske Efterretninger - Statistical News, Danmarks Statistik, and Danmarks Nationalbank.

Lendings from the savings banks to agriculture amounted to 25 per cent of the total issues during the 1950s but after 1960 this proportion has been declining.

The table shows how the loans to agriculture have decreased quite considerably as a proportion of the total loan issues of the savings banks. These banks were rather intensively engaged in the normal mortgage credit for agriculture before 1960. Operational credits are typically secured by chattel mortgages and have not been included in table 2. The total credit issued to agriculture by the savings banks may, therefore, represent bigger amounts than shown in the table, and the data provided in it may, for this reason, be taken only as the best indication of the relative importance of agriculture to the entire activity of the savings banks. Savings banks lendings to Danish agriculture are in the category of short to medium-term credit with the main emphasis on the latter.

The following statement specifies the movements in the agricultural borrowings from savings banks during the individual fiscal, April to March, year:

	million kroner
Outstanding balance on savings banks loans 1.4.1963	1.497
New loan issues 1963/64	166
Repayments 1963/64 (estimate)	137
Net loan issue 1963/64 (estimate)	29
Outstanding balance 31.3.1964	1.526
Outstanding balance 1.4.1967	1.610
New loan issues 1967/68	137
Repayments 1967/68	155
Net loan issue 1967/68	- 18
Outstanding balance 31.3.1968	1.592
Outstanding balance 1.4.1971	1.511
New loan issues 1971/72	205
Repayments 1971/72	238
Net loan issue 1971/72	- 33
Outstanding balance 31.3.1972	1.478

Source: De samvirkende danske Landboforeninger (Landøkonomisk Oversigt).

Table 3 shows the proportion of loans issued to agriculture by commercial banks.

Table 3

Commercial Bank Credit and the Proportion of Issues to Agriculture. (Data on agricultural loans by banks against mortgage security in farm properties).

	million kroner
<u>1963</u>	
Credit Volume, portfolio at end of year	13.519
Agriculture:	9.5 per cent
<u>1968</u>	
Credit Volume, portfolio at end of year	23.408
Agriculture:	7.4 per cent
<u>1972</u>	
Credit Volume, portfolio at end of year	32.492
Agriculture:	5.8 per cent
<u>1973</u>	
Credit Volume, portfolio at end of year (estimate)	40.600
Agriculture:	4.8 per cent

Source: Statistiske Efterretninger and Danmarks Nationalbank.

The proportion of agricultural borrowings to the total commercial bank lendings was 10-11 per cent during the 1950s but it has been declining evenly during the 1960s into the 1970s. The decline has been relatively smaller than was the case for the savings banks ratios.

The commercial bank loans are, like the savings banks loans, in the category of short to medium-term credit and there are no differences between the two groups of banks in respect of loan purposes and terms.

Table 3 comprises only the part of the commercial bank credit granted against first priority mortgages in agricultural properties. Other agricultural credit by banks, such as financing of hire-purchase contracts and discount credits on promissory notes and bills of exchange, is not included.

The following statement specifies the movements in the agricultural borrowings from commercial banks during individual fiscal years:

Loans to Agriculture from Commercial Banks

	million kroner	
Outstanding balance on commercial bank loans 1.4.1963	1.216	
New loan issues 1963/64	172	
Repayments 1963/64	108	x)
Net loan issue 1963/64	64	x)
Outstanding balance 31.3.1964	1.280	x)
Outstanding balance 1.4.1967	1.717	
New loan issues 1967/68	136	
Repayments 1967/68	153	
Net loan issue 1967/68	- 17	
Outstanding balance 31.3.1968	1.700	
Outstanding balance 1.4.1971	1.633	
New loan issues 1971/72	188	
Repayments 1971/72	196	
Net loan issue 1971/72	- 8	
Outstanding balance 31.3.1972	1.625	

Source: De samvirkende danske Landboforeninger  
(Landøkonomisk Oversigt).

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x) Estimated figures.



(iii) State Loans.

As an aspect of agricultural policy state loans have been granted at favourable terms of interest to certain defined groups of agriculturists.

	million kroner
Outstanding balance on State loans 1.4.1963	666
New loan issues 1963/64	52
Repayments 1963/64	60 x)
Net loan issue 1963/64	- 8 x)
Outstanding balance 31.3.1964	658 x)
Outstanding balance 1.4.1967	755
New loan issues 1967/68	60
Repayments 1967/68	37
Net loan issue 1967/68	23
Outstanding balance 31.3.1968	778
Outstanding balance 1.4.1971	1.031
New loan issues 1971/72	114
Repayments 1971/72	56
Net loan issue 1971/72	58
Outstanding balance 31.3.1973	1.089

One reason why the volume of state loans to agriculture has grown during the past 10 years is that during this period it was made possible to commute ground rental liabilities into ordinary state loans. Because of the introduction of this facility the increase cannot be considered entirely as a straight increase in the volume of credit.

Source: De samvirkende danske Landboforeninger  
(Landøkonomisk Oversigt).

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x) Estimated figures.

(iv) Loans from Private Persons.

It is usually in connection with sale of agricultural properties that private creditors come into the picture with registered seller's mortgage letters. As a rule these loans carry a fixed rate of interest and they have a medium-term repayment period. Variable rates of interest may occur but the repayment will rarely exceed 15 years. In family transactions straight loans may be established, which means that the principal will mature only at the creditor's death.

	million kroner
Outstanding balance on private registered mortgages 1.4.1963	3.158
New debts registered 1963/64	390
Repayments 1963/64	493
Net debts registered 1963/64	- 103
Outstanding balance 31.3.1964	3.055
Outstanding balance 1.4.1967	5.122
New debts registered 1967/68	1.300
Repayments 1967/68	490
Net debts registered 1967/68	810
Outstanding balance 31.3.1968	5.932
Outstanding balance 1.4.1971	8.296
New debts registered 1971/72	not available
Repayments 1971/72	not available
Net debts registered 1971/72	129
Outstanding balance 31.3.1972	8.425

Source: De samvirkende danske Landboforeninger  
(Landøkonomisk Oversigt)

(v) Suppliers' Credit.

	million kroner
Debts to suppliers 1.4.1963	958
New debts incurred 1963/64	222
Repayments 1963/64	184
Net debts incurred 1963/64	38
Debts to suppliers 31.3.1964	996
Debts to suppliers 1.4.1967	1.829
New debts incurred 1967/68	875
Repayments 1967/68	300
Net debts incurred 1967/68	575
Debts to suppliers 31.3.1968	2.404
Debts to suppliers 1.4.1971	3.986
New debts incurred 1971/72	206
Repayments 1971/72	370
Net debts incurred 1971/72	- 164
Debts to suppliers 31.3.1972	3.822

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Suppliers' credit taken by agriculture is assumed to have been drawn for the following purposes:

Machinery	40 per cent
Feeds and other inputs	50 per cent
Live stock	10 per cent

Source: Statistiske Efterretninger and Landøkonomisk Oversigt.

The total indebtedness of Danish agriculture in million kroner and (in brackets) percentages:

	<u>31.3.1964</u>	<u>31.3.1968</u>	<u>31.3.1972</u>
Bond loans	5364 (42)	8054 (39)	11967 (42)
Savings Banks loans	1526 (12)	1592 ( 8)	1478 ( 5)
Commercial Banks loans	1280 (10)	1700 ( 8)	1625 ( 6)
State loans	658 ( 5)	778 ( 4)	1089 ( 4)
Private lenders	3055 (23)	5932 (29)	8425 (30)
Suppliers' credit	996 ( 8)	2404 (12)	3822 (13)
Total	<u>12879</u>	<u>20460</u>	<u>28406</u>

The ascertainment of agricultural indebtedness and the distribution of the total debts is imbued with considerable uncertainty. Since 1954 no thorough and reliable statistical survey has been made on the credit conditions of agriculture in Denmark. The degree of certainty in the different credit sections is commented upon as follows:

- (i) The bond loan data have been given with a high degree of accuracy;
- (ii) The savings banks agricultural credit data are rather correct as far as the mortgage loans are concerned;
- (iii) The commercial bank data are very uncertain;
- (iv) The state loan data are correct;
- (v) The registered mortgage debt to private persons has been computed as a balance between a sampled statement of the total mortgage encumbrance and the mortgage debts to the agencies under (i) to (iv), and the data are subject to the uncertainty inherent in such probing and computation. The sampled data originate from the 2000 properties included in the surveys made by the Landøkonomisk Driftsbureau (the Institute of Farm Management and Agricultural Economics);

- (vi) The suppliers' credit has been ascertained as a sampled aggregate of the agricultural debts less the mortgage encumbrances mentioned in (i) to (v) and the data accuracy is rather defective.

The statements on the various sections of debts must, however, be considered an adequate expression of the proportions in the Danish agricultural debts distribution and of the relative position of agriculture in the country's credit system; the statements have special validity as far as credit from bond-issuing institutions, savings banks and commercial banks is concerned.

(b) The Agricultural Proportion of the Capital Formation.

Table 4 shows that agricultural capital is concentrated in the fixed property with its accessory equipment.

Table 4

Consolidated Balance Sheet of Agriculture.

	<u>1963</u>	<u>1968</u>	<u>1972</u>
	million kroner		
Commercial value of the agricultural capital	30.309	44.199	64.621
Other assets in farmers' possession	1.994	3.419	5.559
Total indebtedness in agriculture	12.375	20.460	28.406

Source: De samvirkende danske Landboforeninger and Danmarks Statistik

The item of other assets comprises cash deposits in banks, negotiable papers, real estate etc. - The item also covers shares and balances in operational revolving accounts in the agricultural co-operatives.

The item of other assets has amounted to the following parts of the working capital during recent years:

1963:	6.6 per cent
1968:	7.7 per cent
1972:	8.6 per cent

Table 5 illustrates the capital formation development in agriculture during the period 1955-1972 at current prices.

Table 5

Capital Changes in Agriculture, million kroner per year (approximate figures).

	<u>1955-59</u>	<u>1960-64</u>	<u>1963-68</u>	<u>1968-72</u>
1. Gross borrowings	1050	1700	2600	3900
2. Repayment on debts	<u>500</u>	<u>800</u>	<u>1270</u>	<u>1700</u>
3. Net borrowings	550	900	1330	2200
4. Increased bank deposits	<u>50</u>	<u>100</u>	<u>280</u>	<u>500</u>
5. Net increase of debts	<u>500</u>	<u>800</u>	<u>1050</u>	<u>1700</u>
6. New investments	550	1050	1700	2200
7. Depreciation	<u>400</u>	<u>600</u>	<u>750</u>	<u>950</u>
8. Net investments	<u>150</u>	<u>450</u>	<u>950</u>	<u>1250</u>
9. Decline in owners' equity (5 - 8)	350	350	100	450
10. + Debt increase at purchase of property	<u>300</u>	<u>400</u>	<u>450</u>	<u>750</u>
11. Capital formation in agriculture (10 - 9)	- 50	+ 50	+ 350	+ 300
	=====	=====	=====	=====

Source: De samvirkende danske Landboforeninger and Danmarks Statistik.

The table shows that the capital formation in Danish agriculture during the 1960s and into the 1970s has been modest. The background is the increased borrowings in connection with purchase of farms as a consequence of the rising prices on agricultural properties. Increased investments have drawn development in the same direction. During recent years the investments have been made mainly to maintain animal husbandry farming by the construction of rational buildings, following the large-scale migrations of labour through the 1960s.

As shown in table 4 agriculture has been able, nevertheless, to increase its net equity.

Note: Where the source of information has been quoted as "De samvirkende danske Landboforeninger (Landøkonomisk Oversigt)" the data have been taken from the official Danish statistics; the data have primarily been processed by the federation of the farmers' unions for annual publication in Landøkonomisk Oversigt and they have then been processed and adapted to the present report.

I/2 The Indebtedness of Agriculture.

As shown below the relative debt load in agriculture has been rather constant in the years under review. The table contains data solely from the primary agricultural sector. By the primary agricultural sector is understood the normal farm properties including their live stock and production equipment. The debts as a ratio on the total assets have been:

<u>1963</u>	<u>1968</u>	<u>1972</u>
40 per cent	43 per cent	40 per cent

Table 6.

		million kroner at end of March		
		<u>1963</u>	<u>1968</u>	<u>1972</u>
<u>Assets</u>				
Land		8.614	12.475	18.146 <sup>x)</sup>
Housing build- ings		4.953	7.970	11.593
Operational buildings		7.968	14.207	20.666
Live Stock		4.452	6.136	9.073
Machinery and Equipment		2.728	3.411	5.143
Other Assets		<u>1.959</u>	<u>3.419</u>	<u>5.559</u>
		<u>30.674</u>	<u>47.618</u>	<u>70.180</u>
<u>Liabilities</u>				
Bond loans	xx) medium- and long-term	4.880	8.054	11.967
Commercial and Savings Banks loans	short- and medium-term	2.713	3.292	3.103
State loans	long-term	666	778	1.089
Registered Private Mortgages	medium-term	3.158	5.932	8.425
Loose (unregistered) Debts	short- and medium-term	958	2.404	3.822
Own Capital		<u>18.299</u>	<u>27.158</u>	<u>41.774</u>
		<u>30.674</u>	<u>47.618</u>	<u>70.180</u>

x) 11.7 per cent of the Danish agricultural area was tenanted in 1972 as against 7.8 per cent in 1968. The increase in tenancy cultivation is mainly due to the establishment of land leases between farmers, for instance by elderly farmers during the last years of their occupancy before they sell their properties.

Table 6 is, therefore, acceptable as a rather exact approximation towards the balance sheet position of the agricultural sector. That the increase in tenancy is almost exclusively due to tenancy between



farmers is explained by the fact that the churches, the insurance companies and the State are not landlords in Denmark. Corporate bodies can acquire land only by special concession in each individual case.

xx) short-term	:	less than 1 year repayment period
medium-term	:	1-15 years repayment period
long-term	:	more than 15 years

Source: Danmarks Statistik.

The break-down of the total value for land, housing buildings and operational buildings should be accepted with some reservations. Commercial values are only estimates, because an agricultural property in the eyes of Danish law is an entity and only in exceptional cases can the sale of single components be permitted.

In the context of Danish conditions it is irrelevant to make a separate assessment for standing growths (of trees and bushes) for instance fruit trees. One reason for this circumstance is that the proportion of the area of fruit trees is quite insignificant and it is a debatable asset after Denmark's entrance into the ECC.

In comparison with a table in the chapter on the PP II on the agricultural technical working capital some incongruity will be found; the latter contains some higher amounts for live stock and building values. The break-down is, in both tables, a matter of estimates but it would appear that the live stock values cannot be put much lower than has been done in table 6, taking into consideration the size of the live stock asset and the current commercial prices.

The occupational assets in agriculture, as a ratio of kroner to hectare, have shown the following relationships:

Agricultural assets

	kroner/hectare
1963	9.570
1968	14.730
1972	21.540

For comparison are given the commercial prices actually realized in kr./ha for fixed property (land and buildings) by sales of agricultural properties in open trade transactions:

1963	7.580
1968	10.910
1972	15.230

The property prices were doubled from 1963 to 1972.

Table 7. The Impact of Interest Costs on the Agricultural Production.

	Ex farm produc- tion value	Gross factor income ex farm	Effective interest costs	Interest Costs ratio on production value	Interest Costs ratio on gross factor income	Average effect. interest per cent per annum
1960-64	7.421	4.961	640	8,6	12,9	5,94
1965-69	8.847	5.901	1.217	13,8	20,6	7,11
1970	9.666	6.307	1.956	20,2	31,0	8,45
1971	10.241	6.730	2.092	20,4	31,1	8,53
1972	11.640	7.874	2.105	18,1	26,7	8,18

Source: Computed by De samvirkende danske Landboforeninger and published in Landøkonomisk Oversigt 1973.

The total interest costs in agriculture have amounted to an increasing part of the production cost until 1972 - cfr. table 7. In 1972 a minor relative decline in the interest cost took place as a consequence of the considerable price raises for agricultural products. The relatively low effective interest rates quoted are explained by the influence of old bond loans at fixed rates of interest.

Note: Where the source of information has been quoted as "De samvirkende danske Landboforeninger (Landøkonomisk Oversigt)" the data have been taken from the official Danish statistics; the data have primarily been processed by the federation of the agricultural association for annual publication in Landøkonomisk Oversigt and they have then been adapted to the present report.

I/3 The State Influence on the Availability and the Allocation of Credits in General as well as Agricultural Credits Specifically.

As is the case in other countries, Danish legislation intervenes into a number of fields of the money and investment markets of the country.

In the following text some general legislative provisions are described under (A) and those directed specifically towards agriculture are mentioned under (B).

(A) General provisions.

General legislation covers the following different areas:

- (a) legislation on the money market as administered by the commercial banks and the savings banks;
- (b) legislation on the investment capital market covering the institutions authorized to issue bonds;
- (c) legislation on other matters;

(A)-(a) Legislation on Commercial Banks and Savings Banks.

The legal basis for the organization and operations of the commercial banks and the savings banks was previously a Bank Act (No.169 of 15.6.1956) and a Savings Banks Act (No. 8 of 15.1.1960). New legislation to replace these acts was passed in March 1974 to define more extensively and precisely the common guidelines for the operations of the commercial banks and the savings banks.

The legislation on banks and savings banks lays down the terms for the liquidity and financial position (solidity) required to ensure that the banking institutions are able to meet their obligations at all times and that they offer adequate security for the depositors' balances.

Besides fulfilment of the legal requirements for liquidity and solidity (own funds position) in the individual banking enterprise the sector, as a whole, has been obliged over the years, to harmonize lendings with the national economic policies and politics. This harmonization has been carried out under some framework agreements between the Danish central bank, Danmarks Nationalbank, and the national

organizations of the commercial banks and the savings banks; the most recent credit restriction imposed upon the banks is that the actual lending volume during the years of 1969-1970 shall constitute a ceiling for loan issues during the years following this basic period.

The rationale of the restrictive lending ceiling was that it should prevent excessive credit expansion from sapping the efforts to improve the national balance of payments. The ceiling has been upheld, in principle, but it has been modified several times, the motivation being that the central bank has wanted to maintain the economic activity at such levels as were compatible with the foreign exchange situations.

Originally the restrictions under the ceiling did not apply to the medium-term and long-term investment lendings of the savings banks, part of which loan issues was made for agricultural purposes; as of December 1973 the ceiling has been applied more effectively, and the investment loans advanced by the savings banks have now been included under the restriction agreements.

A special legislative measure was introduced by the Act on Credit Administration of 17.10.1973 authorizing the Minister of Economic Affairs to impose credit restrictions and supervise the credit issue of the banks; the Government wanted an enactment covering the agreements between the central bank and the banking sector so that, in certain circumstances, the way would be clear for direct Government intervention to enforce the ceiling regulations. One other reason for the passing of this act was that the Government was not satisfied that the economic resources, and amongst them the institutional lending, had been channelled and distributed in reasonable accord with the aims and targets for the economic policies of the country.

During the debate on the Credit Administration Bill emphasis was placed on the fact that housing loans and lendings for

consumers goods had increased sharply whilst, at the same time, credit issues for production purposes had risen at a considerably lower rate. In the context of this report no examples on the present and future application of the rules under the Credit Administration Act are given; the fact is that the Government has let it be understood that it would prefer not to be brought into a situation where direct intervention by the State would be found necessary. The Ministry would prefer that the regulations were administered in a satisfactory manner, from a public policy point of view, under the voluntary agreements between the central bank and the banking institutions to observe the same purposes as were laid down in the objectives of the bill.

Based upon the Act on Credit Administration of 17.10.1973 a new agreement on guidelines for lending restrictions was made between the central bank and the banking institutions.

One aspect of this agreement is that the banks and savings banks have obliged themselves, in specific terms, to curtail lendings for certain defined purposes; they have undertaken to be most reticent in their issue of consumers loans. This means, amongst other things, that personal salary account advances which were granted almost automatically on request prior to the new agreement, will be drastically cut.

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During recent years a marked movement of amalgamations has reduced the number of Danish banking institutions; at the same time a considerable growth has taken place in the size of the average balance sheet.

The annual reports from the Bank and Savings Bank Inspection Department highlight these developments.

The number of commercial banks was reduced from 142 to 78 during the period of 1965-1973; the average balance sheet

rose, during the same years, from 229 mn to 980 mn kroner. The number of savings banks declined from 434 in 1965 to 263 in 1973, but the average balance sheet size rose from 28 mn to 99 mn kroner.

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(A) - (b) Legislation on the Capital Market in respect of the Bond-issuing Institutions.

The issue of bonds for sale into the capital market has a long tradition and for more than a hundred years a number of bond-floating mortgage credit institutions have been in operation. During the 1960s a Government commission studied this type of investment credit and when its report had been published and adopted a departmental committee drafted new legislation for the mortgage credit institutions, resulting in the Mortgage Credit Act of 10.6.1970 with later amendments.

This act provided for the fusion of the former first mortgage and the secondary mortgage credit associations into relatively few, large institutions. One of the important features of the mortgage credit reform, brought about by the act, is a change in the repayment periods which were considerably shortened compared to previous practices.

The institutions operating under the Mortgage Credit Act draw their funds solely from the issue of bonds.

The term of the loans in respect of credit limits in relation to value assessments and repayment periods are listed in the following table for different categories of properties (classified under the letters A to E):

LOAN LIMITS AND REPAYMENT PERIODS UNDER THE MORTGAGE CREDIT ACT  
(Act No. 281 of 10th June, 1970, with later amendments.)

Category of property	Maximum loan limit and repayment period	Construction		Purpose of mortgage		Supplementary mortgage
		Ordinary mortgage credit	Special mortgage credit	Rebuilding and extension	x)	
A Detached and terrace houses and freehold flats for permanent residence (owner-occupancy or for sale)	Loan limit (%)	40%	80%	40%	No credit facilities	40%
	Repayment period (years)	30 years	20 years	10 years (20 years) <sup>1)</sup>		10 years (20 years) <sup>3)</sup>
B Property for rental (permanent residence)	Loan limit (%)	40%	80% (95%) <sup>4)</sup>	40%	75%	40%
	Repayment period (years)	40 years	30 years	20 years <sup>2)</sup>	20 years <sup>2)</sup>	10 years
C Agricultural forestry and horticultural property	Loan limit (%)	50%	5)	50%	5)	50% <sup>5)</sup>
	Repayment period (years)	30 years		30 years		30 years
D Property for use as offices, business, hotels, industry, trades and fishing-industry accommodation	Loan limit (%)	40%	60% <sup>6)</sup>	40%	No credit facilities	40%
	Repayment period (years)	20 years	15 years <sup>6)</sup>	10 years		10 years
E Other property, e.g. holiday cottages	Loan limit (%)	40%	No credit facilities	40%	No credit facilities	40%
	Repayment period (years)	10 years		10 years		10 years

- x) In addition to what is shown in the table, the value of rebuilding extensions can be mortgaged as "newly constructed property" if the rebuilding or extension itself is of such character that it can by itself be considered a construction. This will be the case particularly if the cost exceeds 100 per cent of the property value prior to rebuilding or extension, or if the addition represents a unit capable of functioning independently.
- 1) 20-year loans can be issued on single-family or terrace houses if the value of the improvement amount to at least 15 per cent of the construction value prior to the completion of the improvement. The 20-year loan cannot exceed 40 per cent of the increase in value resulting from the improvement.
  - 2) It is a condition of mortgages for 20-year periods that the rebuilding extension increases the number of apartments and the living space, or that the property is modernized, and that the value of the improvement equals no less than 15 per cent of the assessed value before the improvement is carried out. The loan shall not exceed 75 per cent of the increase in value brought about by the improvement.
  - 3) A 20-year loan can be granted on change of ownership within a year following the transfer of the title to the property to the new owner.
  - 4) Against guarantee by the State, county or by a credit insurance company the loan limit is increased to 95 per cent for non-profit rental housing. To this may be added loans from the National Building Fund. (Landsbyggefonden).
  - 5) For agricultural and similar properties the Dansk Landbrugs Realkreditfond grants loans up to 70 per cent in connection with ownership changes or investments, with repayment periods up to 30 years.
  - 6) For industrial and similar properties special mortgage credits are granted through Industriens Hypotekfond.



Ordinary farm properties are classified in group C and agricultural co-operative enterprises are in the D-category.

The institutions at present operating under the Mortgage Credit Act are listed in the following table. The geographical business area for each institution is indicated and so is the category of landed property which the individual mortgage credit association is entitled to serve. It is also shown whether the institutions are authorized to grant ordinary (first mortgage) credit to the different categories of borrowers and whether they can, at the same time, issue special (second mortgage) credit to their debtors.

Bond-issuing Institutions under the Mortgage Credit Act

Name of Land Mortgage Credit Association	Area of Operations	Category of Debtor Property		
		A,B and E Housing	D Industry, Trade (including Co-operative Enterprises)	C Agriculture Forestry Horticulture
Kreditforeningen Danmark	All Country	Ordinary and Special Credit	Ordinary Credit	Ordinary Credit
<u>Forenede Kreditforeninger</u>	<u>Danish Islands</u>	same	same	same
<u>Jyllands Kreditforening</u>	<u>Jutland</u>	same	same	same
<u>Byggeriets Realkreditfond</u>	<u>All Country</u>	same	No operations	No operations
<u>Industrielle Kreditforening</u>	<u>All Country</u>	No operations	Ordinary Credit	No operations
<u>Industriens Hypotekfond</u>	<u>All Country</u>	No operations	Special Credit	No operations

Categories A, B, C and D are defined in the first column of the preceding table.

Reference is made to the details in section I/4 on the character and extent of the authority given to different mortgage credit institutions to grant ordinary credit against mortgages in common farm properties.

Details are given also in I/4 on the operative regulations for the five associations permitted to grant ordinary or special mortgage credit to agricultural co-operative enterprises.

It must be noted, however, that the Mortgage Credit Act of 10.6.1970 does not apply to all the bond-issuing mortgage credit institutions in Denmark.

By separate act of parliament the Dansk Landbrugs Realkreditfond - the DLR - was established in 1960 (Act No. 278 of 7.7.1960, amended by Act No. 79 of 20.3.1964).

DLR was founded to grant loans for defined purposes (transfer of farm properties to new owners, investments in farm buildings, land improvements, farm machinery etc.) primarily against secondary mortgages in land, buildings, installations, movables and livestock, which according to law is an integral part of the farm property. The applicant's personal credit worthiness is examined in addition to the property valuation. Details on the DLR's mode of operation are given in I/4. DLR loans are effected solely by the issue of bonds. The DLR is authorized to grant mortgage loans to farm properties only and cannot lend to agricultural co-operatives.

Legislation has also been introduced to permit the establishment of new bond-issuing credit institutions to contribute to financing services to enterprises in special fields of economic activities (Act No. 332 of 5.12.1958). Until this year (1974) only one such institution called Finansieringsinstituttet for Industri og Haandværk - the Manufacturing and Manual Industries Finance Corporation - established in 1958, has been set up under this act. The repayment period for loans from this institute is a relatively short one; the institute has been organized and registered as a joint-stock company. The details on its operations have been mentioned in section I/4 in the context of information on the possibilities of financing co-operative enterprises. Ordinary farm properties are ineligible for loans from the institute.

The bond-issuing institutions mentioned so far have set up, in 1972, a joint body called Realkreditrådet - the Mortgage Credit Council. The objectives of this council are the following:

(i) to assist in directing the administration of mortgage credit towards the highest possible degree of economic and social utility;

(ii) to attend to the interests of the mortgage credit institutions

internally by developing co-operation between the institutions, and

externally by representing the institutions vis-a-vis governmental authorities and the general public;

(iii) to take care of the interests of the bond-issuing institutions in the Københavns Fondsbørs (the Copenhagen Stock Exchange).

Through the council the Ministry of Housing inspects the bond-issuing institutions working under the Mortgage Credit Act of 1970 to assure the Government that they operate in accordance with the spirit and letter of the act.

This inspection and control is, primarily, exercised through an arrangement whereby the Ministry of Housing has a representative in the board of directors of each of the institutions operating under the act. Another measure of control is that the bond-issuing institutions, which are subject to this ministerial control and inspection, report systematically and regularly to the Mortgage Credit Council on their loan operations and their financial status; the Ministry of Housing is also represented in the council by appointing three persons from ministries and from Denmark's Nationalbank (the central bank) to participate in the meetings of the council, for the purpose of exercising their duties as inspectors and comptrollers on behalf of the authorities.

This report system should enable the Government and the central bank to control, for instance, the criteria guiding

the institutions in their assessment procedures for property values as well as the principles adopted for the fixation of loan limits.

The background for the introduction of these control measures was a situation where sharp competition developed between the large bond-issuing institutions; this competitive situation expressed itself in such high volumes of bond issues that the authorities became concerned about the effect on the capital market and the national economy.

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Dansk Landbrugs Realkreditfond operates under the jurisdiction of the Ministry of Agriculture which inspects the DLR affairs but which is not represented on the board of directors of the DLR. DLR is a member of the Mortgage Credit Council.

The Manufacturing and Manual Industries Finance Corporation is under the jurisdiction of the Ministry of Commerce, Industry and Shipping.

Besides the bond-issuing institutions mentioned in this section, a special institute has been established to finance the building of ships; it is called Danmarks Skibskreditfond - the Ships Credit Fund of Denmark - and has been set up under a separate act (No. 143 of 17.5.1961). This act provides that vessels, built in Denmark, can be financed by the fund up to 80 per cent of the total building cost with loans having a maximum repayment period of 8 years; the central bank is authorized to buy the bonds at par. The bonds carry interest at  $7\frac{1}{2}$  per cent per annum, and the terms of this credit facility, therefore, mean a most essential subsidy to the ship building industry of the country.

(A) - (c) legislation on other matters.

Certain parts of Denmark, mainly in Northern and Western Jutland, have been classified as "egnsudviklingsområder" - special development regions - and legislation has been introduced to provide incentives to the location of enterprises in these areas. The facilities offered under this legislation are direct subsidies towards investments as well as "soft" loans for the establishment of new enterprises and for the resettlement of industries moving from other parts of the country into the development regions. Agricultural co-operative enterprises are, in principle, eligible for such public support when they establish themselves in the development regions.

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(B) Special Government Schemes for Agricultural Credit.

The agricultural co-operatives have enjoyed no special priority treatment from the Government in the field of credit before Denmark joined the EEC.

It may be recalled that there has never been any special legislation in Denmark ruling the statutory establishment of co-operative societies and their operations.

Denmark's membership of the EEC has opened up the possibility of obtaining investment support for agricultural co-operative enterprises from the common agricultural fund of the FEOGA.

The availability of such subsidies is, amongst other things, conditioned by contributions from the Danish state of some investment subsidy to such enterprises. This matter is dealt with in detail in I/4. The subsidy contribution from the state under the FEOGA scheme would be the only point at which the Danish Government would be involved in the financial affairs of co-operative societies in the country.

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For normal farm properties certain subvention arrangements are still in existence in some special fields, most of them tinged by old traditions:

- (i) state loans for purchase of additional land for small-holdings, and in some cases to facilitate amalgamation of farms,
- (ii) state loans in connection with land consolidation schemes for the purpose of establishing new farm-holdings,
- (iii) state loans to commute ground rents; the loans are granted at low rates of interest,
- (iv) state loans for initial settlement of young farmers, granted at low rates of interest,
- (v) state loans for small-holders' purchasing and supply associations; the loans are issued at low interest rates and the funds are very restricted,
- (vi) interest subsidies from the state in connection with investment in farm buildings and for the purchase of livestock - the "Modernization Subvention Scheme" under an act of 26.4.1973,
- (vii) the "Housing Costs Loan Scheme" for agricultural workers' houses.

A detailed description of the loans mentioned under (i) to (v) above is given in I/4 because these state loans are part of the general Danish pattern of agricultural finance with the difference, only, that the state furnishes the funds at favourable, "soft" rates of interest.

On point (iv) - the conversion loss loans - supplementary information is given in annex 3.

For point (vi) reference may be made to annex 2. The interest subsidy from the state is of a similar character as found in other common market countries, although the scheme has been adapted to Danish conditions. Prior to the present modernization scheme the Government supported a scheme for interest subsidies on more liberal lines than those now followed.

The Housing Costs Loan Scheme (Act No. 238 of 27.5.1971), point (vii), is a modification of a former scheme for state

loans for agricultural workers' houses. Under the old scheme it was possible for a farm-owner to build workers' houses with himself as the proprietor just as the individual worker could build his own home with himself as the holder of the title; both forms of ownership were eligible for state loans at low interest and with a very long period of repayment. By the new act of 1971 these old arrangements have been replaced by what is called "boligdriftslån" - housing costs loans.

The principle of this facility is that these houses for agricultural workers or employees must be financed through the normal finance institutions, which will, in the vast majority of cases mean the mortgage credit associations.

Housing costs loans can then be obtained from the state to reduce the loan payments during the first years to a lower level than the normal bond loan conditions. Inversely a repayment of the state loan must be made by instalments when the halfyearly bond loan payments have been reduced below a certain level.

Until the introduction of the new housing loan scheme quite a considerable number of rural workers houses were built with state loans under the former act, for instance, during the fiscal year of 1972/73 600-700 houses. In the year of 1973/74 applications for housing costs loans under the new act have been received for only 97 houses, out of which 87 have been approved.

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Public measures have been introduced to reduce the cost of credit for the benefit of borrowers outside of the agricultural sector and it is found pertinent to compare such non-agricultural credit subventions to those available to agriculturists.

Only the housing sector will be mentioned in the following, because it is towards this sector that the main part of the public subsidies to lower the costs of credit is directed, although, as already said, such support is also given to the ship building industry.

In housing the interest subsidies are confined to the non-profit housing sector managed by social and co-operative building associations or by other "common good" bodies.

During recent years this housing sector has built about one fourth of the annual output of family dwellings (most of them tenements). The subsidy is given in the form of a treasury grant towards the payment of the current interest on mortgage loans raised in the normal market at the terms valid for such credit. The credit limits of the mortgage institutions may go as high as 95 per cent on the total cost of building (inclusive of land, construction loan interest, costs of documents etc.), as seen from the table on page 23 under category B and note 4. At the present time the treasury subsidy towards the credit costs in the social house-building sector amounts to about 500 mn krcner a year.

To this information must be added, that the owners of private living houses enjoy the right of deducting the difference between the interest on mortgage loans and a computed rental charge on the house when submitting their annual returns for income taxation. Such tax reduction may be weighed to balance the interest subsidy benefiting the occupiers of flats in the social housing sector.

A comparison of the lowering of credit costs in the agricultural sector to similar measures in other economic areas, as required by the request for the present report, is not so relevant for Danish conditions that a detailed expose is justified. By far the larger part of credit to agriculture in Denmark is channelled through commercial banks, Andelsbanken (the Danish Cooperative bank), savings banks and the mortgage credit institutions. These funds are being provided at the current interest rates.



I/4 Agricultural Credit - Organization and Costs of Borrowing

The text of this section is a description of the pattern of financing the primary production sector of agriculture and the costs involved in it; an outline of the credit facilities open to co-operative enterprises will also be given.

The primary agricultural sector.

The pattern of agricultural credit illustrates the fact that there is a highly developed division of functions between the medium-term and long-term lending by the bond-issuing institutions on the one hand and the medium-term and short-term credit handled by the savings banks and commercial banks on the other. Into the pattern come also the different kinds of lendings by the treasury, modest compared to the total credit volume, but still, in certain schemes of a considerable effect. Private mortgages - often with medium-term repayment - also play a role of some importance. In Denmark the agricultural sector is also to a rather considerable extent financed by suppliers' credit in open account and by instalment (hire-purchase) credit contracts.

Suppliers' credit and contract debts are not entered into the land register records for the properties as is the case for other debts in the category of mortgages. As the sources of credit open to agriculture in Denmark are rather numerous the inter-priority position of the registered loans and the possibility of getting the assent from certain older creditors to yield in favour of new mortgages presents problems of some importance. These questions will, therefore, be given some attention in the following text.

1. Loans with issue of bonds.

As said in I/3 four bond-issuing institutions, the three mortgage credit associations and the DLR, are offering loans to agriculturists;

The Mortgage Credit Association Denmark	-	all country
The United Mortgage Credit Association	-	Zealand, Funen and other islands
The Jutland Credit Mortgage Association	-	Jutland
The Mortgage Credit Fund of Danish Agriculture (DLR)	-	all country

Regardless of the location in the country the applicant will be able to obtain alternative offers from two mortgage credit associations and, at the same time, from the DLR. The three mortgage credit institutions will offer loans with identical terms in respect of amount of loan, repayment period, costs etc.

The statutory credit limits for the mortgage credit associations are, for farms, 50 per cent of the value of the property as fixed through the assessment made by the valuers of the individual association. The loan issue is based upon credit to the limit of 50 per cent at a nominal interest rate of 9 per cent per annum (how an 9 per cent loan is converted to loans with a different rate of nominal interest will be illustrated later). The purpose of the loan and the borrower's intended use of its proceeds do not enter into the association's considerations of the application.

Dansk Landbrugs Realkreditfond has the privilege of being permitted to lend up to 70 per cent of the value; this prerogative has been given because the DLR establishes a special type of security and also because it grants loans, primarily, for new investments and modernizations, for the initial settlement of young farmers. The legislature has held the view that ordinary encumbrances, in

line with current market conditions, should be limited to 50 per cent, whereas lending up to 70 per cent should require special consideration of the debtor's personal credit record - as it is examined by the DLR - and should be conditioned also by an undertaking that the loan shall be used for explicit purposes of investment or for initial establishment; these questions will be dealt with later.

The credit limits of 50 per cent, or 70 per cent, are fixed by law - they are the statutory maximums for the issue of association or DLR loans. In actual practice the mortgage credit institutions apply their limit fully, and the DLR does it to the extent of needs for loans up to the higher limit of 70 per cent, depending in each case on the quality of the farm property including its equipment and live stock as well as on the applicant's character, managerial ability and economic circumstances. The general agriculture legislation defines what is understood, in the sense of the law, by a farm property unit to which the special statutes on the preservation of such unit and on tenancy or lease-hold conditions etc. apply.

The statutory criteria as defined by this legislation also determine the range of properties eligible for loans from the bond-issuing institutions in accordance with the rules for agricultural mortgage credit.

All properties, on which an obligation to be worked for agricultural production have been registered, and that means, in principle, all properties with more than 2 hectares of land, are eligible for mortgage loans under the rules for agricultural mortgage credit, and such eligibility exists only by these rules. Properties not registered with the agricultural production clause can, however, obtain loans under the same rules, provided they are, by tradition, considered agricultural, silvicultural or horticultural enterprises run for commercial production, if such activities are of essential importance to the owner's economy.

This means that loans can be issued on primary agricultural production units with quite small holdings as if they were ordinary farm properties. In actual practice this category of mortgages is scrutinized carefully in each single case because the property involved may be utilized mainly for non-agricultural, industrial or other operations and it may, therefore, be difficult to assess the commercial value in a realistic manner.

In general it must, already at this stage, be asserted that special properties where the production has become industrial in character cannot be singled out as a clearly contained debtor category for loans in bond-issuing institutions or in banks, as indicated in the terms of reference for the report. The mortgage loans offered on such properties will, as a rule, have shorter repayment periods than those granted to properties where the value is more closely tied to the land and building assets. The capital to employment unit ratio in specialized properties with a small holding of land will invariably be required to be higher than the same ratio requirement for ordinary agricultural properties.

There is a higher degree of reticence towards the specialized properties on the part of the credit institutions than towards the normal farming units. The reticence is motivated solely by security considerations and it expresses in no ways a prejudice against agricultural production run on industrial lines.

If properties on which the agriculture clause is registered are utilized for non-agricultural purposes, for instance industry, training etc., to such an extent that this is major activity, dominating in relation to the agricultural production, the loan must be based upon the actual operational use of the property. This means that the rules for agricultural loans cannot be applied to such property.

a) The Mortgage Credit Associations - Organization.

The mortgage credit associations (of which three offer facilities to agriculture) are societies of borrowers. The governing bodies are the general meeting, the board of directors and the executive management. In the general meeting the participant with voting rights are the borrowers and such bond owners as possess at least 10.000 kroner of bonds issued by the association. The law provides that one fourth of the seats on the board of directors are reserved for bond owners; one member of the board shall be appointed by the Ministry of Housing under whose jurisdiction the administration of the Mortgage Credit Act has been placed. The general meeting is the supreme authority of the association.

The chart on page 39 illustrates the organization of a mortgage credit association. The chart has been sketched from the by-laws of the KD - the Mortgage Credit Association Denmark - but the differences in organization between the associations are insignificant.

The three associations have very few offices; contact with members and prospective members is, to a large extent, taken care of by local representatives and valuers. In a general way the communication is maintained by the members of the boards of representatives who are, in most cases, people of reputation and position in public life.

In addition to their personal liability as debtors for their own loans the members of a series of ordinary mortgage credit loans are jointly liable for all current obligations of their particular series; this joint liability is not a joint obligation of people but it is limited to the value of the properties mortgaged to the association, and, furthermore, the liability is restricted to two thirds of the original principal of each member's loan.

The reserve funds of a mortgage credit association must, for ordinary credit<sup>x)</sup>, equal 2½ per cent and for special credit<sup>xx)</sup> 5 per cent of the bond debts of the association.

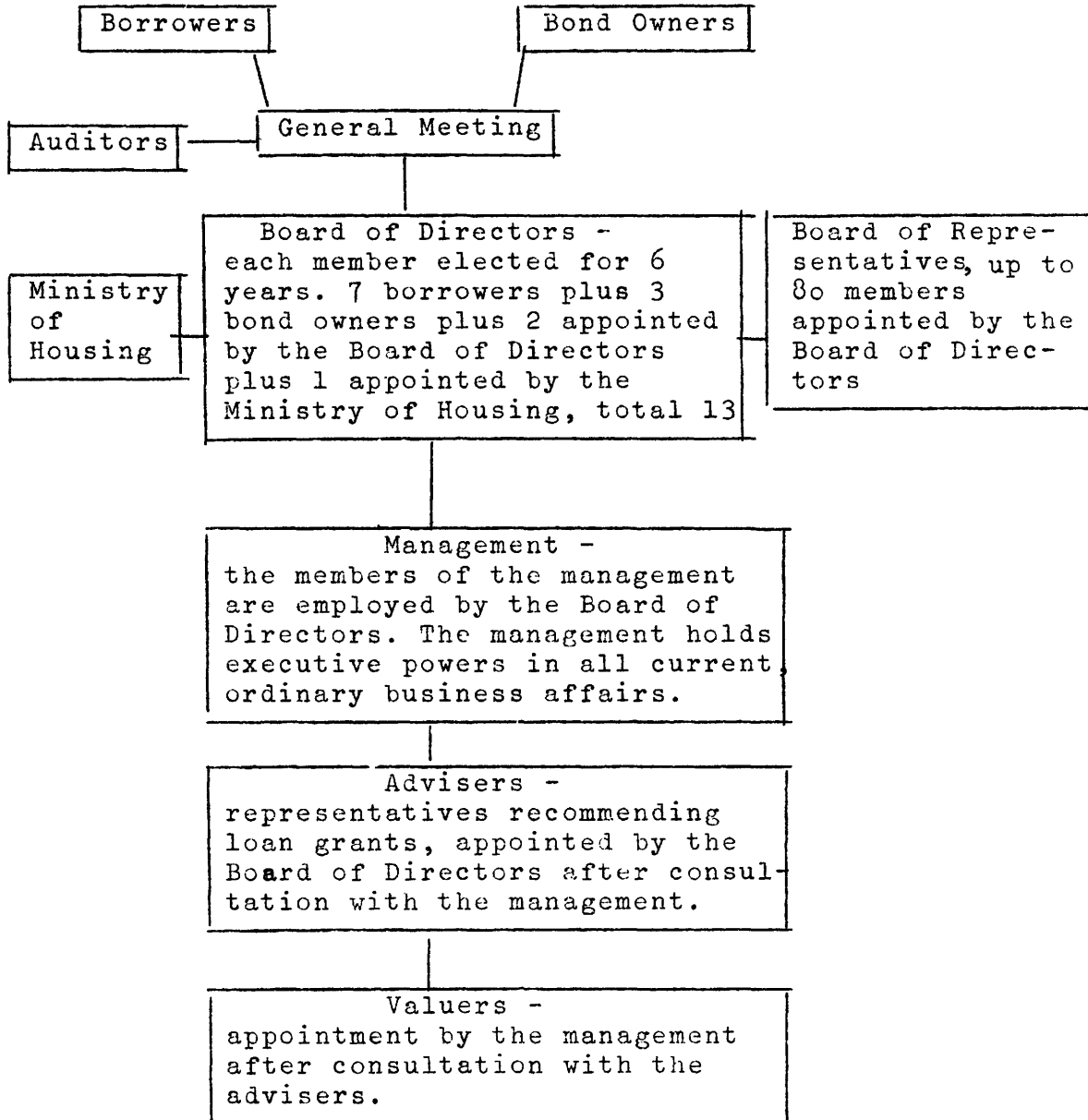
The reserves are created in two different ways, by deposits from the borrowers at the time of the loan issue and by annual allocations from the operational surpluses.

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x) xx) The terminology "ordinary" and "special" credit originates from the Mortgage Credit Act. By ordinary credit is understood loans from zero up to 40-50 per cent on the assessed value, depending upon the category of property. For agricultural properties the limit is 50 per cent on the assessment which is the highest limit permitted for mortgage credit associations. By special credit is understood the upper part of mortgage loans for housing properties etc. - Special credit cannot be granted to agricultural properties by mortgage credit associations.

Chart 1

Chart of Organization - Mortgage Credit Association  
(Kreditforeningen Danmark)



The by-laws of the associations provide the following model agenda for the ordinary annual general meetings:

- (i) Consideration and adoption of the Annual Report;
- (ii) Consideration and approval of the Annual Financial Statement (Balance Sheet and Operational Reports);
- (iii) Election of auditors;
- (iv) Election of members of the Board of Directors;
- (v) Amendment of by-laws (if any);
- (vi) Dissolution and liquidation of the association.

The valuation of the applicants' properties by the mortgage credit associations shall aim at a realistic commercial market value of the land, buildings and all means of agricultural production belonging to the property (live stock herds, implements, machinery, engines, normal produce inventories etc.) and such assessment shall reveal the sales price likely to be fetched when the property has been financed by normal mortgage credit. By normal credit is understood, at the present time, an average 9 per cent mortgage loan up to half the assessed value. The valuations are confidential.

The amount of the assessed value is composed of one value for the fixed assets of land and buildings and another for the movables (live stock, machinery etc.). The reason why the movable property is included in the valuation is that, in Denmark, the normal operational movables are accepted as part of the security in an agricultural property. It is a violation of law to reduce such assets and they cannot legally be separately pledged or foreclosed by other parties.



The assessment of the value of live stock herds is made on the basis of conservative market prices so that transitory price fluctuations are neutralized.

The item of implements, machines and similar assets is assessed at the current useful value on the assumption that such movables would be sold as part of the property. The assessment of the fixed assets of land and buildings assumes the presence of normal operational inventories (grain, feed, manure etc.). The geographical location, access to roads etc. shall also be taken into account; special assets based upon an expected change over to another economic use than normal agriculture, for instance subdivision of land or similar dispositions, cannot be included in a valuation serving the issue of loans in accordance with the agriculture rules.

The mortgage credit associations offer 9 per cent loans up to 50 per cent of the assessed value, but the applicant will always be given several proportions to choose from; loans at lower nominal rate of interest than 9 per cent have a higher principal than the 9 per cent loan and, inversely, loans with higher nominal interest have a lower principal than the 9 per cent loan. This means, for instance, that the mortgage credit associations issuing 10 per cent loans can offer credit up to 47 per cent of the assessed value when the repayment period is more than 10 years, as shown in the following conversion table based upon 9 per cent loans:

Table 8

9 per cent=100	Nominal Interest - per cent						
	5	5½	6	7	8	9	10
Repayment Period							
10 years or less	116	114	112	108	104	100	96
More than 10 years	124	121	118	112	106	100	94

The loans of the mortgage credit associations are based solely on the mortgage security; the purposes for which the loan is taken do not enter into the consideration during the processing of the application.

The loans are issued to the borrowers in negotiable bonds which they themselves must encash by sale at the best obtainable quotation in the stock exchange; the sale takes place through the debtor's bank or through a broker; the sales conditions are illustrated in annex 1 which contains details on the Danish bond system.

Mortgage credit loans are irredeemable on the part of the association provided, of course, that the debtor-member fulfils his obligations. The loans are due for immediate full payment if, within 2 years from the loan issue, the use of the property is changed over to activities for which more unfavourable credit rules and terms are valid.

The borrowers are entitled to redeem their loans fully, either by bonds or by payment in cash of the outstanding balance. In case of change of owner to the property the loan falls automatically due in its entirety but it can, normally, be transferred to the new owner who will then enter into the prior owner's membership in the association.

The mortgage credit association loans are annuities which means that the halfyearly payments by the debtor are of equal amounts all through the repayment period. The interest component of the total payment is declining during the life of the loan, inversely, the instalment component is increasing.

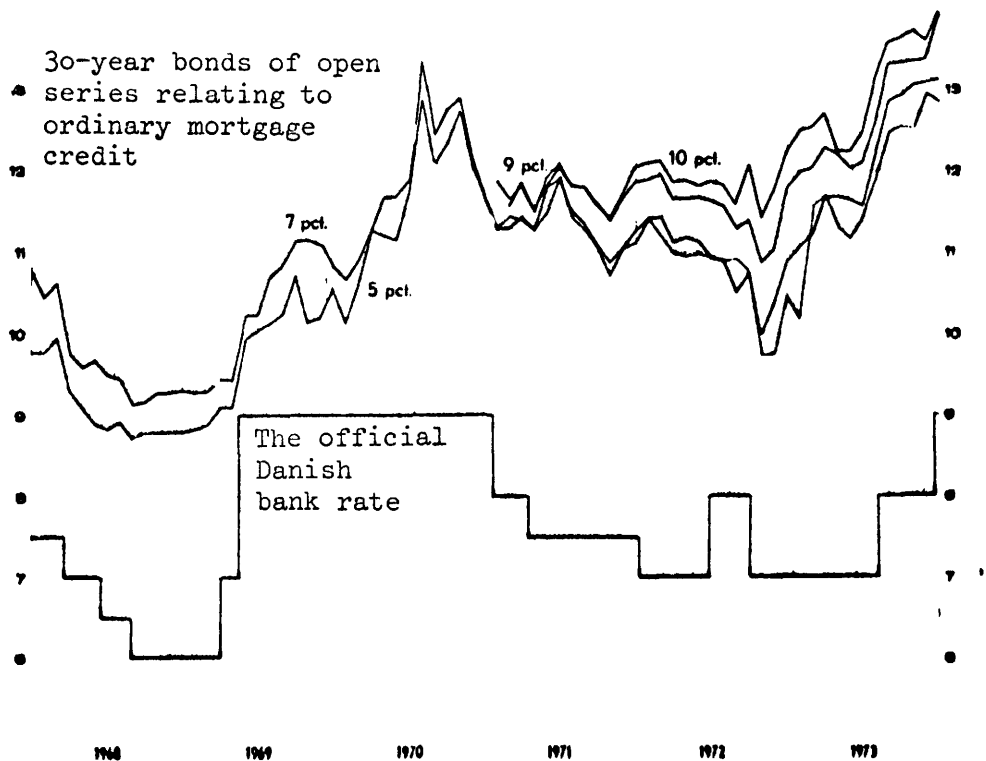
In case of amalgamation or subdivision of properties the normal procedure is that the mortgage credit loans can be registered on the amalgamated units or divided on the segregated farms, assuming, of course, that the loan limits fixed by the statutory agricultural credit rules are not exceeded.

Choice of loans

Even if the sales proceeds of bonds are about the same for different loans offered to the applicant he will have to think carefully about his choice of nominal interest and loan principal. Normally the low-rate loans incur the lowest effective interest costs - as illustrated in the following graph on the trend of the effective yields from bonds issued under 30-year mortgage credit association loans:

Chart 2

The Development in the Effective Interest of Bonds Issued with Different Nominal Rates of Interest.



Source: Danmarks Nationalbank  
Annual Report & Financial Statement 1973

Inversely, the choice of a mortgage credit loan at low nominal interest results in a considerably higher loan principal than would be the case if a loan at a high nominal interest were chosen. In case of sale the high nominal debt is a disadvantage. A common observation is that buyers are often more impressed by the size of the encumbrance than by the amount of the yields. Moreover, the loans at low nominal interest rates will be sold at considerably lower bond quotations, involving higher conversion losses than is the case with loans at high nominal interest. The conversion loss is not deductible in the borrower's income tax return nor can it be shown as a fictive asset for gradual depreciation over a period of years.

It is evident from this information that the borrower's deliberations, some of them relating to his income tax position, will often lead him to choose loans with high nominal interest rates.

From a property tax angle the loan at the lower interest rate will afford the larger reduction in the taxable owned capital, on account of the higher conversion loss; this aspect is, however, unimportant because the greater part of Danish agriculturists are not liable to pay property tax at all, the tax-free limit being as high as 450.000 kroner.

A final thought on the choice of loan is that, some time in the future, the possibility may arise of converting a high-rate loan to a loan at a lower nominal interest rate. An estimate of such possibility requires a preview of the future development of the capital market and of the levels of interest costs, especially during the years immediately ahead, because such conversion, to be profitable, must, as a rule, be carried through within a short period of years after the issue of the loan.

The total outstanding agricultural loan balances in the mortgage credit associations amounted to 10.300mn kroner as of 31.3.1973. During 1973 the associations issued loans to the tune of 2.400mn kroner and the DLR floated new loans amounting to 900mn kroner. Borrowings during 1973 were relatively high; the background was a considerably larger expansion in agricultural investments than seen during the preceding years.

An analysis of the loans raised by the agricultural sector through the mortgage credit associations will follow after a description of the DLR activities; the analysis will show repayment periods, rates of interest etc.

As already mentioned in I/1 the agricultural share of the all-country total loan issues into the bond market is a relatively modest one, accounting for only about 15 per cent of the total volume.

b) Dansk Landbrugs Realkreditfond - DLR - The Mortgage Credit Fund of Danish Agriculture.

DLR was established as a registered, independent foundation in 1960 with all the country as its area of operation. DLR has no branches or local offices; contacts with clients are administered by commercial and savings banks. It is an indispensable condition for the grant of a DLR loan that the application and the applicant are recommended by a Danish commercial or savings bank and the recommending bank must, at the same time, be ready to underwrite a guarantee covering, at all times, 5 per cent of the outstanding balance of the loan. The bank guarantees are entered into a joint collective guarantee fund which serves as one of the reserve fund components of the DLR.

The governing and managing bodies of the DLR are the following:

- (i) the Board of Representatives;
- (ii) the Board of Directors;
- (iii) the Management;

the members of the Board of Representatives and the Board of Directors are appointed by the following institutions and organizations:

Danmarks Nationalbank	-	the central bank,
Danske Bankers Fælles- repræsentation	-	the National Organization of Danish Commercial Banks,
Danmarks Sparekasse- forening	-	the National Association of Danish Savings Banks,
De samvirkende danske Landboforeninger	-	the Federation of Farmer's Unions,
De samvirkende danske Husmandsforeninger	-	the Federation of Danish Smaal-Holders' Associations



Farmers borrowing from the DLR do not enter into any kind of joint liability for the obligations of the foundation.

The reserves of the DLR, in the widest sense, shall, at all times, amount to at least 10 per cent of the volume of its bond circulation plus any other liability. The reserves were, at the end of 1973:

- (i) the own capital of the DLR - 105mn kr.
- (ii) the guarantee pool of the commercial and savings banks - 148mn kr.
- (iii) the initial foundation fund, subscribed at the start of the DLR by the commercial and savings banks and by the central bank - 60mn kr.

The reserves are applied to losses in the sequence indicated in the above list of components.

At the end of 1973 the outstanding balances due from borrowers to the DLR amounted to 2.900mn kr.

DLR grants credit on the basis of assessments made by its own valuation setup. The guideline for the assessment is to fix the commercial value of the property as it is encumbered by normal mortgage loans. The criteria for the assessment are the same as those used by the mortgage credit associations. The composite of the valuation is:

- (i) the value of the fixed assets (land, buildings, immovables);
- (ii) live stock for animal husbandry;
- (iii) implements, machinery, engines and other movables of an operational character;

the sum total of these components constitutes the loan allocation basis, which is, ultimately, determined by the management and the Board of Directors.



The DLR grants loans, primarily, for construction and modification of buildings, for purchase of farms and for acquisition of a second farm for amalgamation or joint operation, for purchase of movables (machinery) etc. The DLR is also favourably disposed towards applicants wanting loans to pay off private mortgage letters - such as matured sellers' mortgages. It is no condition that the application shall have been submitted before the investments are made but the prospective borrowers are advised to file their requests in advance so that the investment can take place under a pre-planned, comprehensive financial schedule. Requests for loans "after the event" for transfer of property titles and for investments are approved provided the application is filed within a reasonable lapse of time. Loans are granted to assist elderly farmers to establish their children in agriculture as owners or tenants.

The statutory credit limit for DLR loans is 70 per cent on its own valuations. This limit is expected to be fully applied where the qualities of the property and the qualifications of the applicant are in satisfactory order. The DLR is willing to let its loans start upwards from the 50 per cent of the value which the associations are permitted to grant but it is no requirement on the part of the DLR that the borrower shall raise the highest possible preceding loans before the DLR places its loans. The DLR loans have repayment periods from 5 to 30 years; they are disbursed as bonds to be disposed of by the borrowers themselves.

The DLR bonds are inconvertible, which means that full redemption of loans can be made only through the debtor's purchase of bonds of the series of original issue and by his submission of such bonds to the DLR. Unscheduled cash payments are not accepted.

The loans are issued as series loans - on the equal capital method. This means that the scheduled halfyearly payments of instalments are of equal amounts all through the repayment period; interest is charged on the outstanding balance; the aggregate halfyearly payments are, therefore, declining during the repayment period; this is a different system to that of annuities used by the mortgage credit associations.

The DLR loan tender adapts the repayment period and the rate of interest to the purposes of the loan. Considerable regard is also paid to the repayment terms of preceding loans already registered on the property. As emphasized in the description of the mortgage credit associations an appropriate choice of repayment period for the fixed loans is most important.

Provided the DLR is called upon to furnish a reasonable part of the credit, it will be able to abide by any kind of preceding mortgages, including owner's mortgages letters, letters of indemnity and private mortgages. Registered subsistence contracts in favour of elderly family members or previous owners are becoming very rare in Denmark, but this type of encumbrance may impose such heavy and ambiguous obligations on the property that the DLR may refuse to accept such contracts as preceding mortgages. Contractual rights of accommodation on the farm are, especially, apt to prove rather exacting.

The reason why the DLR expects to furnish a fair share of the total credit in a property is that it does not want to pile up a portfolio of small loans edging on to an agglomeration of preceding large credit association,

banks and private mortgages. The DLR has also its total security position to consider; the security for the bond circulation as a whole is a concern which will often compel the DLR to reject applications for small loans which are placed in a fringe position.

The DLR receives a very large number of requests for recession to new mortgage credit association loans and to loans from commercial banks or savings banks. The purpose of the loans is investment or refinancing of investments.

In the recession situation the DLR has to observe the credit limit imposed by law and by-laws and it must attempt to retain a mortgage position in the properties compatible with the total security coverage for its bond circulation. If such limitations are observed the DLR is ready to be flexible as far as at all possible; it is, however, not always feasible to meet the requests to their full extent. In many recession cases the DLR must carry through a fresh valuation of the properties concerned before a decision can be made. Administration and decision procedures in recession cases are in no ways simpler and easier than processing a new loan application. In cases where it can be foreseen that the DLR will end up with a poorly placed small loan, for instance between 62 and 70 per cent of the valuation, the debtor must be given the choice of either paying off the DLR loan in full or redeeming other preceding mortgages. In such border cases, however, it often happens that the DLR yields only to part of the loan - for instance an association loan - which will usually satisfy the debtor's credit needs. Special cases occur where the credit needs are genuine enough, but, at the same time, the DLR does not want to become a guarantor for other creditors by having a small loan edged in. In such cases the DLR may agree to recede for a part of a new loan, but at the same time it will put forward a loan tender for the property in such a way that the DLR loan will get placed in the area from 40-50 per cent upwards to 70 per cent.

In connection with amalgamation or closing down of properties the DLR will be willing to transfer its loan on the land of the farm which is closed down to another property. The DLR will also be able to consider letting its loan remain outstanding alone in the buildings of the closed farm, and it will, on the whole, make its decision on ranging its loan into position amongst the mortgages in the amalgamated property. The basic principle to be followed is that the DLR loan must be placed between 40 and 70 per cent of the assessed value, taking into consideration, at the same time, the terms and special character of the preceding mortgages.

DLR loans mature automatically in their entirety on transfer of the properties to new owners, but the latter can, normally, enter into the previous debtors' positions.

In each single case the DLR tries to ascertain whether the total capital and credit needs can be covered, because the DLR, as the provider of top margin credit, must be reasonably well satisfied that the total investment can be appropriately and adequately financed; it is a precondition for DLR's loan grant up to the high statutory credit limit of 70 per cent that the debtor is able to implement his project completely and profitably.

To acquire knowledge of the profitability of the debtor's activities in the past and to evaluate the possibilities of financing the projected investments the applicant is requested to submit his financial statement for a few years so that the DLR can analyse the balance sheets and profit- & loss accounts; the minimum requirement is that, at least, the balance sheets are attached to the application form. This rule may be waived in cases where the applicant is, quite clearly, of high financial standing. The DLR's conclusions on the prospective debtor's credit worth are influenced to an essential degree by the comments on such worth made by the banking institutions.

If the DLR finds that the investment project cannot be financed in its entirety in a satisfactory manner the loan application must be rejected.

As mentioned the DLR credit system functions in co-operation with local commercial and savings banks, and these institutions are also involved, to a large extent, in getting the mortgage documents entered as security for the lands in the jurisdictional land registers. The banks are also functioning as collection agents for the half-yearly loan payments.

The repayment schedules, nominal interest rates and cost propositions preferred by agriculturists at the present time are described in the following text.

c) Repayment periods and credit costs of association and DLR loans

On the basis of information from the mortgage credit associations and the DLR the Federation of Danish Farmer's Unions publishes an annual review of the agricultural mortgage credit issued during the year for the purpose of providing information on the repayment periods and the nominal rates of interest.

The review for 1972/73 shows the following data:

Table 9

Per cent-wise distribution of agricultural mortgage loans from mortgage credit institutions during the period of 1.4.1972 to 31.3.1973 by repayment periods and nominal rates of interest.

Nominal interest rate	Repayment period					total
	10 years	15 years	20 years	25 years	30 years	
5-5,5 per cent	-	-	-	0,3	4,3	4,6
7 per cent	0,1	0,1	0,6	0,1	20,7	21,6
8 per cent	0,2	-	-	-	-	0,2
9 per cent	0,3	1,1	0,2	-	36,5	38,1
10 per cent	2,2	-	1,0	-	32,3	35,5
total	2,8	1,2	1,8	0,4	93,8	100,0

Source: De samvirkende danske Landboforeninger  
Landøkonomisk Oversigt 1973.

The average repayment period of the loan issues is 29 years. 94 per cent of the loans have been taken with the maximum repayment period of 30 years. Most loans have been taken at 9 per cent and 10 per cent nominal interest rate, namely 73 per cent of the total issue. The loans carrying a high rate of interest have been taken mainly for investments but also to a certain extent to finance transfers of properties. A little more than 21 per cent of the loans have been made at 7 per cent nominal interest. The better part of these loans have been raised to finance purchase of farms, and the bonds are, for such loans, in most cases handed over to the seller at par value.

The following table 10 shows a comparison of the effective yields from loans given by the mortgage associations and those given by the DLR:

Table 10

Effective interest yield from bonds issued for new mortgage loans in agricultural properties +)

	Mortgage Credit Association	DLR
1960/61-64/65	7,38	8,77 ++)
1965/66-69/70	9,56	10,70
1970-71	11,74	12,59
1971-72	11,62	12,10
1972-73	11,47	11,84

+) Exclusive of deposits into the reserve fund in the mortgage credit associations of 1 1/4 per cent on the principal, because such deposits are, normally, repaid - although reimbursement has been temporarily suspended. --- Inclusive of the same kind of deposit at 1 per cent on the principal with the DLR, because this payment is not reimbursed.

++) 1961/62 - 1964/65.

Source: De samvirkende danske Landboforeninger.  
Landøkonomisk Oversigt 1973.

The effective yield of interest had, by March 1974, risen very steeply and is now considerably above the average level of the fiscal year of 1972/73. In February 1974 the effective interest cost to be borne by the debtor on a 9 per cent, 30-year bond loan was about 16 per cent per annum.

The difference between the effective yield on association loans and the yield on the DLR loans is small in spite of the fact that the former are ordinary loans (of first priority) whilst the DLR loans are, in principle, special loans (of secondary priority). It must be noted, however, that the actual position of the DLR loans ranges from a

little above 30 per cent to a little above 60 per cent of the property valuations, although the formal regulation positions of the two credit categories are 0-50 per cent and 50-70 per cent of the valuations respectively.

## 2. The Banking Institutions.

### a) The Savings Banks

The savings banks are organized as private, independent foundations.

The loanable funds are obtained solely from cash deposits. In general, no dividends or other returns are paid out of profits to guarantors or similar supporters. The profits of the savings banks have not been liable for taxation in the past.

The law on savings banks activities was mentioned in I/3.

During recent years the savings banks have tended to curtail the agricultural and other mortgage lending activities. This has been done to follow a policy aiming at an increased rotation in savings funds by shifting over from long-term to shorter loans and credits which can be made available to a larger number of clients. An increase has been seen in overdrafts on current accounts (cash credits), in the discounting of hire-purchase contracts and in business and housing establishment loans, all of which credit is in the short-term or medium-term categories.

This development has led to a situation where the savings banks, to a larger extent than before, have become agents for the routine handling of long-term loans for the bond-issuing institutions. Previously the savings banks did this long-term lending business themselves but now they use their loanable funds much more widely in the short-term credit areas.



This tendency is likely to accelerate now that the savings banks loans for capital investment purposes have been included under the lending ceiling agreement with the central bank - from December 1973.

Establishment loans to young farmers are often granted in proportion to the savings made by them over a period of years; the savings banks operate a special savings/loan scheme for this purpose. The loan grant and the amount of credit are often favourably influenced by long-standing relationships between the young people's parents and other relatives and the savings bank. The actual credit need and the security supplementing the mortgage are also taken into consideration. The savings banks can, where such near client contacts exist, exercise considerable flexibility when fixing the amount of loans. Establishment loans are, generally, secured by mortgage in the property, perhaps supplemented by guarantees from personal sureties. Overdrafts (cash credits) are often secured by owner's mortgage letter which is registered on the property.

In the savings bank sector a relatively large number of institutions operate; their credit practices differ and it is a problem to offer an adequate general description covering all facets of savings bank activities.

The new act of 1974 on commercial banks and savings banks has permitted greater flexibility with regard to the security placement of the loans. In the past the savings banks have prevalingly followed the rule that a loan extending beyond 70 per cent of the commercial value, inclusive of production movables, had to be secured by guarantees or other forms of security, for instance deposit of negotiable papers.

The savings banks are given mortgages in fixed properties and movables as is the case in the mortgage credit associations and the DLR; their loans have been granted without surety guarantees up to practically the same limit as observed by the DLR.

The nominal rate of interest on savings bank loans is, usually, variable with the fluctuations in the official bank rate through the life of the loan.

It is becoming more and more common that savings bank loans are, by the equal capital method, repayable over 10 years. Some banks, however, do offer annuity loans over 10 years and a few issue such loans over 20 years. Some years back the agricultural loans from savings banks had even longer repayment periods.

Some savings banks have adopted the practice of disbursing the loans below par so that a loss similar to the conversion loss on the bond loans is suffered by the debtor.

The savings banks have to handle many requests for recession of their loans in favour of loans preceding them. In case of such recession it may become necessary to get surety guarantees for outstanding balances which, prior to the new situation, were secured solely by mortgage.

The savings banks are free to make their own decisions whether they want to recede and for which loans they will do it. Their loans are due for full repayment in case of transfer of ownership but in most cases they can be taken over by the new proprietor.

At the end of March 1973 the agricultural mortgage loans outstanding in the savings banks amounted to 1.506mn kroner; to this must be added a certain number of cash credits (overdrafts in current accounts).

An analysis of the costs on loans to the agricultural sector by the savings banks compared with the credit costs for other sectors is shown in the following table on the average rate of interest charges made by the savings banks during the past 3 years:

Table 11

Distribution by Sectors of Savings Banks Loans.

Rate of interest:	mn.kroner total	Average Interest Rate (per cent)		
		per 31/3-73	per 31/3-72	per 31/3-71
Mortgage loans in Agricultural Properties	1 506,2	9,31	9,08	9,68
Mortgage loans in Housing Properties etc.	7 373,2	9,46	9,19	9,61
Loans against Pledges	2 272,0	9,74	9,93	10,54
Loans against Joint and Separate Liability Surety	1 818,7	10,39	10,05	10,49
Loans to Co-operative Enterprises etc.	533,8	9,39	9,14	9,66
Loans to Municipalities	1 381,7	8,88	8,61	9,00
Cash Credit Debit Balances	4 450,9	9,55	9,40	10,22
Loans without Security	124,7	10,89	10,39	10,87
Total Lendings	19 461,2	9,56	9,34	9,87

Source: Sparekassetilsynet. Beretning om sparekasserne i Danmark 1972-73 - The Savings Bank Inspection Department, Report on the Danish Savings Banks 1972-73.

The rate of interest as of 31.3.1973 is the nominal interest charged by savings banks on mortgage loans in agricultural properties. The effective interest cost rate is somewhat higher because many of these loans are issued at a quotation below par, as mentioned above. The table shows, actually, that the agricultural borrowers are charged very nearly the same costs of interest as are paid, on the average, in other debtor categories.

For 10-year series loans issued during the early part of 1974 it was quite common that the effective interest amounted to about 15 per cent.

b) Commercial Banks

All Danish commercial banks are organized as joint-stock companies. Their interest rates vary with the fluctuations in the official bank rate.

It is more difficult than it was for the savings banks to describe exactly how the commercial banks administer loans and credits. In general it is true to say, however, that the banks grant practically no mortgage credit in the direct sense of the word. Bank credit is, principally, short-term loans and cash credits secured by owner's mortgage letters or letters of indemnity registered on the debtor's property. To this must be added discount facilities for bills of exchange, promissory notes and hire-purchase contracts.

The commercial banks operate, just like the savings banks, special establishment savings/loan schemes under which the deposits into an earmarked account automatically entitles the depositor to a loan of a size determined in proportion to the balance in the savings account.

Commercial bank loans are not subject to statutory credit limits. The banks are free to formulate their own policies and develop their own practices under which they can exercise their judgment on the security from case to case. The Bank Inspection Department supervises on behalf of the State that the lendings of each bank are safely secured and that each bank accumulates sufficient reserves to cover loss risks.

The repayment period of bank loans are often up to 10 years with equal halfyearly instalments (series loans).

Conditions vary from bank to bank. In the agriculture section is often found that only limited bank credit is granted against mortgage in property after highest possible loans from mortgage credit association and DLR. Some banks observe the general rule that owner's mortgage letters in agricultural properties, ranging after highest possible association and DLR loans, are accepted as security for bank loans of any importance only if other forms of security are given, for instance personal surety guarantees or credit insurance policies. Another reason why it is impossible to describe banking practice in a completely valid manner is that lending operations and credit facilities are, at all times, determined by the liquidity position in the individual bank.

In March 1974 the interest rate on bank loans was about 15 per cent per annum including commission charges.

c) Co-operative Village Banks

The business area of the co-operative village banks is generally limited to a parish or a rural municipality. The active members are jointly and severally liable for all obligations of the society. All borrowers must be active members.

On the whole the lending to agriculturists follows the same pattern as the rural credit operations of the commercial banks and the savings banks. The types of loans vary much, from rather long-term credit to short-term advances in current accounts; amongst the long-term loans are the establishment mortgage credits based upon savings by young farmers; the cash credit are secured by owner's mortgage letter and such property pledge may be supplemented by surety guarantees.

The Danish co-operative village banks have organized a joint national apex institution called the Andelskassernes Indskuds- & Lånebank - the Co-operative Village Banks' Deposits- & Loan Bank. Its objectives are to channel the capital flow between the members and to handle ordinary banking business on their behalf; the direct lending operations vis a vis the individual borrowers are managed solely by the local village banks.

On the national scale the co-operative village banks are of minor importance but in certain localities they do handle a considerable part of the money transactions.

### 3. Private Mortgage Letters

Private mortgage letters are written, almost exclusively, in connection with transfer of properties where the seller lets a certain part of the sales price remain as a mortgage loan in the farm (the seller's priority).

It is, however, true to say that the issue of sellers' mortgage letters can be avoided in many cases of sale of agricultural properties because the credit facilities open to agriculturists are so comprehensively organized that the total sales price can, usually, be adjusted and finally settled in such a manner that there will be no need for the seller to let any part of his money remain in the property.

The market prices of farming properties are, to a large extent, determined by the fact that the seller assumes the conversion loss on the bond loans raised to settle the deal.

In most cases the procedure follows the lines of

- (i) agreement on the amount of the sales price;
- (ii) transfer of the loans already outstanding to the new owner;
- (iii) payment by the new owner to the seller of an amount in cash;
- (iv) issue by the new owner of a mortgage letter for the balance in favour of the seller;
- (v) application by the new owner for loans in a mortgage credit association and/or the DLR;
- (vi) reduction of the balance due to the seller by handing over the bonds from such loans to him at par.

The mortgage credit associations and the DLR are able to cover up to 70 per cent of the sales price with their credit facilities and the following example shows how it would be possible to adjust the transaction without writing any seller's mortgage letter:

- (i) the buyer's cash payment amounts to 10-15 per cent of the price;
- (ii) the buyer is granted a loan from a savings bank or a commercial bank - or from a co-operative credit society - of about 10 per cent of the sales price;
- (iii) the buyer gets a "conversion loss loan" from the treasury (cf. the section on state loan schemes and annex 3 on state loan facilities);
- (iv) highest possible loans are taken from a mortgage credit association and/or the DLR.

Where such credit arrangements are made the use of a seller's mortgage letter will be unnecessary. A large number of sales of agricultural properties have been made on this model during recent years. The advantage to the new owner is that he keeps himself free of debts to private mortgages; he will be independent of any influence on the part of the seller, and such independence may be desirable also where the transaction is a family affair.

The main observation is that both parties are better served by a clean and complete settlement in the first round by getting the property institutionally mortgaged without any mortgage to the seller. The buyer will then obtain a higher degree of freedom to handle a future investment situation in which private mortgage letters might prove serious impediments.

At the present time the sellers' mortgage letters are, in most cases, repaid over 10-15 years, but the terms of repayment vary much. The parties may agree on one of the following arrangements:

- (i) repayment by equal halfyearly instalments over the whole period;
- (ii) The instalments may be fixed at smaller amounts during the life-time of the loan so that a relative large lump balance is made payable at expiry;
- (iii) no pre-fixed instalments are paid halfyearly, but a considerable down-payment is made after some time, for instance after 5 years, and the remaining balance is then paid at expiry;
- (iv) no instalments are paid during the credit period but the total debt is paid at expiry (a "straight" loan).

There are no statutes for the terms of this type of credit; the parties are free to negotiate such conditions as they can agree upon. The rate of interest may be fixed for the whole life of the loan or it may be made variable with the fluctuations in the rates for deposits in the commercial banks or savings banks.

For sellers' mortgage letters written during the first half of 1974 the interest rate was, in most cases, 8-9 per cent per annum. It may appear as if these mortgages are inexpensive at a time when the effective interest on institutional bond loans is about 16 per cent and the interest charged by banks is about 15 per cent p.a. It must be recalled,



however, that the alternative to the private mortgage letters is, usually, the transfer of bonds carrying 7-9 per cent nominal interest at par value. In this correct context the sellers' mortgage letters are not a very attractive proposition.

It has been mentioned already that private straight loans are rare in Danish agriculture apart from a rather limited use of family loans. If private mortgage credit is taken through brokers the effective cost of interest, on a yearly basis, will be about 3-5 per cent above the level of the effective bond loan interest.

The sellers' mortgage letters often contain a clause to the effect that mortgage credit association, DLR and bank loans can be registered in precedence to the private mortgage provided such institutional loans are used for purchase of land or for investment in buildings. In order to offer fair and reasonable protection of the interests of the creditor as well as the debtor, and to guard against a deterioration in the value of the mortgage letter through such recession, it is, generally, more realistic that the creditor's mortgage yields solely in favour of loans taken to finance land purchases or to pay for direct building construction costs, exclusive of special installations.

It is most important to have these points carefully considered and clearly included in the mortgage letter; if they are incompletely or ambiguously formulated the new owner will be barred from additional future mortgage credit, which may turn out to be a most embarrassing situation, especially for progressive, expansive young farmers. In most cases it will be unreasonable if the mortgage letter shall also recede in favour of loans to finance the increase in live stock herds following an extension of the farm buildings. Any provision in this direction would cause a substantial reduction in the value of the mortgage letter.

To negotiate some farm sales in the open market it may be necessary and reasonable that guarantees from personal sureties are added to the contents of the mortgage letter in order to make it possible to insert adequate clauses on recession in favour of a future increase in preceding loans.

4. State Loan Schemes.

In 1971 extensive restrictions were imposed upon state lending for agricultural purposes and the main part of the remaining loan facilities were codified into one act (Act No. 223 of 26.4.1973 with later amendments).

a) Land Purchase Loans etc.

Under this act loans can be granted for the purchase of additional land, for which purpose the upper limit is 50.000 kroner, which limit, in exceptional cases, can be raised to 80.000 kroner. The following preconditions have to be fulfilled before a state loan for purchase of land can be made available:

- (i) the additional land must be rationally located in relation to the applicant's farm;
- (ii) loans can be granted only for an increase of the agricultural land up to 35 hectares for a single property - which limit can be raised, however, to 50 hectares where the soil is of an inferior quality. Increase in hectarage above these limits is ineligible for state loan;
- (iii) the property, after the acquisition of the additional area, must answer the criteria for an economic unit and it must be deemed fit for maintenance as such unit in the future;
- (iv) the applicant must be below 55 years of age and must have agriculture as his main occupation;
- (v) the possibilities for loans from the ordinary loan market must have been exploited.

Besides loans for land purchases loans for building investments can be granted but only in connection with the removal of farms under land reallocation projects. This category of loans is, therefore, a very small one. Building loans can be granted up to a limit of 250.000 kroner.

State loans for land purchase and building construction are granted as cash loan without any conversion loss. The loans carry interest and are repaid as annuity loans with equal halfyearly payments over the whole repayment period. The interest rate is 6.5 per cent per annum plus an administration contribution of 0.2 per cent per annum. The repayment period is 30 years. This low rate of interest is applied for 20 years provided the loan has been granted for land purchase under an approved development plan under the modernization support scheme, cf. annex 2, but in other cases for only 15 years. After such time limits the interest for the remaining life of the loans is increased to a rate corresponding to Danmarks Nationalbank's bank rate at the time of the increase with an addition of no more than 5 points, which additional charge is fixed by the Minister of Agriculture, taking into consideration the current market rate of interest.

State loans granted under the 1971-act are provided with a clause on recession so that these loans recede automatically to mortgage credit association loans and DLR-loans as well as to savings banks loans without sureties if the aggregate balance of debts on all loans, including the balance outstanding on the state loan, does not exceed 110 per cent on the property value (understood as the official value fixed, principally, for the assessment of property tax) at the time when a loan is requested placed prior to the state loan. This automatic recession clause is of great value because it simplifies the administrative procedures in the recession cases. Neither the Land Legislation Committee nor The Mortgage Bank and Financial Administration Agency of the Kingdom of Denmark are involved in

the question of the recession of the state loan. The judge of the land registration jurisdiction decides the case if the property assessment certificate is submitted together with the request for the registration of a loan prior to the state loan.

b) Commutation of Ground-rent.

Out of treasury funds loans can also be granted for the commutation of ground-rent liabilities into ordinary state loans. The ground-rent is registered as a first mortgage on the properties concerned. The amount of the ground-rent liability is equal to the assessed land value for the property if the liability is imposed upon all the land register numbers belonging to the property; the land value is assessed by a public valuation council to serve as the basis for property taxation; the ground-rent encumbrance corresponds only to the assessed land value for the register numbers on which such obligation is imposed.

The ground-rent commutation loan covers the amount most recently assessed as the land value of the register numbers encumbered by the ground-rent liability with deduction of improvements but with an addition for the price development in land since the most recent land value assessment.

The interest on the commutation loan is 2.5 per cent half-yearly and the repayment period is 40-60 years. One fifth of the loan is exempted from interest and instalment payments. It should be noted, however, that the loan will be granted on shorter repayment periods in a number of cases depending upon the circumstances in each individual case.

The commutation loans will be placed, as a matter of course, in the same position within the priority range as the ground-rent, namely as a first mortgage.

The registering judge is authorized to place commutation loans lower down in the priority range on condition that he satisfies himself that the preceding loans are mortgage credit association loans, DLR-loans or savings banks instalment loans without sureties and at the same time ascertains that the aggregate debt balance of all preceding loans plus the balance on the state loan does not exceed 120 per cent on the most recently assessed property value. In order to clarify these circumstances in the individual case it will often be necessary to examine them very carefully.

c) Older State loans.

On many agricultural properties rest older state loans granted before 1.4.1971 under a number of different credit acts. These loans were issued to establish new farm units to purchase of additional land and for building investments.

It is a question of considerable interest to discuss the possibilities of the transfer of such loans in case of sale of the property concerned, and also the possibilities of registering loans preceding such state loans. In the context of this report it would, however, carry the description too far to enter into such discussion because these state loans have been issued under widely varying legislation during a long period of years.

d) Conversion loss loans and establishment subsidies for young farmers.

Since 1967 special loans and subsidies have been given to young farmers for initial establishment under a separate act (Act No. 326 of 13.6.1973). The background of this legislation was a wish to enhance the possibilities of young, well-trained agriculturists to become owner-occupiers. The ever increasing market rate of interest and the

resulting increasing conversion losses were the main motivations for the introduction of the conversion loss loans, the limits of which are conformable to the changes in the bond quotations.

The conversion loss loans are granted, as a maximum, in relation to a purchase amount of 600.000 kr. If the property has been bought at a price above 600.000 kr. the buyer will be granted conversion loss loan in proportion to 600.000 kr. only. At the present time - March 1974 - the bond quotations have struck a record low, and the conversion loss loan would amount to about 100.000 kr. in relation to a purchase price of 600.000 kr.

The loans can be placed far down in the range of priorities and, therefore, they make a good contribution towards a solution of the financing problems in connection with the initial acquisition of a property.

In principle, the establishment subsidy is intended to cover the costs involved in the initial purchase of a property and it amounts to  $2\frac{1}{2}$  per cent on the property value. The subsidy is, however, granted only in relation to 600.000 kr., at the highest.

More detailed information on the conversion loss loans and the establishment subsidies is given in annex 3.

5. Supply Associations.

a) Small-holders.

Out of the funds of the associations a maximum amount of 15.000 kr. can be made available to a single member to purchase live-stock and agricultural implements. Eligible for loans through a supply association are members who are owners or users of agricultural properties where the land value does not exceed 75.000 kr. at the 14th general property assessment, or where the total area does not exceed 20 hectares. Where joint purchase of movable assets are made loans are available up to 20.000 kr. for two members and up to 30.000 kr. for three or four members. The association funds are provided by the State (Act. No. 537 of 20.3.1970).

The association retains the title to the movable object purchased until the loan to the member has been paid in full. The member's cash down payment must in all cases amount to at least one fourth of the price. Every member must underwrite a guarantee for the liabilities of the association of 200 to 1200 kr. The life-time of the loan is, at the longest, 6 years, depending upon the character of the effects purchased; for live stock and small machinery the repayment period is 3 years. The rate of interest is low and includes the operational costs incurred by the association in addition to the interest payable on the loan from the treasury; the present rate of interest is  $6\frac{1}{2}$  per cent per annum.

Besides loans for purchase of movable assets by individual members credit can be arranged for joint mechanization societies with at least 5 members. For this purpose a maximum of 80.000 kr. has been made available to each society, limited, however, to 5.000 kr. per member. The society must pay at least one fifth of the purchase price as downpayment and the repayment period is limited to 5 years.

The total loan volume from treasury funds through these supply associations is a little more than 100 mn kr. at the present time. During the fiscal years 1970/71 - 1974/75 the treasury funds for the association operations have been limited to 40mn kr. per year. The total loan volume is of a limited extent and the credit limit per property is a modest one, compared to current needs in modern farming.

b) Farmers' Unions' Supply- & Credit Societies.

These societies are guarantee-associations linked to local farmers' unions. 30 such associations, out of a country total of 134, have organized guarantee-societies which operate on a purely private basis with no legislative background. The first societies were established in 1957.

The operations of the supply- and credit societies are confined to the issue of guarantees for loans for purchase of movable assets - primarily of machinery but also of live-stock.

The loans are administrated through banking institutions as an alternative to hire-purchase trade and as an alternative to short-term bond loans. The repayment period for the loan is from 3 to 5 years (for used machinery 3 years). The credit is given as series loans. The limit is 75 per cent on the price of the movable assets concerned. Moreover the credit limit for loans through the societies is 100.000 kr. per property, and, finally, the loans cannot exceed 20 per cent of the property value. This means that the maximum loan limit of 100.000 kr. per property can be exploited only in case of a property value of at least 500.000 kr.



The society retains the title to the objects purchased until the loan has been paid in full.

In principle, the rate of interest is the lending rate charged by the bank in question for large loans covered by similar security. To the interest is added the society's operational costs which amount to about 2½ per cent on the loan principal for the entire repayment period. The operational costs will often be counter-balanced by the cash discounts earned on the purchases.

The members are guarantors for the liabilities of the supply- and credit society and the amount of each member's guarantee is fixed at 7.500 kr.

During the period of 1957-1973 the societies have mediated loans to a total amount of 142 mn kr. The outstanding balance on this volume of issue was 40 mn kr. as of 1 April 1973, which - compared to total needs - is a relatively modest amount.

## 6. Land Improvement

Loans to finance land improvement projects can be registered with security preceding current loans (Act No. 166 of 29.3.1974 on Land Improvement), provided the regional land use commission endorses an approval in the mortgage to the effect that such loan can be registered with rights of priority. The preconditions for such approval by the commission are, in the first place, that the project in question will produce an increase in value considerably exceeding the costs of the land improvement and that the profitability ensures the payment of interest and instalments, and, in the second place, that the project is implemented in accordance with detailed directions.

Until May 1972 a State subvention of 25 per cent was granted to approved land improvement projects. The abolition of this subvention retracted a 40-year old rule about public subsidies to land improvements. The abolition was made to cut public expenditure. Land improvement loans can be registered with preceding priority if the loan proceeds are used for dike constructions, for catchment areas projects, for depth soil treatment, for irrigation systems and for untilled, suitable areas also for clearance, levelling, cultivation, calcification or marling as well as for supplying gypsum and for basic fertilization with phosphorus and copper.

Loans for land improvement projects executed with a single proprietor can be raised either with a bank or with a mortgage credit association. The mortgage credit associations have organized a joint bond series for this purpose. Regardless whether the loan has been taken with a bank or a mortgage credit association the land improvement act provides that the loan shall be exempted from repayment during the first 4 half-yearly terms and that the loan shall then be repaid by one twentieth of the principal during the following terms so that the loan will be fully repaid, at the latest, 12 years after its issue. Loans for calcification with agricultural lime shall, however, be repaid with one tenth every half year during a period of 5 years from the issue.

An essential part of the Danish tilled land has been drained during past years. Replacement of drains and new draining are on-going processes. Calcification and marling are running rotation operations.

Road construction, water supply plant establishment, sewerage installations and maintenance etc. are, in Denmark, not special agricultural concerns but are included in the general public works activities. There is no separate legislation to provide specially for such facilities in the

rural districts, as is the case in certain other EEC-countries. No such legislation seems to be required.

7. Suppliers' Open Account and Contract Credit.

Investigations show that the agricultural debts in suppliers' accounts amount to about 5.000 mn.kr.

Under the heading of "loose debts" are to some extent included the agriculturists' cash credits with banks - the overdrafts in current accounts with a fixed ceiling limit. For essential parts of the loose debts the interest charge is estimated at about 18-20 per cent per annum (early 1974). (In chapter I/1 an estimated break-down of suppliers' credit has been given).

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Financing the Joint Enterprises of Agriculture.

Danish agriculture has developed a net-work of joint ventures - co-operative enterprises - over a period of about 100 years.

The impact of the joint enterprises in the business areas of agricultural supplies, processing and sales is highlighted by the following review:

- |       |  |             |
|-------|--|-------------|
| (i)   | In the supply of <u>seeds</u> the agricultural co-operatives have a market share of            | 40 per cent |
| (ii)  | the co-operative dairies process, out of the total <u>milk production</u>                      | 86 per cent |
|       | co-operative export societies control, out of the total <u>butter export</u>                   | 80 per cent |
|       | co-operative cheese societies control out of the total sales of <u>cheese</u>                  | 30 per cent |
| (iii) | co-operative bacon factories receive, out of the total deliveries of <u>pigs</u> for slaughter | 90 per cent |

- the same abattoirs slaughter
- (a) of full-grown meat cattle about 35 per cent
  - (b) of calves about 45 per cent
  - (iv) of the total egg production one co-operative organisation packs and markets about 50 per cent
  - (v) in the poultry-broiler area one national co-operative organization processes 40 per cent
  - (vi) in the marketing of live cattle and calves two co-operatives with country-wide activities have a market share of about 40 per cent
  - (vii) in the line of feed- and fertilizer trade the agricultural enterprises supply about 50 per cent

The market shares in the trade and processing activities, as indicated in this review, are so large that the inference is that the joint enterprises of the agriculturists, to an essential extent, must be considered predominantly leading in the different agricultural business areas.

The past decades have seen a wave of amalgamations go through the co-operative sector. For instance in the feed supply area only very few independent enterprises are left. The number of co-operative dairies has been considerably reduced and the number of bacon factories - which was always much smaller than that of the dairies - has also been diminished during the past 10 years.

In the egg and broiler line many local co-operatives have been fused into one national organization for each of the two activities.

The private enterprises have undergone a similar development simultaneously with the amalgamation process in the co-operative fields.

The capital position of the Danish co-operative enterprises is only incompletely illuminated by statistics. A review of the assets and liabilities of the co-operative bacon factories has been worked out by the national organization of the Danish agricultural co-operatives showing the following data:

Table 12

Consolidated Balance Sheet of Danish Co-operative Bacon Factories.

	1969		1971		1972	
	<u>mn kr.</u>	<u>pCt.</u>	<u>mn kr.</u>	<u>pCt</u>	<u>mn kr.</u>	<u>pCt</u>
<u>Assets</u>						
Liquid Assets	545	61	632	59	678	59
Long-term Investments	90	10	124	12	129	11
Plants, Fixed Assets	<u>265</u>	<u>29</u>	<u>312</u>	<u>29</u>	<u>351</u>	<u>30</u>
<u>Total Assets</u>	<u>900</u>	<u>100</u>	<u>1068</u>	<u>100</u>	<u>1158</u>	<u>100</u>
<u>Liabilities</u>						
Current Liabilities, including Postpayment to Members etc.	563	63	644	60	681	59
Deferred Liabilities, Long-term Debts	208	23	257	24	284	24
Equity, Own Capital	129	14	167	16	193	17

Note: Most bacon factories have depreciated the investments in plants and fixed assets very considerably, so that the book figures are very much lower than the actual and useful values of these assets.

Amongst the deferred liabilities is a balance of 81mn kr. in the "Members' Revolving Operations Accounts".

Source: De samvirkende danske Andelsselskaber.

It is evident from this review that only a minor part of the debts of the bacon factories is designated as deferred liabilities. It is not specified how much of the deferred liabilities is made up by bond loans. Another part of the long-term debts is bank loans, as will be described later.

The review shows that current liabilities, short-term debts, represent a relatively large part of the total liabilities.

The national joint organization of dairies, the Mejeriernes Fællesorganisation, has published a statement on the balance sheet data for the co-operative dairies showing 1972-figures:

Table 13

Consolidated Balance Sheet of the Co-operative Dairies

155 dairies 1972

	<u>Average Each Dairy</u>	<u>Total</u>
Value of Buildings and Land (Property Tax Assessment)	482.000 kr.	75 mn kr.
Machinery, Equipment	299.000 kr.	46 mn kr.
Vehicles	139.000 kr.	22 mn kr.
<u>Total Assets</u>	<u>920.000 kr.</u>	<u>143 mn kr.</u>
Balance of Debts	354.000 kr.	55 mn kr.
Own Capital	566.000 kr.	88 mn kr.
<u>Total Liabilities and Equity</u>	<u>920.000 kr.</u>	<u>143 mn kr.</u>

Source: Mejerikontoret, Mejeristatistik.-  
National Bureau of Dairies, Dairy Statistics.

In 1972 261 co-operative dairies received milk directly from producers. The consolidated balance sheet shown above covers only a section of the dairies representing only about one third of the total weight volume of milk received by all co-operative dairies; the larger regional dairy societies are not included in the review.

The statistics are based upon a voluntary report system and this circumstance may impair the representative value of the data.

The average liabilities per dairy have been shown as 354.000 kr. but no break-down of the debts has been published.

Another comment on the statement is that the fixed property has been put at an asset value equal to the public tax assessment for property tax payment. In many cases it may well be a subject for discussion whether such valuation of this asset represents its real value.

Some doubt may, perhaps, also be felt towards the balance sheet valuation of the machinery, equipment and vehicles (milk collection tank vans).

There are no published balance sheet data for other parts of the agricultural co-operative sector.

Information gathered from trade press reports on the agricultural co-operative enterprises tends to show that many co-operatives can produce statements on quite good capital positions but that certain enterprises are inclined to work with relatively large debts; the latter group ought to find possibilities to consolidate their financial position so that their performance is strengthened far enough to make them into more proficient leaders in their respective commodity services.

The source of finance open to the agricultural co-operative enterprises will be summarized in the following and, at the same time, a rough estimate will be made on the extent to which the co-operatives avail themselves of these credit facilities.

Comprehensive comments on the costs of credit will not be made beyond the single one that the co-operative organizations receive no public financial support. The only exception is the facility opened by the EEC Council directive No. 17 of 1964 on support from the joint agricultural fund for the implementation of projects aiming at structural improvements in the agricultural sector. The rules under this directive became effective when Denmark entered the common market. Till this time - February 1974 - applications have been filed but no subvention has so far been granted to any Danish enterprise. No detailed description is given in this text to elucidate the rules for a grant of project support under the Council directive mentioned. It should be noted, however, that a subvention from the joint agricultural fund presupposes a certain subsidy from the member state concerned. Under Danish legislation a commitment for a subsidy from the Danish state treasury can be made within a vote of 15mn kr. each year. (Act No. 187 of 30.3.1973 on Subventions for Structure Projects in Agriculture).

#### Sources of Finance.

##### (a) The Mortgage Credit Associations.

The co-operative enterprises are engaged in industry and commerce and as business units of these categories they have access to loans in the mortgage credit associations in accordance with the rules on credit limits and repayment periods shown in chapter I/3/b as well as in the Industriens Hypotekfond (second priority loans); the latter issues medium-term loans on the basis of a credit examination on banking lines on project profitability etc.



To a certain extent the co-operative enterprises have used the credit facilities offered by the institutions mentioned. As revealed by the balance sheet of bacon factories and dairies the fact is, however, that fixed property is a relatively modest item in the assets of the co-operative organizations. This explains why the credit given to co-operatives by the mortgage credit associations is a relatively modest part of the loan liabilities in these enterprises compared, for instance, to common agricultural properties and to the financial conditions in the housing sector.

This circumstance is further borne out by the fact that the buildings of the co-operatives are designed and equipped in special ways, which means that their liquidation value will be relatively modest.

The remarks made about the share of the loan capital obtained by the co-operative enterprises in the form of fixed loans are relevant also for the credit services offered by the lending agents in the line of fixed loans mentioned in the following.

It is, however, fairly realistic to say that the co-operatives have been reticent in their use of the facilities made available by the bond-issuing institutions - facilities which should offer adequate services to the modern production plants of the new amalgamated larger enterprises.

(b) The Manufacturing and Manual Industries Finance Corporation.

As mentioned in chapter I/3/b the Manufacturing and Manual Industries Finance Corporation was established under a special act. The corporation was organized as a joint-stock company. The founders were The Central Bank, The National Organization of the Danish Commercial Banks, The National Association of Savings Banks, The Society of Insurance Writers and The Council of Danish Industry.

The corporation obtains its loan funds by the issue of debentures from time to time in large portions. The investors can subscribe the amount they want to take, the investors being, for instance, insurance companies or banks.

The loans are issued to the borrowers as cash loans with deduction of an establishment commission of 2-3 per cent depending on the repayment period. The repayment period of the loans is up to 10 years. For loans intended for investments solely in machinery the repayment period is, however, normally only 5 years. For investments in buildings and machinery the loan will usually be granted with a repayment period of 6-8 years.

The rate of interest is fixed for the total repayment period and it reflects the interest at which the corporation has been able to borrow in the capital market - as mentioned - by the floating of debentures.

Contrary to the operational rules laid down by statute for the mortgage credit associations and the DLR there are no fixed upper credit limits in proportion to the existing values to be respected by the corporation. The rule normally followed is that the corporation will limit its loans to about three fourths of the investment.

The more characteristic mode of operation is that the corporation gives each application an individual treatment. If the applicant is a new enterprise, about to be started, the market outlook for the products to be manufactured and the managerial qualifications of the executive leaders are taken into consideration during the appraisal procedures. The main criterion is a credit examination on banking lines in respect of the prospective profitability etc. In cases where existing enterprises have planned new investments the most important material for the credit appraisal will be the financial statements of previous years and the budgetary forecasts based upon the modified means of production.

The corporation must observe the restrictive rule that an engagement with any single debtor-enterprise must not exceed 20 per cent of the own capital of the corporation. By its own resolution the corporation has laid down that it shall never - by borrowings or otherwise - assume obligations to an amount higher than 4 times its own capital, as shown in its most recent financial statement.

As far as known, only a very limited number of co-operative enterprises has taken loans from the corporation.

(c) Insurance Companies and Pension Funds.

After special negotiation in each single case the co-operative enterprises may obtain loans from insurance companies and pension funds. To a certain extent these agents are interested in lending against mortgage in fixed property at the current market rate of interest.

Co-operative societies have a greater possibility than farmers in general to be accepted as borrowers from these sources because the insurance companies and pension funds will, quite naturally, prefer to carry a portfolio of relatively few and, at the same time, relatively large loans.

The co-operative enterprises have, to a certain extent, used the loan facilities available from insurance companies and pension funds.

(d) ATP Loans.

The act on the Labour Market Additional Pension Scheme (the ATP) provides that enterprises contributing under this scheme may borrow part of the contributions made by them.

Considering the amounts of capital on which the enterprises usually operate, their general view will often be that the loans will be of such modest size that it is not worth the trouble to apply for them.

(e) Foreign Loans.

The co-operative organizations are able to obtain foreign loans, mediated through Danish banks. The Danish exchange regulations provide that single enterprises, for investment purposes, can raise loan to an amount of 5 mn kroner per year per economic unit. The repayment period of such loans shall be at least 5 years. The loans must be used for investments in plant, machinery and equipment serving the business operations of the individual enterprise.

(f) Agricultural Financing Funds.

From the resources of these funds - about 350 mn kr. - which are administered by the central agricultural organisations, loans can be granted for projects within the co-operative sector. An individual appraisal is made on each single case. A main precondition for a loan grant is that the project is correlated to a country-wide reconstruction plan for the business area in question.

The loans are granted at terms corresponding to ordinary commercial credit conditions.

(g) Regional Development Support.

Within the restricted framework of the national Danish regional development legislation the agricultural joint enterprises may be considered eligible for loans and subsidies on the same lines as are applied to other enterprises in the development regions.

A small number of co-operative organizations has been supported from this source during the years preceding the Danish EEC-membership, especially in connection with the implementation of projects of a special character.

After the establishment of the Danish membership of the EEC, the Directorate of the Regional Development Scheme has become more reticent in its relationship with the agricultural joint enterprises, mainly because these organizations are eligible for investment subsidies from the joint agricultural fund of the EEC.

#### (h) Commercial and Savings Banks

Loans from banks constitute a very essential part of the loan capital on which the co-operative enterprises work. This capital is provided in different forms; some credit is given as instalment loans and some is furnished as ordinary cash credit, with or without an annual reduction of the overdraft limit. The loans are given at the current marked rate of interest. One reason why a major part of the medium-term and long-term debts of the co-operative organizations is made up of bank credit is of a historical nature and is also due to the fact that these enterprises have a rather high, current money turnover.

The historical background dates back to the last decades of the 19th century and to the beginning of the present century when the Danish agricultural co-operatives were established, locally, regionally and nationally and this co-operative founding activity was, to a very large extent, financed by loans from savings banks and commercial banks.

At that distant time a large number of small co-operative ventures were started and it was a most natural process that the capital was borrowed from local banking institutions. It was a simple necessity to obtain the funds through loans, because the local societies were organized

with open membership which meant that all farmers living and working in the society's business area were eligible for membership in the co-operative.

At the same time, most of the cultivators were without means and, therefore, it was impossible to finance, partly or wholly, the common ventures by subscription and cash payment of shares during this establishment phase 70-100 years ago.

The intimate relationship between the co-operatives and the banking institutions have been maintained ever since.

The accelerating process of fusions has meant a certain limitation in the collaboration with local banks, but it is still a fact that the banking institutions take care of the larger part of the provision of loan capital to the co-operative sector.

As of 31 March 1973 the loans from savings banks to co-operative organizations and similar undertaking was 500 mn kr., corresponding to about 2 per cent of the capital administered by these banks. To this must be added that the co-operative enterprises use a considerable part of the funds lent by the savings banks as cash credits; as of 31 March 1973 such credits to co-operatives amounted to 4.500 mn kr., or about 17 per cent of the total funds administered by the savings banks.

No statistical data are available on the loans from commercial banks to the co-operative organizations.

An essential part of the debts of the co-operative enterprises is, quite naturally, current debts to finance processing and production. Part of this debt is foreign commodity credit which is, mainly, the case with the agricultural supply enterprises handling the production inputs of fertilizers and feeds. The debts to suppliers are not considered any impeding burden for the enterprises because of the prevailing fast turnover of capital. It would, however, be incorrect to assume that the co-operatives do not know problems of liquidity.

On the contrary, it is fairly evident that some co-operatives are constantly and others are temporarily on the verge of liquidity difficulties, which are attempted met, to a certain degree, by the creation of different forms of "operation funds".

These funds are based upon the principle of a "revolving capital"; for each member a certain part of the payments to him, or of the turnover made by him with the society, is retained and credited to a special account in his name. The retained amount - a kind of compulsory savings provided for in the by-laws - rotates which means that each year's savings is released after a period of, for instance, 5 years after the end of the fiscal year for which the retention was made.

The retained amounts are, as said, credited to the individual member's special revolving fund account and the balance belongs to him - he is a creditor with his co-operative society with such balance. This revolving fund system does not solve the problem of own capital but it may solve the liquidity problems. In respect of liability it would be possible to formulate the by-laws on the revolving fund in such a manner that the fund would carry the liability towards creditors after the loss of the society's own capital and reserve funds.

The entire security for loans to co-operative enterprises will often cover more than provided by the value of buildings, machinery and stocks of merchandise. Such surplus security may consist of liability for the society's debts on the part of the members - in some cases such members' liability may be limited in one way or another.

It may also be taken into consideration that the co-operative societies' by-laws often contain rules on the members' purchase- or delivery obligation towards their joint enterprise. Such obligations are sustained by the members - generally without any form of price guarantees on the part of the co-operatives.

The supplementary security offered by the members' liability and by their purchase- or delivery obligation has, in the past, been considered quite an essential intangible asset in addition to the security made up by the fixed property, the machinery, the equipment and the direct and indirect inventories.

In line with the progress of amalgamation of co-operative enterprises to create large regional or national fusions the members' liability for the debts of the original societies - in which the members were often jointly and severally liable - have had to be changed into some form of limited liability. If such change were not made the individual farmer-member would assume a risk which he would have no ability to estimate. The most common practice of amalgamation on this point has, therefore, been to change the co-operative membersshareholders' responsibility into one of limited liability.

Inversely, this circumstance means that the basis of the entire security for credit to the co-operative organizations will undergo a change; to a higher degree the security will have to be found in the tangible assets of the enterprise itself. In turn, this raises the need for the



establishment of a real, funded own capital in the co-operative enterprises and such capital must be augmented to a size that satisfies such ratio norms in relation to the assets as are required in other branches of industry. Business economists would put such ratio of own capital to assets at 35 to 40 per cent. Some of the Danish co-operative enterprises, amongst them also some large regional and national fusions, do not, at present, satisfy such norm ratio for their own capital.

The subject of the future needs of loan capital for the co-operative enterprises and of an estimate of the possibilities of covering these needs has been dealt with in chapter II/2/b on the agricultural joint enterprises.

I/5 The Impact of the Economic Development on Agricultural Credit.

During recent years the economic development in Denmark has been marked by strong inflationary tendencies and by a large deficit in the balance of payments. These circumstances have led to a very high level of interest, judged by traditional standards.

To which extent do the changes in interest rates in society at large affect the costs of interest in the agricultural sector? What is the impact on agricultural economy of the present very high level of interest (March 1974)? Answers to these questions will be attempted in the following.

In the terms of reference set for the present report some further points are raised; they will be plaited into the discussion on the impact on agricultural finance by the interest fluctuations and will be elucidated at the end of this chapter.

The effect of interest changes in general can be most expediently studied by a review of the different agricultural loan categories.

Bond loans

Interest changes in the bond market, which is the main source of finance for substantial investments in agricultural buildings and for purchase of farms, will strike fully through where new loans are raised. Inversely, the interest on loans established in the past is not influenced at all by the current effective interest on bond loans because all loans of this type are issued at a fixed nominal rate of interest. This means that the rate of interest accepted by the borrower at the time of the bond issue remains, quite simply, the valid rate for the whole of the repayment

period. An exception from this condition would be a situation where a general substantial decline in the level of interest occurred so soon after the taking of the loans that the borrowers would find it profitable to use their membership rights in the mortgage credit associations to repay their full loan balances at par and then take fresh loans at a lower rate of interest (the process called conversion).

Bond loans are issued to agriculturists in exactly the same manner as they are granted to debtors in other occupations, and changes in interest, as far as bonds are concerned, have, therefore, precisely the same impact on the economic conditions in agriculture as they have in other sectors.

#### Loans from banking institutions

At the present time, practically all bank loans, new as well as old ones, are subject to variable rates of interest computation. The rates of interest are variable whether they are applied to quite short loans or to medium- or long-term credits. The lending rate of interest for real mortgage loans used to be fixed for the total repayment period - especially in the savings banks where many such mortgage loans were granted on agricultural properties until the 1960s. It has, however, been possible for the savings banks to convert nearly all such old loans to other loans at variable rates of interest. The current practice is that all savings banks loans are granted on shorter terms than before and always at variable interest rates.

The lending rates charged by banking institutions vary, in almost all cases, with the fluctuations in the official central bank rate. The changes in this bank rate affect the debtors, in case of fixed loans, from the date of the half-yearly loan payment immediately following the change

in the official bank rate; for all other types of loans and credits the interest rate is changed immediately after a new central bank rate has been published.

Agriculturists are not favoured by any special preferential treatment in connection with changes in interest rates for loans issued by banking institutions.

Government loans.

(a) Loans from treasury funds.

If loans are advanced to agriculturists out of direct treasury funds no changes are made in the original rate of interest in line with movements in the market.

An example of a direct treasury loan at a fixed, invariable rate of interest, valid for the total life-time of the loan, is the conversion loss loan for initial establishment of agriculturists.

In the past treasury loans were granted at fixed rates of interest also for investments in farm buildings. This type of facility was completely withdrawn in 1971. (An exception is, however, a very small number of land allocation and distribution cases in connection with the removal of a farm and its resettlement as an outlying property).

(b) Ground rent.

On properties acquired on ground-rent terms a levy is paid to the treasury variable with the prevalent rate of profit in agriculture as computed annually by Det landøkonomske Driftsbureau (the semi-official National Bureau of Farm Management). This ground-rent levy is, therefore, variable but not directly by the general fluctuations in the level of interest rates, except to the extent that such variations influence the interest as a cost component

in the total economy of agriculture in the country. The ground-rent system is petering out, as described in I/4.

(c) Modernization support.

This type of government support is given as an interest subsidy. The subsidy amount is fixed at the time of the original grant and it remains unchanged for the disbursement period irrespective whether the loans raised for the investments have been taken at fixed or variable rates of interest.

#### Private mortgage letters.

As said in chapter I/4, the interest on private mortgage letters (for instance seller's mortgage) may be paid at a fixed rate for the whole of the repayment period or it may vary with the interest rate on savings deposits with banking institutions. In rare cases the private mortgages may, however, vary with the official central bank rate.

#### Debts in open account (suppliers' credit).

The interest rate on the substantial volume of open account credit taken by Danish agriculturists varies, quite naturally, with the general changes in interest costs; the rate charged on suppliers' credit is determined, in almost all cases, in proportion to the rate debited by banking institutions on cash credits (under credit limits, usually reviewed annually, for overdrafts in current accounts).

As shown in the graph in the text on the mortgage credit associations in chapter I/4 the bond interest costs, the official central bank rates and the lending rates of the banking institutions have fluctuated considerably during recent years.

Everything taken into consideration the conclusion is that changes in the interest in society at large do strike almost fully through to the agricultural sector.

The changes in the official central bank rate as set by Danmarks Nationalbank are made partly to serve domestic monetary policy purposes and partly they are dictated by foreign exchange conditions.

The banking institutions are under no obligation, by agreement or statute, to alter their interest rates in line with the official bank rate but, in actual practice, they do so.

Alterations in the effective interest in the bond market are not hinged on to the bank rate in the same firm manner as the deposits and lending rates quoted by savings and commercial banks. There is, of course, a certain important state of dependence even if it is a fact that the bond interest has tended, during recent years, to move at a considerable higher level than the lending rates of banks.

Indirectly a certain process is going on continually to adjust the level of the bond interest to the official bank rate and also, thereby, to the bank interest charges. This natural market adjustment of the effective bond interest level may take place in anticipation of a change in the central bank rate or it may follow after such change has been made. The effective bond interest is determined by the supply and demand for bonds in the Copenhagen Stock Exchange and its quotations depend closely on a comprehensive estimate of the prevailing situation paired with more long-term forecasts on the money- and capital market developments.

Besides the political, monetary measures based on domestic conditions such as open market operations and adjustments in rediscount facilities to commercial and savings banks,

the development in the Danish balance of payments plays a decisive role in determining the central bank rate policies to be applied to the Danish level of interest.

The rather permanent tendencies towards current deficits in the balance of payments during recent years have necessitated repeated changes in the bank rate aiming at financing such deficits by foreign loans raised by private enterprises. The question may also be raised whether an increase in the interest is furthered, in the long run, by a greater consciousness of interest yields being acquired by the saving public.

In this connection must be mentioned that due to the inflation during recent years, especially the last 1-2 years, and also due to a heavy marginal income tax on interest as well as on other types of income, the net interest on savings has become directly negative. If the present rate of inflation is not effectively curbed in the very near future it must be feared that a marked reduction in private savings in Denmark over a considerable period of time will lead to scarcity of capital with the consequence that the interest will mount even higher above the present relatively high level. These problems are regrettably similar to those found in most EEC-countries at the time of spring 1974.

Increased institutional and public savings might counterbalance the falling private savings, but the savings made by insurance companies and pension funds would also be subject to the damaging inflationary depreciation.

To a certain - and no doubt a considerable - extent the Danish domestic interest level is expected to be closely connected with the interest level in other EEC-countries, partly because of the foreign exchange agreements already in operation and partly because of the further projects for economic co-operation, amongst them the arrangements for freer movement of capital between the countries.

From the circumstances described above the conclusion is that agriculture has to operate with interest costs determined by the generaleconomic development in the country. This is mainly a logical consequence of the fact that the institutions financing Danish agriculture are simultaneously also rendering credit services to other occupations and to the housing sector.

There is no reasonable relevance in the question whether the institutions involved in agricultural credit have performed their services to an appropriate extent and in a satisfactory manner.

Agricultural credit is woven into the general texture of credit services and agriculture - as well as silviculture and horticulture - must compete for capital with other sectors on an equal footing - apart from the limited facilities of soft treasury loans and from the new modernization support scheme. In a general way it appears true to say that loan capital has been rather amply available and also that this amplitude has had some influence upon the price of loan capital.



II/1 The General Development in the Money- and Capital Market,  
The Development in the Agricultural Credit Area - a  
Prognosis for the Period until the Middle of the 1980s.

A summary of the legislative measures taken during recent years on money- and capital market matters is given in the following text in order to provide a basis for a forecast of the legislative initiatives which may be expected during the coming years. The legislation during the last couple of years has, namely, had an essential effect upon the adaptation of the credit services to the needs raised in the modern society.

Agricultural credit is granted almost exclusively on the same lines as are followed for other sectors and, therefore, the following account of the credit services is of a general character.

In the capital market area a mortgage credit reform was introduced in 1970/71. This reform was enacted after age-long preparation in a commission followed by special consideration of the socio-economic aspects of the bond issue by a committee of government economists. The commission and the committee carried through a comprehensive evaluation of the Danish bond loan system. In this evaluation was also considered the possibilities of supplementing the existing bond system by a scheme of bonds with interest adjusted on a price-index basis or in another form of periodical interest changes.

These alternatives were, however, rejected by the commission.

The results of the mortgage credit reform were, amongst others:

- (i) a most essential amalgamation of mortgage credit associations;
- (ii) a shorter repayment period for the loans;
- (iii) a clearer definition of loan purposes as a precondition for borrowings from bond-issuing institutions;
- (iv) increased public inspection and control on the bond-issuing institutions.

It was a wish for better allocation of scarce capital resources that was part of the background for the commission and this wish was the most urgent reason for the introduction of shorter repayment periods and the higher degree of purpose definition.

During the past half score of years Denmark has seen repeated restrictions in the monetary policy area, as described in chapter I/3 in connection with the legislation in 1973 and the voluntary agreements on the regulation of the administration of credit (the credit ceiling).

These 1973 agreements were the latest results of wishes to regulate the credit issue by banking institutions, motivated by socio-economic considerations. Before 1973 numerous other measures were taken.

A capital market council with comprehensive objectives was established in 1972; the membership was composed to include widely a number of important groups, such as the national organs of different economic sectors, the labour market parties, the mortgage credit institutions as well as the commercial and savings banks. The council was set up by the Minister of Economic Affairs as a consultative organ to the government. The core of the work of the council is to consider the structural development in the capital market as well as to evaluate the administration of capital

resources, amongst them the latent and visible tendencies in the pattern of savings and investments.

The studies made by the capital market council so far have had no direct connection with the agricultural sector; they have had a general economic aim but no significant recommendations have been made.

A change in the legislation on the banking institutions was made in March 1974, as mentioned in chapter I/3.

Furthermore, a Danish adaptation to the European money- and capital market will take place in continuation of the opening of the Danish stock market to foreign investors as of 1. January 1973. Part of this process is to grant more freedom of access to the establishment of foreign banking institutions in Denmark and to open up the Danish bond market for buyers from other EEC-countries. The opening of the bond market is raising special deliberations in Denmark.

Under its EEC membership agreement Denmark is obliged to make a decision in principle not later than 1. January 1975 on the opening of sales of bonds to foreign countries. It may be imagined that the prevailing Danish interest may be somewhat reduced because the interest level in Denmark is still somewhat higher than is the case in other EEC countries. This might be considered a Danish advantage. It must, however, be realised that there are complex problems in connection with sales of Danish bonds to other EEC countries. First and foremost the problems are centred around the eventuality that foreign investors might come to think that the Danish krone was overvalued and, for this reason, start a resale of the Danish bonds. The consequences would be highly unfortunate because the return of bonds would affect the Danish balance of foreign exchange and would curb the possibilities of conducting an independent Danish monetary policy.

It has been said that the mortgage credit commission in their preparation of the mortgage credit reform considered alternatives to the existing bond issue system, but that no background was found to propose any acceptance of the alternatives formulated.

Nevertheless the question of such alternatives is subject to a rather intensive political debate at the present time. The discussion points in two directions. The first one centres around an index-loan system and the second one is part of the discussion on the introduction of a system under which loans are raised for only a 5-year period with a right of renewal for each following 5-year period at the terms valid at the time of such renewal.

The background for the fresh outbreak of the interest in alternative arrangements is the very high Danish cost of interest on loans which is a consequence, to some extent, of the continued growth in building and thereby also in the issue of bonds which have taken place year after year in spite of the introduction of shorter loan periods and likewise in spite of the requirements for clearer purpose definitions as a prerequisite for loan grants, as laid down in the mortgage credit reform. In this context must be noted that new housing policy legislation is also on its way, and in connection with the advance deliberations on this new policy the entire housing finance problem has been given fresh actuality.

Furthermore the raising rents in new housing facilities and the resulting difficulties of letting high-rent flats, especially in the social housing sector, have led to considerations on the feasibility of introducing forms of financing which would, to a large extent, reduce the rents at the start but with a built-in price index adjustment clause so that the housing expenditure would be given a profile changeable over a period of years.

The advocates of an index loan system based upon the issue of bonds propose that such issue shall take place at a relatively low nominal rate of interest, for instance 2-4 per cent per annum, but under an arrangement whereby the value of the bonds is protected against inflation through an index adjustment of the balance of debt on the underlying mortgage letters. The adherents of the system believe that these bonds will fetch an acceptable quotation in the stock exchange in spite of the low nominal rate of interest but by virtue of the inflation protection and by virtue also of the income tax exemption on the increase in their value.

Seen from the debtor's angle the system would mean that the debt will be appreciated in rhythm with the inflation by applying some sort of index reflecting the inflation. In simple terms, the debtor carries a low burden of interest but, inversely, he must surrender the greater part of an eventual price boom profit to the bondowners.

For many reasons it is extremely doubtful whether an index bond system would be desirable, one of them being that the consequences are hard to foresee by all parties concerned. The other aspect of a bond loan where the interest is changed, for instance every 5th year, may evoke a certain amount of sympathy. It must, however, be recalled that bonds issued under such alternative scheme, for some time, would have to compete in the stock exchange with a very high existing volume of bonds (at the end of 1973 138.000 mn kroner).

The buyer of bonds would presumably, in the present situation, pay a relatively low price for 5-year bonds. The relevant problem is, however, how the terms of interest will be when the loans are to be renewed every 5th year.

Everything taken into consideration it appears predictable that the money- and capital market will undergo only limited changes during the period ahead to the middle of the 1980s. Predictions into such far future are, however, difficult to make.

The bond market has, however, been subject to great strains during recent years, resulting in low exchange quotations and very high effective interest rates. The automatically functioning system, whereby the mortgage credit associations are disbursing their loans in bonds, leaving the realization of bonds to the borrowers, must bear some of the responsibility for this situation, and a debate on the system has been raised recently by the governor of the Danish central bank.

He has raised the question whether the system can be upheld at all because a continuation of high demands for loans and high inflation rates must be foreseen. The outcome of the debate is, as yet, uncertain but some changes - probably, though, only of a limited nature - may be made in the near future.

For agricultural finance some of the changes experienced during recent years and some of the probable lines of development in the future shall be highlighted as has been the case for society as a whole. The mortgage credit reform of 1970 permitted the three big credit associations to grant general first mortgage bond loans to 50 per cent on the value of agricultural properties. A spectacular innovation in the field of agricultural finance was the establishment of the Dansk Landbrugs Realkreditfond in 1960. The organization of this institution meant an effective improvement in secondary lending operations for agricultural properties. Such effective facility was greatly needed at the time of transition from the static society marked by unemployment during the post-war years into the more dynamic period of

the 60s with full employment, with steeply increasing migration from agriculture and with the beginnings of very profound structural changes in the primary agricultural sector.

DLR's lending operations were an innovation in the field of agricultural credit right from the start of this institution. DLR lending was to a large extent selective, purpose-directed credit which, as described in chapter I/4, attempted to analyze the debtor's past profitability and to estimate his future prospects so that the most adequate support could be offered preferably to the dynamic element in Danish farming.

Danish agriculture has been affected first and foremost by the reduction in the life-time for mortgage credit association loans from 60 years to 30 years at the longest, which curtailment was introduced by the mortgage credit reform.

Formally the credit limits for agriculture were also reduced by the reform, in as much as the new upper loan limit decreased from 75 per cent to 50 per cent for ordinary and special credit from the first mortgage- and the second mortgage associations combined because, by the reform, the two categories of lenders were amalgamated.

In actual fact the first mortgage and the second mortgage credit institutions had not used their statutory very wide credit limits after the years of crisis during the 1930s when serious losses were suffered on agricultural loans.

A lending area from 50 - 70 per cent is now reserved for DLR's purpose-directed, credit-testing loan issues.

In the field of state treasury loans a number of changes have been made, mostly as part of the important work of the Agricultural Commission of 1960 during the period from 1960 to 1970.

Amongst these changes the following are mentioned:

- the extent of state loans for purchase of land has been reduced;
- state loans for building investments have been almost completely withdrawn;
- possibilities have been opened for commutation of ground-rent encumbrances - priorities fixed by the prevailing state of the economy - into regular, fixed state loans. The ground-rent system became increasingly cumbersome. It may be inserted that the index loan schemes would be rather like the ground-rent arrangement, because the ground-rent mortgage was every 4th year increased in line with the increase in the taxable land value;
- the conversion loss loans for agriculturists at their initial establishment in farming have been introduced;
- an interest limitation scheme was introduced in 1970. This scheme has been replaced by the modernization support plan approved by the EEC from 1 January 1974.

All in all, the tendencies in the field of agricultural finance point away from state interference in the agricultural credit sphere, with the exception of the facilities for initial establishment of farmers. These conversion loss loans for young agriculturists can, to some extent, be considered equivalent to the support given to trainees and students in other occupational fields, granted in the form of free education and training, subsidies and study loans etc.

It is rather difficult to imagine that essential legislative measures will be taken to change and improve the credit facilities now available to Danish agriculture. This view is taken because it seems as if the system of financing Danish agriculture has been as thoroughly developed and organized as it would appear practically possible.

Future general changes in the bond system will, however, most likely have consequences for agriculture because credit for this sector in the bond market is an integrated part of the system.



If a further development of agricultural credit facilities had to be projected the most likely initiatives to be thought of would be additional state schemes to finance an extended assistance to establishment and to render more support to investments in the building section of the production equipment - the underlying motivation for such extension of public facilities would then be the high Danish cost of interest. Isolated Danish initiatives in this field do, however, appear improbable in the context of the total problem complex in Danish economic life, where the development has moved rather in the opposite direction, as mentioned above.

It is probable that some innovations in agricultural credit may take place on an EEC basis. Such innovations are likely to come off on the Danish agriculturists' credit facilities because conditions of competition would otherwise become distorted. Such eventual EEC initiatives may first and foremost turn up as subsidy schemes and it seems as if the background would have to be a decline in the supplies situation within the EEC or similar occurrences.

A state of affairs, which is a special taint in a decided owner-occupancy agriculture like the Danish, is the drain on capital caused by the transfer of properties to new owners.

The fact is, however, that transfers within the same family take place often at normal market price less about 20 per cent. Nevertheless the younger generation will have to carry considerably heavier loads of debts than the retiring one. Problems in this respect were intensively examined and discussed by the Agricultural Commission of 1960 which, however, found it impossible to point out any useful essential alternatives to the state of self-ownership to farms.

In the Perspective Plan II report (cf. chapter II/2), just published, this problem has again been noted and it is said - apparently based upon no thorough examination - that "the increasing financial needs of the individual farmer must further the growth of thoughts on new types of company entrepreneurships in agriculture. Especially the problems in connection with the generation shift might be eased if partnership organizations or variants of such set-up were adapted to the special conditions in agriculture."

It must be observed that the legislation on partnership companies is new in Danish law. The legislation was passed during the parliamentary session of 1972/73 in connection with amendments in existing company law. It is, however, extremely doubtful whether it will be practically possible to find useful alternative solutions, which would have to balance somewhere in between the clean self-ownership on the one hand and the outright joint stock company organization on the other.

At the present time it is true to assert that time is not ripe to accept that joint stock companies should be permitted to buy agricultural property in Denmark. Such permission existed before 1957 but it was used only to a very modest extent. Legal entities have, since then, been prevented from acquiring agricultural properties except in such cases where the purchase has taken place for experimental purposes.

Parenthetically it may be added to the discussion on the financing of generation changes and to the consideration of the question of access to the purchase of agricultural property that a legislative attempt was made in the parliamentary session of 1972/73 to prune the top of the prices for agricultural properties; this was done by supplementing the statutes on the acquisition of agricultural properties by a ban on purchases by non-agriculturists of proper agricultural properties on which the owner's domicile obligation is incumbent.

From the contents of this chapter is apparent that no very important changes in the agricultural financing facilities and no modifications in the structural organization of agricultural credit are foreseen during the next decade.

In a following chapter a prediction of the investment activities in Danish agriculture for a coming period of years will be discussed. The intention is to put it as a probability that these activities can be financed by the existing credit services with no other greater difficulties than those which will meet all other Danish occupations. It is hoped that the present heavy conversion losses on the sale of bonds will be of a transitory nature, because they constitute a very heavy load on agricultural finance, especially when the normal, specifically low rate of turnover in the primary agricultural production is taken into account. Such hope might be justified because the heavy conversion losses are, to a considerable extent, the consequences of the inflation and the balance of payments deficit, correlated with the high demand on the capital market resources made by the housing sector.

II/2 Investment- and Finance Problems in Agriculture -  
a Prognosis to Mid-1980s based on Perspektiv Plan II (PP II)

In January 1974 the Budget- and Finance Ministry published a report called a "perspektivplan (PP II)" containing two prognoses, one with a time horizon 1977 and another with horizon 1987. The first Danish perspective plan (PP I) was published in 1971, and its outstanding distinction was that it predicted clearly the very fast growth in the public consumption of resources ahead through the 1970s.

PP II must actually be considered a collection of arithmetic examples showing how the different society sectors are most likely to develop during the perspective period. The plan is an estimate of the comprehensive development in society, especially a preview on the consumption of resources.

The national industrial, commercial, agricultural, trades, banking and other organizations representing the economic life of the country have participated actively in the planning.

In order to illustrate the relative draw made by agriculture on the capital resources of society during the years preceding Denmark's entry into the common market and to illustrate comprehensively the relativity of all demands on the resources within the PP II's time horizon the cardinal figures from Perspektiv Plan II (PP II) on capital needs and capital coverage in the society as a whole are summarized in the following.

PP II's forecasts in this field are based upon quite a number of assumptions which are deemed irrelevant in the context of the present report; an analysis of these assumptions has, therefore, not been included in the following text.

Table 14 shows the development in the gross investments in industry trade and other occupations:

Table 14

The Development in Gross Investments in some Private Enterprises.

Milliard kr. (1000 mn) at 1972 prices	1960	1967	1972	1977	1987
Agriculture and Fishing	1,4	1,5	1,8	3- 4	3- 4
Agriculture only	1,3	1,4	1,6	3	
Urban Occupa- tions	6,4	10,5	12,3	18-21	27-33
Industry	2,7	2,9	3,1	5	
Building and Construction	0,4	1,0	2,2	2- 3	
Trade	1,3	1,4	2,0	3	
Transportation (excluding Aviation)	1,2	1,6	2,4	3	
Total Occupations	7,8	12,0	14,1	21-25	30-37

Source: Perspektiv Plan II

The table shows that the gross investments in agriculture are relatively modest compared with the total gross investments in urban occupations. Compared to the industry actually engaged in production the estimated gross investments in agriculture for 1977 - about 3000mn kr. - are, however, of quite a considerable size. The figure for such industry in 1977 has been estimated at 5000mn kr.

To elucidate the share of the agricultural investments in the aggregate investments in fixed assets the development is shown in table 15; such investments amounted to a total of 33.000 mn kroner in 1972, of which the share of agriculture was about 1.600 mn kroner, cf. table 14.

Table 15 shows that the public investments amounted to 8.000 mn kroner in 1972.

Table 15

The Development in the Total Fixed Investments, 1972 prices.

Milliard kroner (1000mn)	1967	1972	1977	1987
	- prices of the year -		1972 prices	
1. Housing <sup>x)</sup>	6	10	7- 9	7- 9
2. Private Occupations	10	14	21-25	30-37
3. Concessioned Enterprises <sup>xx)</sup>	0,7	1	1- 3	3- 5
Total of Housing and Enterprises <sup>xxx)</sup>	15	23	29-37	39-51
Public Investments <sup>xxxx)</sup>	4	8	9	13-15
<b>Total Investments</b>	<b>21</b>	<b>33</b>	<b>37-46</b>	<b>52-66</b>

x) measured in factor prices. The data have been provisionally adjusted with the aid of the input-output tables for 1966.

xx) telephone companies, electricity and gas works etc.

xxx) including concessioned enterprises.

xxxx) excluding concessioned enterprises.

Source: Perspektiv Plan II.

In order to illustrate the relationship between investments and savings the development in these areas is shown in table 16 in which the forecasts for 1977 and 1987 have been included.

Table 16

The Balance of Savings and Investments.

Milliard kroner (1000mn)	1967	1970	1971	1972	1977	1987
	- prices of the year -				1972 prices	
<u>Savings</u>						
a. Wage- and salary-earners	2,5	2,9	3,0	3 <sup>x)</sup>	4- 5	6- 9
b. Other private depositors <sup>xx)</sup>	10	10,5	10	13,5	13-16	15-20
c. Concessioned enterprises	0,6	1,0	1,2 <sup>x)</sup>	1 <sup>x)</sup>	1- 3	3- 5
d. Total of households and enterprises <sup>xxx)</sup>	13	14,4	14,2	17,5	18-24	24-34
<u>Gross Investments</u>						
e. Housing	6	7,5	8	10	7- 9	7- 9
f. Concessioned enterprises	0,7	1,3	1,5	1	1- 3	3- 5
g. Private enterprises	9,6	12,4	12,9	14	21-25	30-37
h. Inventory increases	-0,4	0,2	-1,0	-1,5	1- 3	2- 4
i. Total of housing and occupations <sup>xx)</sup>	16	21,4	21,4	23,5	30-38	42-55
j. Private investments-private savings (i-d) covered by:	3	7	7	6	10-15	15-25
k. Surplus of savings from the public sector <sup>xxxx)</sup>	1	3	4	5		
l. Borrowings abroad	2	4	3	1		

Note: The savings as well as the investment data have been adjusted in the light of the input-output tables for 1966.

- x) estimated figures.
- xx) private gross savings less savings by wage and salary earners and by concessioned enterprises.
- xxx) including concessioned enterprises.
- xxxx) including Danmarks Nationalbank (the central bank).

Source: Perspektiv Plan II.

According to table 16 the private investments amounted to 23.500 million kroner in 1972 against which the private savings figure at a total of 17.500 million. The financial deficit in the private investments has been covered partly by a savings surplus in the public sector of 5.000 million and borrowings abroad of 1.000 million kroner.

The table indicates that the period of the perspective plan forward to 1987 has been foreseen to be marked by an increase in the deficit of the financial coverage in the private investments during the chosen time horizon.

It would be interesting to discuss how the deficit in the financing the private sector would be tackled but in the context of the present report such discussion is found irrelevant.

Tables 14, 15 and 16 as extracted from the Perspektiv Plan II show that the agricultural share of the total capital draw through recent years and through the perspective plan period has been and is estimated to become of such size that a little larger or little smaller draw on the part of agriculture on the aggregate capital resources available will not distort the general picture to any essential extent.



Fluctuations in other areas are of considerably higher effect - for instance in the use of capital in the public sector and in varying draws in the housing sector. From tables 14 and 15 it is seen that the share of agriculture in the total draw on capital was about 5 per cent during 1972. This percentage on the capital draw has been estimated to become a little higher in 1977, but inversely the agricultural proportion of the 1987-demand has been estimated to rest approximately at the 1972-level.

In connection with the cardinal data from the Perspektiv Plan II on the savings and investments situation it is emphasized that tables 14, 15 and 16 have been compiled on assumptions which are, quite naturally, debatable; the data are, however, very valuable for an estimate of the share of agriculture in the demand for capital during the years before 1972 and ahead until 1985; they do furnish a clear indication of agriculture as part of the complete picture.

The sections on agriculture have been written on data provided by the agricultural organizations which have also contributed much to the planning and the final prognoses on the future development in agriculture. A comprehensive material, provided as annexes, propounds a range of forecasts for the agricultural sector. The annexes cover a review of the ordinary farm properties as well as the co-operative agricultural enterprises.

In the following text a rough summary will be given on the contents of the sections on agriculture; a very clear basic assumption for this part of the plan is that the EEC's agricultural system will remain unchanged during the planning period. Following immediately after such summary an independent evaluation of the PP II will be offered; the evaluation will be confined to the predictions on the agricultural development.

(a) Ordinary Agricultural Properties.

PP II observes that one of the trends in Danish agriculture during recent years is a tendency towards simplification of operations so that the farms, in order to survive, concentrate on one or perhaps two lines of husbandry which are then combined with tilling for production of feeds and developed into dimensions that will make it profitable to use advanced technical equipment, and at the same time will make it possible to achieve a continued increase in the labour productivity.

It is thought that the Danish membership of EEC has strengthened the tendencies towards further simplification.

As shown in table 17, containing the cardinal data from the PP II section on ordinary agricultural properties, it is expected that the number of farming units will decrease from 134.000 in 1972 to 75.000 in 1987. The decrease in the number of properties has thus been assumed to become smaller than the average reduction during the 1960s when the number of properties dropped by about 6.000 per year.

The prognosis on the number of properties has been based upon the trends of the influx and retirement of farmers and upon the age distribution of them.

Table 17

Danish Agricultural Structure and Production in 1972 -  
Compared to Estimates for 1977 and 1987.

	<u>1972</u>	<u>1977</u>	<u>1987</u>
Number of farm units	134.020	107.000	75.000
Agricultural area, 1000 ha	2.907	2.830	2.670
Average size of farm, ha	21.7	26.4	35.6
Number of permanent assistants	26.839	28.000	25.000
Number of cattle, 1000	2.779	3.298	4.095
Number of milch cows, 1000	1.123	1.240	1.511
Number of pigs, 1000	8.933	10.300	13.800
Number of sows, 1000	1.019	1.150	1.540
<u>Live-stock average sizes:</u>			
Milch cow herds (cows per herd)	14	19	37
Pig herds (pigs per herd)	80	120	244
Grain area etc., 1000 ha	1.785	1.620	1.330
Feed beets, 1000 ha	190	230	260
Grass and green fodder, 1000 ha	739	790	890
Market crops area, 1000 ha	193	190	190
Milk production on farms, 1000 tons (metric)	4.789	5.580	7.250
Production of beef and calves meat, 1000 tons (metric)	191	273	348
Production of pork, 1000 tons (metric)	817	920	1.230

Source: PP II, Agriculture, Annex 4

As a consequence of urbanization and for other causes the agricultural area is presumed to decrease by about  $\frac{1}{2}$  per cent annually during the prognosis period. The decline in the number of farm units and in the agricultural area interact to produce an increase in the average hectareage from 21.7 in 1972 to 35.6 in 1987.

The work on the prognoses has included calculations on the development of the agricultural labour productivity during a number of years before 1972. During the 1950s and 1960s the mechanization in tilling operations played an essential role for the increase in labour productivity. For the period ahead to 1987 it is assumed that an improvement in labour productivity will be achieved mainly in the field of animal husbandry operations. Considerable investments in buildings and equipment are foreseen and are considered preconditions for such achievement. It is estimated that it will be possible to realize an increase in the labour productivity of 6 per cent annually.

On the basis of estimates on the agricultural marketing possibilities is foreseen that the total production during the prognosis period will increase by 3 per cent annually which means that the Danish share of the market for processed agricultural products will be growing very moderately. At the starting point the market shares are small and the raise in the production will correspond to little more than the expected growth in consumption.

In 1972 the primary agricultural production employed full time 146.000 persons of whom 119.000 were family members and 27.000 employee-assistants. In 1987 the increased production, by virtue of the growth in labour productivity, will require 92.000 full time workers out of whom 67.000 will be family members and 25.000 assistants

It is noted that the number of farming units will be higher than the family member workers because some farmers, in 1977 and in 1987, are presumed to find work outside of farming. The family work has, therefore, been computed as 0.9 full time operator per farm (75.000 properties multiplied by 0.9 is equal to 67.000 full time workers).

Furthermore, estimates have been made on the development in the different branches of the production. These estimates show an expected annual increase in the number of cows of 2 per cent and an annual increase in the pig herds of 3 per cent, as indicated in table 17. The estimated growth in the herds, when related to the reduced number of farming units, leads to a raise in the number of milch cows per herd from the present 14 to 37, and the number of pigs per herd is expected to increase from 80 to 244.

Table 17 also shows how the use of the cultivated land will develop for the different crops.

At the bottom of table 17 the total production of milk, beef, calves meat and pork has been shown.

The summary of the expected development of the agricultural total production etc. has been compiled on the assumption that agriculture will draw upon society's capital resources, amongst them the farmers' own savings, and that it will thereby be able to manage the production, structure and productivity development which is the precondition for a consistent picture of the position of the agricultural operation during the prognosis period.

In order to illuminate the problem of obtaining the capital needed for the development - part loan capital and part savings - the report estimates the size of the technical working capital. This estimate has been made for the years 1970-72 as well as for 1977 and 1987. The capital needs have been limited to the technical working capital, and by this term is understood that part of the capital which might have found alternative utilization.

The size of the technical working capital is reviewed in the following table.

Table 18

Technical Working Capital 1970-72 and Estimates for 1977 and 1987, at 1972 prices, in Millions of Kroner.

	<u>Operational Buildings</u>	<u>Equipment</u>	<u>Live Stock</u>	<u>Operational Inventories</u>	<u>Total</u>
1970	17426	7333	6452	413	31624
1971	17600	7457	6312	385	31754
1972	17794	7590	6381	383	32148
1977	19780	8450	7400	445	36075
1987	24570	9845	9940	595	44950

Source: PP II, Agriculture, Annex 4.

The development of the technical working capital, as shown in table 18, is further illustrated by a conversion into an annual investment level for operational buildings, equipment, herds and operational stocks of produce (inventories). The extent of the annual capital needs compared to the needs ascertained for the years 1970-72 is illustrated in table 19.

Table 19

New Acquisitions, Improvements and Additions to the Agricultural Technical Working Capital 1970-72 and Estimates for the Periods 1973-77 and 1978-87, at 1972 Prices, in Millions of Kroner.

	<u>Operational Buildings</u>	<u>Equipment</u>	<u>Live Stock</u>	<u>Operational Inventories</u>	<u>Total</u>
1970	495	817	- 138	- 31	1143
1971	550	836	- 70	- 15	1301
1972	685	875	190	10	1760
<u>Annual Needs</u>					
1973-77	1130	965	205	12	2312
<u>Annual Needs</u>					
1978-87	955	1045	255	15	2270

Source: PP II, Agriculture, Annex 4.

Table 19 shows that the annual needs rise from 1760mn kr. in 1972 to about 2300mn 1972-kroner as an average for the period from 1973 to 1977 and that this level would also apply to the period 1978-87. Quite naturally there are larger uncertainties in the prognosis for the period 1977-87 than in the forecasts for the period 1973-77.

Presumable the needs for capital for modifications of buildings and for new building constructions will be of special importance because these investments will require long-term credit. In this area the needs will become approximately double during the prognosis period of what they were in 1971-72. All amounts have been quoted in 1972 prices.

The investments must be seen as a result of the structural changes in the direction of fewer farm units and fewer herds of live stock but also as a corollary of reinvestments and modernizations due to wear and tear on the means of production in the surviving farms.

The investments are, almost exclusively, foreseen to take place within the framework of family farming.

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As far as the primary sector - the basically agricultural properties - are concerned, this report must hold, as a prevailing point of view, that the building investments will enhance the labour productivity in Danish agriculture quite considerably. This means that this report agrees with one of the main conclusions of the PP II, namely that the investment needs for the technical working capital related to operational buildings most probably will average about 1000mn kr. during the next 10-20 years (computed at 1972 prices).

Later in this chapter an evaluation will be made on the feasibility of financing such building investments within the framework of the existing Danish agricultural credit system.

No basis has been found to enter into a discussion on a number of special circumstances but the view is held that the prognosticated decline in the number of farm units is likely to take place approximately as foretold because the average age distribution in the present group of agriculturists as well as the low numerical influx of young farmers render such decline probable.

With the state of ownership in Denmark, with nearly 100 per cent proprietorship, meaning that owner and operator-manager is one and the same person, the reduction in the number of properties will mean that considerable investments will have to be made by many farmers for purchase of land and neighboring properties. This will not be a general socio-economic investment, but some farmers will have to make the investments and others will have to liquidate theirs. Whether the purchases of land and neighboring properties can be financed in an appropriate manner will be discussed later in this chapter.

On a few single points some remarks are made.

It is found appropriate to query whether the expansion foreseen for the cattle live stock, especially in the number of cows, will actually take place, even if the soil qualities in Denmark are relatively favourable for a combined fodder/cattle production.

The doubt on the validity of this point of the prognosis is based mainly on the fact that farmers investing in the cattle sector will become relatively hard tied down by this type of work.



This hard tie does not compare favourably with the workload involved in other agricultural production branches. The burden of work in the cattle sector is even more unattractive if a comparison is made with the conditions enjoyed by workers in other occupations than agriculture. The reservation against the PP II cattle prognosis is, ultimately, made because it is doubtful whether Denmark will easily be able to undergo an "inverse development" back to a decidedly labour-extensive - in fact to the most time-consuming - area of work, taking into consideration the country's very fast development during the 1960s from a predominantly agricultural society into a modern industrial nation. At any rate, since 1960 and until 1972-73 the number of milch cows has declined. Still, the final answer to the question under discussion depends upon the continued profitability of costly animal husbandry investments under conditions of increasing costs and a high rate of interest in Denmark.

The PP II general production prognosis, which is acceptable with the reservations made above, forecasts that the Danish import of feeds in 1987 will be of double the volume imported at the beginning of the 1970s. The fact is, however, that the import into Denmark of feeds corresponded to only about 15 per cent of the domestic production of fodder. The imported proportion would rise to 25 per cent of the domestic production, according to the prognosis.

Even if the major part of an increasing import would consist of high rate proteinous feeds, a doubling of the feeds import during the prognosis period can hardly impede the realization of the prediction on the total production to any important extent.

The argument in favour of this view is that the Danish feed market is a part of the total EEC feed community after the country's adherence to the common market.

It is agreed that it is a realistic forecast that the investments outlined must be made almost exclusively in one-family or two-family farms. It is, however, foreseeable that many of the properties may be two-family farms in the prospective investment situation, but within the 1987 horizon such farm units are expected to be changed into one-man-farms by virtue of continued improvements and also as an effect of the elimination of activities which will be transferred to supply- and sales functions and to some other service facilities.

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In the following text it will be evaluated whether the present Danish agricultural credit system will be able to cope with the demands created by the development ahead to the time-horizon of 1987, within which the PP II offers its forecasts.

In a discussion of the problems involved in the generation changes, where young farmers replace retiring ones, it must be basically accepted that the prices of agricultural properties have, at all times, been raised up to the limit considered appropriate from a profitability point of view. This has always been the case in the past and no interference into this price process has ever been effective, whether it was made through legislation or was attempted in other ways. The rate of capitalization must be realistically expected to become still higher after the Danish adherence to the EEC because of the higher, stabilized income level attained by Danish agriculture, with its export proportion of about two thirds of the total value of the production.

In spite of this very fundamental condition ruling the price formation for agricultural properties it has been possible in the past to mediate the transfer of farms from an older to a younger generation without any important financial difficulties.

It has been mentioned in connection with private mortgage letters in chapter I/4 how the purchase price settlement can be managed where the buyer is a young farmer establishing himself for the first time. It was described how a young agriculturist would be able to finance his purchase of a property without becoming dependent on private persons holding private mortgage letters. At the same time the conversion loss loans from the treasury to young, well qualified farmers have, admittedly, provided valuable assistance to the financing of the generation changes during recent years so that they have taken place without serious difficulties. It is a fact that it has been possible for young farmers to settle as proprietors if they were in possession of an own capital of about 10 per cent of the price of the property.

The generation replacement has often been accentuated as a difficult matter to cope with for the young farmers. Viewed from the credit angle it is appropriate to distinguish between the financial settlement of the property transfer itself and on the other hand to consider and appraise the operational economy prospects after the property has been taken over. It must be admitted that the economy may well prove extremely strained as a result of the price formation mechanism and the ensuing capitalization of the agricultural properties.

It appears as if no special circumstances point to a development during the prognosis period when it would become basically more difficult to manage the financial aspects of the generation changes; it must, however, be added that the agricultural training requirements seem to be developing in a manner making it difficult for the young farmer to accumulate even a modest part of the price of a property. This is not meant as a criticism of the training pattern as such. The fact is that the general elementary school education as well as the special vocational training period for young farmers have become - almost without exceptions - of longer duration. Consequently the period during which savings can be made has become shorter. The trend is also

that the age of the young farmer at his independent establishment is becoming lower. The severe Danish income tax is another restricting factor as far as savings are concerned. Finally, the violent inflation rate in 1972, 1973 and 1974 has contributed seriously to lower the purchasing power of the young people's cash savings. This difficult situation has been seriously aggravated for the young farm assistants during the past two years because of the steep raise in agricultural property prices in Denmark after the country joined the EEC. These coincidences weigh heavily in the discussion about the possibility of finding appropriate solutions to the financial generation replacement problems at the present time.

The purchase of additional land or of a second farm, for joint operation or for amalgamation, has taken place without major difficulties during recent years, as far as the financial arrangements are concerned. The organized agricultural credit agencies have considered it a very useful function to assist in a smooth working of the generally accepted amalgamation process. The financing of structural changes has been eased by the credit reserves owned by the farmers as a result of the raising price level, as it will be described further on under the heading of building investments.

The future financial arrangements of the purchase of additional farm properties are not expected to raise special difficulties provided the buyers exploit the existing credit facilities in a rational manner.

It cannot be overlooked that it will be an alternative to the purchase of additional units - and perhaps one of quite some dimensions - to take land on lease from properties belonging to old farmers or to people having another main occupation than agriculture.

During the past it has been possible for farmers to get serious investments adequately financed.

By serious investments is meant that the projects must have been sober and the applicants must have been proficient people who have proved, through their previous performance, that they have been efficient managers of a profitable agricultural operation. Technical efficiency must have resulted in a good economic position and an attractive balance sheet which would then provide a favourable basis for a larger building project.

Such category of debtors will be given preference by the institutions dealing with their loan applications. The mortgage security is strengthened by the confidence in the applicant's acumen as demonstrated by accounting data. Good operational and financial accounts appear to be considered more and more as a precondition for extensive credit in the agricultural financial sphere. As the tendency towards simplification of operations and specialization moves on it seems as if more weight is added to the consideration of the borrower's personal credit worth.

Attention is drawn to the fact that the investment situation is such - and this is valid for purchases of land as well as for building constructions - that the credit must be granted on the existing property and the investments as one whole entity. This means that the credit reserves existing in the present property contribute towards the appraisal of the credit basis on which the new investments are financed. The ever increasing property prices have had the effect that new investments - amongst them the building investments - have been financed without any serious difficulties.

It is, however, a natural state of affairs that building investments are more commonly planned by young farmers who already carry a relatively large burden of debts and who have, consequently, the smallest credit reserves. In spite of this it appears justified to be rather optimistic with regard to the possibilities of financing the pronounced building activity. The background of such optimism is that even recently established farmers have quite considerable credit reserves in their existing properties due to the raise in farm prices in connection with the entry of Denmark into the EEC. In this context it must be observed that the young farmers who have taken over their properties after the raise in the prices had taken place - at the post-entry property price level - will encounter considerably bigger difficulties in having their larger new investments financed - an impeding situation which they will have to face for quite a number of years after their establishment.

A considerable number of farmers of about 30-40 years of age is, however, left and they will be able to obtain loans for extensive investment activities.

It must be assumed that the investments are made as continuations of the family investments which have been characteristic during recent years, and, therefore, the structural set-up and the mode of operation of the agricultural credit agencies will create no financing problems.

In this connection it is emphasized that a smooth and flexible recession practice in the DLR, in the banking institutions, and in the treasury in respect of state loans - amongst them the conversion loss loans - is a great importance. A flexible recession practice is one of the preconditions for a satisfactory service to the borrowers by the highly stratified Danish agricultural credit system. This is the reason why this practice was described in details in chapter I/4. On the whole it is true to say that adequate flexibility is being exercised.

A concluding remark on the financing of land purchases and building investments to an extent foreseen in the PP II - which is found acceptable, in principle - is that impediments may arise because the agricultural sector may prove unable to compete with other sectors for the capital as well as for labour; in such case this deficient competitive position will be a bigger drag on the development than any lack of organized agricultural credit.

In the immediate situation it must be admitted that the very high level of interest and the ensuing very considerable conversion losses on bond loans exert a highly impeding and a somewhat frustrating effect on the farmers. The farmers find themselves in a pinch between the huge conversion losses on the one hand and the steeply rising construction costs on the other. The dilemma is aggravated by the fact that the farmer often feels that his property must be thoroughly modernized and extended within a relatively short range of years, if at all. His motivation may be found in his age and his desire to introduce labour-saving lay-outs and devices. The dilemma has a special socio-economic background in the fact that more resources were withdrawn from Danish agriculture than from any other agriculture in the Western world during the 1960s.

(b) The Joint Enterprises.

In chapter I/4 the credit facilities available for the co-operative enterprises were described and it was shown what proportions of the supply, sales and processing services were covered by the agricultural co-operative organizations in Denmark.

The expected rising agricultural production as well as an estimated need for expanded processing of primary products must affect the activities of the trading and processing enterprises. It must also be taken into account that an increasing number of functions will be eliminated

from the farming operations and transferred to the joint enterprises. These circumstances and - not least - the continued intensive structural changes in the co-operative sector in the direction of fewer and larger enterprises will mean that these larger units will develop a certain investment activity, some of it aiming at an expansion of the sales operations.

PP II has estimated the investment activity in the secondary agricultural sector on this background, but it is pointed out the estimated must necessarily be imbued with considerable uncertainty. The joint enterprises will presumably make investments related to their shares of the whole sector. The prognoses for the whole sector have been formulated as follows:

"In the line of production inputs minor net investments in bulk fertilizer warehouses are foreseen during 1973-77 as well as in ammonium plants, spreading gear, grain storage space etc. The fixed gross investments are estimated at an average of 100mn kroner annually during all the period.

In the dairy line annual net investments are estimated at about 20 mn kroner whilst the reinvestments are expected to be increased from about 160mn kroner in 1973 to about 180mn kroner per year in 1977. The gross investments are estimated at about 200mn kroner in 1977.

In the abattoir line annual net investments of about 40mn kroner are expected. The reinvestment needs are assumed to grow from about 240mn kroner in 1973 to about 260mn kroner in 1977. The gross investments are expected to amount to about 300mn kroner in 1977.

The investment needs in the vegetable lines and in the egg line have been estimated at 40 and 10mn kroner annually.

The estimates thus detailed total an increase for the lines mentioned above in fixed gross investments from 4-500mn kroner in 1972 to about 650mn kroner in 1977.

Employment, growth in assets and investments in the secondary sector in 1987 will be influenced by the general economic and technological development during the intermediate years. The estimates of 1987 will, therefore, contain a considerable uncertainty. An extension of the development trends mentioned above will, by the estimates as quoted,



mean practically no change in the employment of about 47.000 persons, a growth in asset values of to above 10.000mn kroner and an increase in the annual gross investments up to about 750mn kroner per year."

From this quotation it is evident the prevailing investments in the co-operative enterprises will be reinvestments which are expected, to a large extent, to be financed out of earnings. The estimates are uncertain but they will hardly sway the conclusion, made in the present report, that the investments are of manageable dimensions.

The credit needed to the construction of, for instance, a limited number of large-scale dairies and abattoirs will be obtained by these sectors with little difficulty from existing sources which would be the banking institutions and the mortgage credit associations, perhaps with assistance from the FEOGA and from the European Investment Bank.

To a certain extent the precondition for the availability of the required credit is, however, that the enterprises take it upon themselves to follow a rational long-term policy of capital accumulation.

III Summary and Conclusions.

1. By international comparison Danish agriculture works with a relatively high degree of loan capital. The loan capital represents about 40 per cent on the total assets. For the group of younger farmers the ratio of indebtedness is about 80-90 per cent, because, generally, a young farmer (and his prospective spouse) can build up savings only to about 10-20 per cent of the total capital requirements arising in connection with his establishment in farming. The predominance of owner-occupancy and the fact that also the transfer of properties within the same family often takes place at nearly full market value add to the causes of the relatively high burden of debts.

The owner-occupier form of holding extends to practically 100 per cent of all the agricultural area. Only about 10 per cent of the area is cultivated by tenants. Tenancy contracts for land and buildings are, in Denmark, made almost solely as leaseholds between farmers. Companies, foundations or other corporate bodies, the State, the church etc. own only a quite insignificant part of the agricultural area. At the present time corporate bodies are not given permission to buy agricultural land.

Directly, the relatively high burden of debts imposes an essential handicap on Danish agriculture when compared with agriculture in other EEC countries.

To this must be added that public subsidies on the side of financing - and subsidies as a whole - is of a very small extent in Denmark. Generally the Danish farmers pay the current market interest and for new borrowings in 1974 this meant about 16 per cent per annum. In spite of these conditions it is true to say that Danish agriculture has undergone a positive development during the post-war period.

Through all the post-war years Danish agriculture has been characterized by an intensified commercialization. The farmers have taken the attitude to meet the technical and economical challenges of the last two decades in order to survive as a selfsustained economic sector - with as little public interference as possible, in this respect also interference through subsidy and support schemes.

The level of productivity in Danish agriculture has, as an average, undoubtedly been relatively high, by international comparison, during the post-war period. This condition has meant much to the ability to alleviate the burden of the relatively high indebtedness.

Another circumstance, which has contributed to make the debt burden bearable, has been the benefits to Danish farmers derived from a highly developed co-operative system, functioning in the field of agricultural supplies as well as in the field of marketing and processing of agricultural products. In the home market, where about one third of the Danish agricultural production is sold, as well as in the export markets, where the remaining two thirds are placed, the co-operative system has played a very effective role.

It must also be emphasized that the credit system has been well-structured and highly developed with prevailing long-term loan issues and that this credit system has also been an important agent of progress. The longer the life-time of loans are the more manageable it becomes to work with high ratio of indebtedness without straining the individual, independent farmer's liquidity position.

Certain economic conditions have also had an effect on the volume of indebtedness in Danish agriculture.

Danish agriculture is predominantly an export industry and suffered during the 1960s a number of adverse years; the consequence was that its own capital formation deteriorated and investments had to be financed with a very high proportion of borrowings.

It became a matter of public interest that the investments were not completely stopped during these difficult years because the consequence might have been that the development of research and new thinking - for instance in the field of construction of farm buildings - would have become frustrated for quite a long period.

For farmers wanting to make investments no other way was open, in most cases, than financing their projects by borrowings. The farmers had to face the prospects of a strained personal economy during the years ahead before Denmark would become a member of the EEC with the ensuing more stable marketing conditions.

The 1960s were extremely difficult years for Danish agriculture on account of the marketing situation in Europe. It should, however, not be overlooked that these years of adversity also had the effect of a restorative cure on Danish agriculture. The pressure in the direction of migration and for a continued rational reorganization has, indeed, been great. Compared to agriculture in other countries Danish agriculture has, perhaps, been subject to the highest migration in Western Europe during the 1960s and the beginning of the 1970s.

To-day the situation is, approximately, that Danish agriculture under otherwise equal conditions of competition in the European agricultural markets will be able to sustain the high level of debt at current interest rates by virtue of the high level of productivity, an efficiently working co-operative system and a well developed credit system. The high productivity can undoubtedly be maintained and further enhanced in time with the shift of the generations of farmers.

The young farmers establishing themselves during these years are extremely well trained and are highly business-minded.

2. The contribution from agriculture towards the aggregate savings in the country has been modest since the beginning of the 1960s. The Danish credit system has, however, been organized in such a way that the relatively small volume of savings has not created problems for the provision of capital for agriculture.

A certain contribution of savings is, however, being made by the agricultural youth who have to exert considerable thrift in order to be able to establish themselves as independent farmers in Danish agriculture, which is so firmly traditionally based upon owner-occupancy.

3. The agricultural credit operations are, as said, well organized and they can be broken down into the following main categories with indication of the per cent-wise distribution of the lendings to agriculture during 1972:

	<u>per cent</u>
a. Bond loans	70,2
b. Bank loans (savings banks and commercial banks)	10,2
c. State loans	3,0
d. Private loans	11,2
e. Suppliers' credit (open accounts and contracts)	5,4

re a: The fixed medium-term and long-term loans on a bond basis are of two different kinds; the mortgage credit associations issue loans which are not conditioned by the purpose of the loans nor are they selective in respect of the debtor's credit standing; the Dansk Landbrugs Realkreditfond - DLR - issues loans which are, in principle, secondary, purposeconditioned and selective in respect of the

individual debtor. The loans of the two strata cover, where the credit limits are fully exploited, practically 100 per cent of the mortgage security of the fixed assets. The bond loans are of great importance to Danish agriculture.

In the present report the definitions used for the loan terms are the following:

Life-time of Loan

long-term loans	-	more than 15 years
medium-term loans	-	from 1 to 15 years
short-term credit	-	less than 1 year.

The Danish bond loan system functions in a way which, at the present time, means that the debtor incurs a heavy conversion loss when he sells - and converts into cash - the bonds received from the mortgage credit institution. The Danish bond system is of a special character, which is not easily explained. An attempt at an explanation of the manner in which the system is functioning has been made in chapter I/4 and in annex 1. In 1974 the effective interest on bond loans was about 16 per cent p.a.

During recent years a number of structural changes has been made in the Danish credit pattern. About 1960 some new bond-issuing institutions were established - for agriculture, as said, Dansk Landbrugs Realkreditfond (DLR) - with the objective of assisting in mediating the use of the Danish capital resources; one of the background motivations was the need for a more expansive industrial development. The aim was to base the Danish economy to a larger extent on the foreseeable investment activity which would make it possible to employ the considerable labour force migrating from agriculture.

In 1970 the life-time of bond loans by law was reduced from a maximum of 60 to a maximum of 30 years. Agriculturists had, however, already then, to a large extent, themselves chosen loans with shorter repayment than 60 years, in order to reduce the conversion losses.

During recent years, where the longest loan life-time has been 30 years, more than 90 per cent of the bond loans have been chosen by the debtors for this period. As far as the nominal rate of interest is concerned more than two thirds of the borrowing have been made with bonds bearing nominal interests of 9 per cent and 10 per cent.

Tentative larger changes in the capital market affecting the bond-issuing institutions may be the introduction of alternatives to the present bond loan system with its prefixed interest rates and its long-term loan issues. At the present time, for instance, it is being considered to use higher nominal rates of interest on the bonds than the 10 per cent now applied, but only Dansk Landbrugs Realkreditfond (DLR) has chosen nominal rates of interest over 10 per cent -- namely 11 per cent.

re b: The banking institutions - the commercial banks and the savings banks - play an important role in financing agriculture. One of the main tasks of the banks with respect to their activities in the agricultural sector has been to grant loans and credits to newly established young farmers. The bank credit is often granted in proportion to savings made by the debtors prior to their establishment.

Of great importance is also the short-term credits granted by commercial and savings banks for investments during the construction period (building construction loans). These loans are often redeemed by bond loans when the construction or the investment project has been completed. To these services may be added the discounting of machinery hire-purchase contracts and the establishment of cash credits (overdraft limits in current account).

In principle, the banking institutions may issue ordinary loans against mortgage as an alternative to the loans offered by the bond-issuing institutions. During recent years the development has, however, moved in the direction that the banks have restricted the issue of long-term loans and increased their short-term credit services, in agriculture as well as in other areas. The purpose has been to achieve higher turnover of funds.

Bank loans are in the category of medium-term credit, and the rate of interest has been about 15 per cent per annum in 1974.

At the end of March 1974 a new act was passed on commercial banks and savings banks which means that both of these banking institutions shall now work under the same statutory conditions. This is a natural change in law because the business areas and operational methods of the two types of banking institutions have become almost identical in many fields. The savings banks have changed their business policies during recent years so that they have come very near to those of the commercial banks. This process has been furthered by the fact that the structure of the Danish savings banks is changing to comprise very few and large institutional units.

As far as agriculture is concerned the new bank act will exert no important influence.

During the years ahead the amalgamation process is likely to continue in the banking sector, resulting in a still smaller number of units of commercial banks and savings banks than existing at the present time. Their financing operations in favour of agriculture are not likely to be changed to any large extent, however, by these structural developments.



re c: The contributions by the State towards financing of agriculture are tapering off after having reached their peak during the period of 1920-1950 where the State, to a large extent, supported the financing of agriculture by participation in the establishment of a large number of small-holdings.

The background of the State participation during the said period was a well-founded desire to see that agriculture itself took care of the employment of its own share of the population growth and did it in such a manner that every person with proper training could acquire his own farm.

Parcelling of land and establishment of new farms continued right up to 1960 when the movement was reversed on account of the technical development so that amalgamations of farms followed.

The State loans are in the category of long-term credit. Due to the steep rise in the market rate of interest during recent years and to only modest raises in the rate of interest on State loans the latter have become increasingly more attractive as far as the interest cost is concerned. The rate of interest is, generally, 6-7 per cent per annum. The possibilities for getting State loans to day are very small, see page 66 ff.

During recent years certain innovations have taken place in the State schemes contributing to the financing of agriculture - suggesting a tendency contrary to the general policy of liquidating a State financing of agriculture.

At the end of the 1960s the State introduced the facility of establishment loans - conversion loss loans - for the benefit of well-trained young farmers in connection with their settlement as occupier-owners. The loans are a very valuable supplement to the limited own capital the young

people are able to save prior to their establishment as independent farmers and whilst they are under training.

The importance of these conversion loss loans is illustrated by the fact that well-trained young farmers, early 1974, in connection with their first establishment, could obtain loans of about 100.000 kroner at  $6\frac{1}{2}$  per cent interest per annum with a repayment period of a little above 20 years. These State loans can be registered marginally in the priority range and, therefore, they serve, practically, as a supplement to the capital it has been possible for the young farmers to save. In annex 3 a comprehensive report has been made on the terms and the methods of computing the conversion loss loans.

Furthermore an interest subsidy scheme was introduced in 1971. The scheme covered interest subsidies for certain investments in farm buildings. This arrangement was the only important kind of state subsidy in the field of financing open to broader categories of Danish farmers, apart from certain State loans for land purchases etc. and apart from the conversion loss loans.

The interest subsidy scheme was devised in an administratively simple manner well in line with Danish liberal ways of thinking. The subsidy was given at identical rates to equally qualified farmers and for equally eligible agricultural investments.

Part of the rationale of the introduction of the interest subsidy scheme may well have been a desire to stimulate agricultural investments and agricultural production as a prelude to a possible Danish EEC-membership. The scheme had to be replaced, after Denmark became an EEC member, by the common EEC modernization support scheme which shall stand its test in practice in Denmark in 1974. In contrast to the original Danish interest subsidy scheme the EEC scheme would appear - by an advance impression - to entail a more bureaucratic and time-consuming administration.

Experience during the summer of 1974 seems to indicate, however, that the scheme has been administered in an acceptable manner, as seen from the point of view of farmers. The farmers have been adequately assisted in drawing up the modernization plans requested under the scheme by the competent agricultural advisory service and administrative rules and regulations have been set up in as simplified a manner as consistent with EEC requirements.

re d: Private mortgages are still used to some extent in connection with transfer of properties. The application of these mortgages could, and ought to be reduced more than is the case in order to facilitate later financing of investments. Such additional credit is easier to obtain from the bond-issuing institutions where the transfer of the property has been financed by the latter, supplemented by bank loans and the State conversion loss loan.

In this connection it must be borne in mind that the problem of placing new loans duly into the priority range is most pertinent because of the stratification characteristic to the credit system in Danish agriculture.

Private mortgages are in the category of medium-term credit. A life-time of 10 years is very common. The rate of interest is often contracted to correspond to the bank interest for long-time deposits. Through recent years the typical rate of interest on private mortgages has been 8-10 per cent per annum. The interest may appear modest when considered in relation to the effective interest on bond and bank loans which, as said, in 1974 was at a rate of about 16 per cent per annum. It must, however, be recalled that the alternative to the establishment of a private mortgage is the creditor's acceptance of bonds at par quotation. Thus, it is the nominal bond interest rates from 7 to 11 per cent which must be compared to the interest on private mortgages. Seen in this light there is no incentive to issue private mortgages when a property deal is negotiated.

Re e: The agricultural "loose" debt, which is of a relatively quite large size, can be broken down into the following main parts

debts on machinery	40 per cent
feed and other inputs	50 per cent
livestock debts	10 per cent

Part of the debt is current suppliers credit on which no interest is charged. Credit exceeding ordinary current balances will be subject to an interest charge corresponding to about 20 per cent per annum in 1974.

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The credit pattern of agriculture - everything taken into consideration - will hardly undergo any essential changes in a predictable future.

Danish adjustments in the financing system will, on the whole, quite naturally, in extent and character, be influenced by changes made in this field by the EEC. This will, especially, be the case for the general financing facilities for the entire economic activity, especially in respect of arrangements containing subsidies, because the competitive relationships between the countries would otherwise become distorted.

The remarks made above under this point - 3 - refer exclusively to the primary agricultural sector <sup>x)</sup>. The secondary part of the agricultural sector <sup>xx)</sup> - the co-operative enterprises - which are of an extremely great economic importance to Danish farmers, are financed, in principle, through the same agencies as the primary sector.

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x) the primary agricultural sector includes the individual farm holdings, including movable assets.

xx) the secondary agricultural sector includes the joint enterprises of agriculture, i.e. the co-operative enterprises.

Certain other sources of credit are open but they are left out of this summary since they have been described in chapter I/4. For the co-operative sector note should be taken of the fact that most credit is taken through the banking institutions rather than from the bond-issuing institutions.

The view of the present report is that the co-operative enterprises have always enjoyed easy access to the loan capital needed at reasonable terms - all circumstances taken into consideration. The sector has never received any financing subsidies or any other form of public economic support.

The co-operative sector caters for an average of 50-60 per cent of the agricultural supplies, processing and sales. The balance is handled by privately owned enterprises. Any special public favours would have to be meted out to both parties, but the question of such special preferential treatment in favour of the enterprises in this area of economic activity has never been raised.

4. The credit costs for Danish agriculture are largely the same as prevailing in society in general. This is due to the fact that the main part of the institutional agricultural credit is issued by institutions whose business area is not confined to agriculture but extends to all sectors. The agricultural credit costs are, in the main, identical to the costs determined by general market conditions. The subvention of the credit terms is of a very limited extent, as described above under point 3.

5. General changes in the rate of interest strike through to agriculture almost completely. Bond loans and State loans already existing are exceptions because the rate of interest fixed at the issue of the loans are valid without change during the repayment period of such loans. As far as the mortgage credit associations loans are concerned it must

be added, however, that there is a possibility, under favourable conditions, to carry through a conversion resulting in a lower interest than existed at the issue of the loan, but the precondition for such conversion is a rather heavy decrease in the general interest level relatively soon after the issue of the loan.

6. Investments of considerable magnitude must be foreseen in Danish agriculture to follow the erosive phase of the 1960s.

The investments will have to be made for a number of purposes;

- a) the continuation of the development towards a considerably reduced number of farms meaning amalgamations to create larger farm units.

It is expected that the number of farms will decrease from 135.000 to 75.000 during the period of 1972-1987. This will mean that the present average holding of 21,7 hectare will rise to 35,6 hectare in 1987. This prognosis on the number of farm units is found in the Perspektiv Plan II - PP II - published by the Government in January 1974. It contains prognoses for the development in all main economic areas in the private sector. The prognoses have been made with two time horizons - 1977 and 1987. The PP II section on agriculture has been summarized with some details in chapter II/2. This report acquiesces in the main contents of the PP II-prognosis for the agricultural sector. Some doubt, however, is sustained on the forecast that the total Danish agricultural production will increase averagely by 3 per cent each year ahead to 1987.

b) relative large investments in farm buildings will be made; new stables will be built to replace obsolete and worn-out buildings and new stables shall replace the buildings on the farms disbanded in the amalgamation process. The investments are planned for stables of sizes and with equipment for a considerably larger output per farm worker than seen in the past.

Before and after the entry of Denmark into the EEC the investment in farm buildings has considerably expanded. These investments have been made in dairy farming and in pig raising. The tendency has been to concentrate on one line of production especially on farms where larger comprehensive investment projects are under preparation. The typical investments are made in cow-sheds for 40-100 cows with appropriate young stock or in pig sheds for 60-120 sows with a corresponding number of bacon pigs and porkers.

Farms with new stables of the kind here described are run almost exclusively by the owner and his family without hired labour. Even in dairy farming where the operation of the farms include the tilling of the land and the production of roughage.

c) finally there are considerable investments to be continued in machinery and other technical equipment, for instance mechanization installations in the buildings to further the very necessary and desirable increase in labour productivity.

In the field of agriculture there is only a very modest need of special measures for (i) road construction, (ii) water and electricity supply and (iii) primary drainage and sewerage. By and large these facilities are available.

The fields of (i) land distribution, (ii) secondary drainage and (iii) land improvement are still open for profitable investments but projects of such kinds are not at all of any sizable dimensions.

PP II has as mentioned, for society as whole, studied the past and forecast the future investments, it has also studied the side of savings.

On the application of the capital resources is said that agriculture in 1972 drew about 5 per cent of the capital invested. As summarized in chapter II/2 the PP II report estimates that this percentage will remain practically unchanged in the two prognoses years of 1977 and 1987. Compared to the urban economic sectors, the housing sector and the public sector the capital requirements of the agricultural sector is of minor importance.

Mechanization of crop production is, by now, considered to have reached an optimum and investments for this purpose are, therefore, deemed to have approximately the same extent during the prognosis period as they have had during recent years, and the investments will be, mainly, for replacements.

If the prognosticated raise in the production of 3 per cent per year is to materialize this will entail an increase in the cattle and pig population. To achieve this increase investments of about 2000mn 1972-kroner per year will have to be made during the prognosis period. In the present report the opinion has, however, already been given that doubts must be held on this point; the production of dairy products beef and pig meat may not increase as estimated in the PP II.



It is, however, right to expect that the building investments will be about doubled during the prognosis period compared to the years immediately preceding the entry into the common market. It is quite believable that the building investments in Danish agriculture will amount to about 1.000mn kroner per year during the coming decade, computed in 1972-prices. In 1970, 1971 and 1972 the building investments were 500-700mn kroner per year.

7. The credit problems, as foreseen for the primary agricultural sector, can, in principle, be solved within the framework of the existing financing system which is adequately developed and is so flexible that realistic and well-motivated investments will not normally meet any credit limitations.

The current interest level on the capital market and in banking institutions will, however, restrain the investment activities. Especially on a little longer view the investments will tend to slow-down. During the summer of 1973 the comparatively favourable prices on agricultural products induced farmers to start a relatively high volume of building constructions. The increasing costs on building materials, labour and credit had not yet affected agriculture. Since then the effects of the oil crisis in the form of increasing costs have spread like circles in water.

However hard the current Danish credit and interest policy affects agricultural investments it does not appear to be a realistic policy to try to get the agricultural investments placed into a privileged position outside of the general conditions for the investments in Danish economic life. The task must be to alleviate the general conditions for the productive investments as quickly as possible by pruning the pace of the increased use of the resources in the public sectors as well as by cutting drastically the present volume of housing construction.

A limiting factor of more effect than a quantitative restriction of credit will possibly be the uncertain profitability prospects under the prevailing high rates of interest in the money- and capital market.

It is found a reasonable assumption that the foreseeable investments in the primary sector of agriculture can be financed without any great difficulties within the framework of the present credit system; this view is based upon the supposition that the investments, in character and in relative size, will be made in a natural continuation of the investment activities during recent years, which will mean that they are investments within the ramifications of the one- or two-family farms.

The investments in larger estates than the one- or two-family farm units and in properties operated for special purposes have, so far, represented only a tiny part of the entire investment activity.

The financing of purchases for amalgamation purposes and for building investments as well as for machinery replacements on the family farms has been managed during recent years in a satisfactory manner through the existing credit channels which - as described in chapter I/4 - are quite numerous.

It is justified to hold the opinion that the credit system is functioning well, as far as flexibility is concerned. If emphasis is placed upon the circumstance that the foreseeable investment activity will develop as a natural continuation of the investments already made - namely pre- vailingly in family farms - it is reasonable to think that the financing problems will be solved to satisfy the needs as they arise during such development.

Incidentally, it is a fair view that the organized credit facilities available to Danish agriculture have been developed to the extent possible on a private basis. A further increase in these facilities would have to imply public support and such development is, as will be mentioned in the following, unlikely to take place.

The extent of investments in the co-operative sector has been the subject of a prognosis in the PP II report in the same manner as is the case for the primary agricultural sector. The prognosis for the co-operative sector indicates quite large gross investments but manageable net investments. It is thought that the investments in this sector normally will be financially covered without great difficulties, also because of the intimate relations between this sector and the banking institutions.

8. In an owner-occupancy agriculture like the Danish there is a special and very essential credit task to perform in connection with the mediation of finance to the transfer of properties from one owner to the next. This problem has often been debated in the past because an apparently deep-rooted feeling is that it is impossible to solve it. A distinction should be made between the financial aspects of the transfer as such and the ensuing daily operational economy after the purchase. It is the latter part of the problem which is the heavier. This does not mean that the financing process is void of problems because it is a Danish tradition that heirs of equal rights shall inherit approximately equal parts of an estate. It is still the prevailing custom that the real agricultural properties are taken over by farmers' sons who own only a small capital of savings, and many of these young men have to leave home and go out into the open market to buy their farm there, which means at the current price level.

An influential factor in the problem complex of transfer finance is also the capital gaintax; this type of taxation has been introduced with the principal purpose of appropriating extraordinary, speculative capital gains, amongst others also on the sale of agricultural properties. Because of its technical formulation this tax law has got an effect beyond its original, intended purpose in as much as also nominal capital gains, originating because of inflation have been appropriated. The consequence of this state of affairs appears to have been that agricultural properties are withheld from the market, which is very detrimental to the agricultural youth standing ready to establish themselves in farming. It is hoped that this situation will be mitigated by an amendment of the law which has been introduced to the parliament early in 1974. The parliamentary deliberations on the amendment bill have been postponed until the autumn 1974.

The legislation on death duties also exercises an effect on the capital problems in agriculture. Inheritance from parents to children is, however, subject to only moderate death duties but it is a progressive appropriation.

A public levy of 2½ per cent on the price of properties sold was enacted to take effect from 1 October 1972; this charge will be abolished from 1 October 1974.

9. A summarizing conclusion is that Danish agriculture has, in principle, adopted the attitude that the sector should manage its capital- and credit problems on a basis of equal competition with other economic sectors of the Danish economy - without public subventions in the financial as well as in other areas.

This line of policy could not be upheld during the 1960s. Of the subventions introduced during the 1960s only a few marginal arrangements of minor importance have been retained after the entry into the EEC such as part financing by the State of the agricultural advisory service and reimbursement by the State of the costs of the veterinarian

The modernization support scheme introduced by virtue of EEC directive may appear important. The amount of subvention under this scheme is in fact very limited when viewed in an overall context.

Danish agriculture will and should undoubtedly endeavour to preserve the image of a self-sustained economic sector.

Through experience agriculture has learned that separate measures of public assistance are of very limited value, except in abnormal situations. Separate preferential arrangements mean an additional dependence - or a feeling of such dependence - on the other sectors and this is apt to breed a certain feeling of inferiority.

Danish agriculture wants to realize its liberal fundamental concepts by participation in a European agricultural market operated with as little public intervention as possible. Consequently it must be expected that Danish agriculture will render its whole-hearted agreement to an existence under the policy lines for investments and credits laid down under the economic general policies of the EEC, including the capital market policy. The final, concluding view is that the development of Danish agriculture and its adaptation to the common European agricultural policy can take place under the conditions set by this policy.

Finally it is emphasized that a harmonious development in the agricultural sector will depend on the overall economic conditions in Denmark during the years ahead. It is especially important that sufficient investment capital will be available at costs rendering economic investments feasible and profitable.

At the end of the 1950s and through the 1960s Danish economy was distinctly influenced by what has been called "a basic structural weakness". The problem to be tackled was to a large extent to carry through a radical readjustment of the Danish economy in order to emerge as an industrial instead of an agricultural nation.

The situation was, that the readjustment of the Danish economy had to be made on a background of a complete lack of natural resources for industrial production and under circumstances where agriculture during the 1960s had great difficulties in making any contribution towards the creation of capital to finance the industrial expansion; this incapacity prevailed during these years because of the European division of markets and the ensuing weak export terms for Danish agricultural products. On the other hand agriculture managed to raise its productivity to such an extent that nearly 100.000 young people could be released from its sector to join as workers in the emerging industrial enterprises. It must also be recalled that housing as well as the public sector were large consumers of capital resources during these years.

To some extent it is understandable that the Danish balance of payments during this readjustment period became negative and this may well explain why a somewhat hurried inflation was set moving.

When Denmark joined the EEC it became possible to restore Danish economy; the opportunities were, however, politically missed in as much as the previous unfavourable trend was allowed to continue and the deteriorating development was then aggravated by the energy crisis. The outcome is a deficit in the balance of payments for 1974 of record magnitude and an inflation at an unparalleled rate - about 15 per cent for the year.

One of the effects of this development was a record rate of interest in 1974 for long-term loans of 16 per cent per annum. In spite of this high interest level savings have not increased and have most unsatisfactory conditions due to the exorbitant Danish taxation on income.

In this context must be mentioned that the private savings, already over a period of years, have been considerably lower than the investments in the private sector. The deficit has been covered mostly by a surplus in public savings and the balance by borrowings abroad. The PP II report predicts that the deficit in savings in the private sector will become larger over the years ahead.

In replying to the question about coverage of the savings deficit in the private sector a basic view ought to be, that borrowings abroad should not be increased at the present stage of the development in Danish economy.

The solution left - if the investment activities are to be maintained - is to increase the private savings or to step up the public savings surplus. Perhaps a combination should be sought. An increase in the public savings surplus would be best realized by curbing the growth in public activities.

An increase in private savings would also raise a number of problems, amongst them the difficulty of finding a formula acceptable to different parts of society. This difficulty is of special significance if the increase in private savings has to take place in the enterprises, which may be reasonable. There is at present a discussion in Denmark on the subject of economic democracy mainly centered around employee participation in the profit earned and reinvested by private enterprises. A final view on the manner in which the relationship between investment and savings shall be adjusted shall not be put forward; it is, however, clearly necessary to take political measures to tackle the problem of the savings deficit as well as to deal incisively with the problem complex of the inflation. Action in these problem areas resulting in restorative changes is highly needed if the precondition is to be established for a progressive and balanced development in Danish economic life.

For a sector like agriculture, which is highly susceptible to costs, it is most desirable that Government measures to create better balance in the Danish economic life as a whole would soon show decisive results.



A N N E X 1.

The Danish Bond System.

The bond-issuing institutions mentioned in chapter 3 and 4 are either associations or independent foundations. In both cases they function as concessionary companies based upon law.

All lending is against registered mortgages in fixed properties. The Danish land register system is highly developed and it is correctly operated in all details. The registered mortgage instruments are kept in custody by the institutions as security for the loan issued.

The institutions do not receive cash deposits.

They provide the borrowers with bonds to the same nominal value as the mortgage deeds deposited by them. The bonds are bearer securities and are exempted from stamp duty. The bonds are supplied in different sizes, for instance 1000 kr, 5000 kr. and 20000 kr.

The institutions issue bond loans in series by the various amortisation terms. A sub-division of series may be made.

The sum total of circulating bonds in a series shall, at all times, be equal to the balance of debt on the mortgage letters in the corresponding bond series.

This means that bonds are withdrawn (retired) term after term of repayment corresponding to the ordinary instalments repaid by the borrowers. If one or several loans in a series have been subject to extraordinary repayment or full redemption the withdrawal must be increased correspondingly at the following half-year term so as to maintain the balance between (i) the circulating volume of bonds and (ii) the mortgage balance of debts.

Annex 1

The withdrawal is arranged in such manner that all bonds of the same size within a series have an equal chance of withdrawal. The drawing is controlled by the Notary Public.

The bonds have been accepted for daily quotation in the Copenhagen Stock Exchange. Bonds issued under some of the new loans are sold by the borrowers through the stock exchange. Other bonds are converted through other agents but at the same quotation as indicated at the latest stock exchange transactions. At the stock exchange securities and stocks can be traded only through a bank or a certified broker.

The sale of bonds in direct connection with a loan normally takes place at a quotation below 100. To illuminate the actual level of the quotations and the quotation variances between loans at different nominal rates of interest and with different repayment periods an extract of the Copenhagen Stock Exchange list is given (for the date of 29 March 1974). The extract covers the Kreditforeningen Danmark, the section of ordinary mortgage credit, which will illustrate the quotations for agricultural first priority loans. An extract of the Stock Exchange list has been given also for the DLR.

Circulation Volume in million kroner	Nominal of interest	Name of security 's.- series number	Quotations at which transactions have been made	Buyer's and seller's final bid and offer	Actual trade made in looses kroner	Higher - Lower x )
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Kreditiereningen Denmark (x)

Renteterminer (xx) 2/ - 1/7 (xxx)

171,925	10	44,0+..... 2014	66 3/4	-	66 3/4	67	100	
3098,163	10	43,0..... 2094	67	67 1/4	67	67 1/4	2200	
829,662	10	42,0..... 1994	70	70 1/4	70	70 1/4	2900	
508,932	10	41,0..... 1984	80 2/4	81 1/4	81	81 1/4	5260	
113,389	10	41,0..... 1983	83 1/2	83 1/2	83 1/4	83 3/4	640	
560,507	10	41,0..... 1982	84 3/4	85	84 3/4	85	40	
183,365	9	44,0+..... 2014	-	-	62 3/4	64	-	
964,041	9	43,0+..... 2004	63 2/4	-	65 2/4	64	-	
134,404	9	42,0..... 1994	66	65 2/4	65 2/4	66	60	- 1/4
557,743	7	44,0..... 2014	50 2/4	50 1/2	50 1/2	50 2/4	600	- 1/4
494,448	7	43,0+..... 2004	55 1/4	55	55	55 1/4	460	- 1/4
192,027	7	42,0+..... 1994	-	-	58	60	-	
85,596	7	42,0+..... 1994	73	72 1/4	73	73 1/4	1080	
240,864	7	41,0+..... 1983	75 1/2	-	75 1/4	75 2/4	20	- 1/4
179,952	7	41,0..... 1982	-	-	76 1/2	78	-	
178,286	5	44,0..... 2014	-	-	40 1/4	42	-	
61,209	5	43,0..... 2004	-	-	44 1/2	46	-	
2,316	5	42,0+..... 1994	55	-	54 1/2	55	20	- 20

Dansk Landbrugh Realkreditfond

Renteterminer 2/1 - 1/7 (xx) Utraekning public 1.3.74 (xxx)

89,564	10	L+.....1981	88	-	88	88 1/4	40	
902,608	9	L+.....2003	66 1/4	-	66 1/4	66 1/2	340	
687,820	9	L+.....2001	66 2/4	-	66 2/4	67	20	
127,899	9	L+.....1985	79 2/4	78 2/4	79	79 1/4	1300	- 1/4
66,887	7	L+.....2003	57 1/2	57 2/4	57 2/4	58	200	- 1/4
116,618	7	L+.....2001	-	-	58 1/4	60	-	
180,255	7	L+.....1999	-	-	59 1/4	61	-	
306,827	7	L+.....1997	-	-	60 1/4	62	-	
184,830	7	L+.....1994	67 1/4	-	63 1/2	64 1/4	20	
72,978	7	L+.....1991	-	-	65 1/4	67	-	
74,924	7	L+.....1987	-	-	73 1/4	75	-	
29,543	7	L+.....1986	-	-	80 2/4	82	-	
54,013	7	L+.....1983	-	-	78	80	-	
52,197	7	L+.....1982	-	-	81 2/4	83	-	
46,434	7	L+.....1980	82 2/4	83	82 1/4	83	100	
25,974	7	L+.....1979	87	88 1/4	88 1/4	88 1/2	60	
29,323	5 1/2	L+.....1999	-	-	53	55	-	
23,986	5 1/2	L+.....1997	-	-	55	57	-	
87,50	5	L+.....2003	-	-	54	56	-	

x) Higher-Lower, meaning the difference between the day's final buyer's bid and the same quotation of the preceding Stock Exchange day where a buyer's bid was made.

xx) Half-yearly dates of loan payments.

xxx) Publication date of last withdrawal

\*) Open series (series not marked with an asterisk are closed, i.e. the issue of loans has ended).

Annex 1

Viewed from the borrower's angle the effective interest (the effective debtor interest) on bond loans is the result of

- (i) the nominal rate of interest on the loan;
- (ii) the effect on the interest of the quotation loss (the conversion loss);
- (iii) the administration cost contribution to be paid half-yearly by the borrower to the institution.

The importance of (i) and (ii) is evident from the fact that the effective interest on 10 per cent 30-year loans at spring 1974 was about 16 per cent per annum. The conversion loss is the larger decisive factor. The administration cost contribution weighs very little in the computation.

Viewed from the bond buyer's angle the effective interest (the creditor interest) is the result of

- (i) the nominal bond interest;
- (ii) the computation of the quotation profit into the yield of interest.

That factor (ii) is of essential importance is a natural consequence of the intense effect of the conversion loss on the effective debtor interest as mentioned above. The quotation profit is also quite attractive because the raise in interest originating from this profit is, generally, tax-free for the bond buyer.

In the mortgage credit associations the debtor-member can pay cash or in bonds at extraordinary redemption of his loan, depending on what he considers more advantageous.

In the DLR an extraordinary redemption can be made only in bonds. This offers the bond-owners a safeguard against premature redemption at par.

Annex 1

A sheet of coupons is issued to the borrower together with each bond; the sheet contains a coupon for the interest to be paid to the owner of the bond at each half-yearly term. The coupons are cashed by banks or by the bond-issuing institution concerned. If bonds are traded on other dates than the exact date of the half-yearly term an interest refund is made.

A N N E X 2.

The EEC Structure Directives of 17.4.1972 - with the main emphasis on modernization support schemes.

The EEC directives - three in number - cover the following subjects:

- (i) Modernization of farm units fit for development;
- (ii) measures to increase migration away from agriculture;
- (iii) social and vocational guidance and agricultural vocational training.

It is laid down in the directives that the member countries are obliged to carry them out before 1 October 1973.

At the entry of the country into EEC membership as of 1 January 1973 the directives became valid for Denmark. The deadline for the implementation of the directives in Denmark was, however, extended till 1 January 1974.

The contents of the directives shall not be reviewed in any details in the context of this annex 2. Still, it should be noted that the implementation programme adopted in Denmark aims at adapting and including the directive on social and vocational guidance in the existing consultancy and extension services already performed by the farmers' and small-holders' unions. The general training requirements emphasized in this directive are considered adequately covered by the prevailing legislation on agricultural training schools and on vocational course schemes.

Directive (ii) on measures to increase migration from agriculture is deemed irrelevant in Danish environments - a view shared by politicians as well as by the spokesmen for the agricultural associations; this view is founded on the fact that migration away from agriculture in Denmark has

## Annex 2

been going on so rapidly and extensively for a period of years, so that measures to accelerate this movement are quite unnecessary. On such background the Danish authorities are disinclined to take any implementory actions on this directive.

The third directive (i) on modernization support to such farm units as are deemed fit for development is considered the most essential of the three EEC structure directives.

In the following text is reviewed how practical steps are being taken to implement this directive. Around New Year 1973/74 the EEC authorities approved the Danish legislation in this field as embodied in Act. No. 222 of 26.4.1973.

This act contains four main sections:

- (i) Interest subsidies on loans for investments;
- (ii) State guarantees for loans;
- (iii) State subsidies for specialization in meat production;
- (iv) State subsidies for the establishment of co-operation between farming units.

The main features of the legislation on those four sections are the following:

### (i) Interest subsidies on loans for investments.

This is considered the most important aspect of the act on support to modernization. The support is given, in principle, as a subsidy - of 5 per cent at the highest - towards the interest payments on loans taken in the ordinary agricultural credit market to finance investments under an approved development project drafted for the individual property. The beneficiary must, however, always pay at least 3 per cent interest himself.

Annex 2

Grants of interest subsidies can be given each year within a limit of 28mn kroner of which 25 per cent will be refunded by FEOGA.

Interest subsidy is payable to

- (a) a person who is an owner or a tenant of the land belonging to an agricultural property provided he, himself, operates the farm, or
- (b) a person, a company, a foundation, a society or another association or co-operative owning a property under an agricultural estate which has let such property on lease to a person who himself operates the farm. In a case of tenancy the subsidy is payable to the landlord if he has made the investment or to the tenant if the latter has invested the capital for the modernization.

If the development project for an estate covers property units or land held in tenancy by the person operating the farm it is a condition for a grant of interest subsidy that the tenant holds contractual rights as a lessee of the property or the land in question for a period of at least 12 years from the date of filing the application.

The main regulations governing the subsidy grants are:

- (a) Agriculture must be the recipient's main occupation.

This means that the person operating the farm must spend at least half his working time on the farm operations and that at least half his gross income must be made from this work.

- (b) Adequate vocational qualifications.

This means that agriculturists born after 1 January 1958 must hold "the green certificate" (cf. details given in annex 3).

The vocational training requirements for persons born before 1 January 1958 are that they must possess adequate agricultural qualifications; the assessment in this respect is made by the regional land-use commission and the area extension consultant. It is, however, an unconditional requirement that the applicant has had agriculture as his occupation for at least 3 years after his 15th birthday.



Annex 2

(c) Drafting and implementation of a development project.

The development plan shall contain a description of the structure, the income components and the labour requirements of the farm unit at the time of the application. Furthermore the plan must detail the changes expected achieved on these points after the implementation and a statement must be scheduled on the projected investments. The implementation of the development project thus drafted must be fully completed within a maximum period of 6 years.

It is a condition that the income from the farm manager's work - the wage-earning capacity - at the time of the application is smaller than the yearly income for work done by skilled male workers employed outside of the metropolitan area and that the income from farming is projected to have been raised to at least such comparative level after the completion of the implementation of the development project. If the work-income at the time of the application exceeds the average yearly earnings of skilled workers and if it is foreseen that the former will fall below the latter level the modernization subsidy will be reduced to 80 per cent of the normal rate. At the completion of the project the labour requirement must equal at least the full employment of one man, calculated at 2100 working hours in one year.

The wage-earning capacity is understood as the gross profit under normal production and marketing conditions with addition of labour costs expended and after deduction of interest and, perhaps, tenancy rent paid; furthermore the standard depreciation etc. as well as an interest charge of 4 per cent on the cultivator's own capital are deducted.

The cultivator's own capital is the balance found by deduction of current and deferred liabilities from the commercial value of the total agricultural assets.

Annex 2

The wage-earning capacity as a ratio on each person employed is calculated in proportion to the total labour requirement of the farm unit by application of 2100 hours mentioned above as equal to one full-time worker per year.

(d) Farm accounting requirements.

The recipient must assume the obligation of keeping accounts to produce financial statements with balance sheets and profit- & loss calculations; this obligation is effective from the start of the implementation of the development plan until 15 years after the completion of it.

(e) Reasonable economic needs.

Such needs are considered non-existent if the applicant owns substantial capital, for instance in the form of cash deposits with banks or in negotiable papers; there may also be considerable potential loan possibilities in the applicant's fixed property.

The modernization subsidy can be granted for all investments needed to implement the development project, but no grant can be given for

- (i) purchase of land;
- (ii) purchase of pig- and poultry stock;
- (iii) purchase of calves for meat production;
- (iv) investments in living accommodation;
- (v) investments for egg- and broiler production.

It is a regulation for subsidy grants towards interest on investments for pig production that at least 35 per cent of the feed can be raised on the farm at the end of the implementation of the project. Subsidy for purchase of cattle live stock is conditioned by a projected gross income from cattle husbandry of at least 60 per cent of the total income at the end of the implementation.

The subsidy basis (the net proceeds of the loans raised) shall be at least 20.000 kroner and can at the most be 300.000 kroner per full-time worker, but with a limit of 600.000 kroner for each farm unit.

Annex 2

For joint farming the maximum limit is 900.000 kroner; to pig raising investments a special rule is applied; the investment minimum is 75.000 kroner and the maximum 300.000 kroner.

The subsidy basis cannot exceed the investment amount and it is computed in proportion to the net proceeds of the loans taken. If loans are taken to cover only a part of the investment costs, the interest subsidy can be drawn only for the part of the investment financed by the loans.

The subsidy is computed for a period of 15 years but it is disbursed over 10 years. The disbursement over the 10 years is made by equal amounts during the first 6 years and after this period it is tapered off by one fifth during the next 4 years. The payments are made twice a year, every 6 months.

If it is assumed that the debtor interest is at least 8 per cent the interest subsidy for an investment of 100.000 kroner will amount to a little more than 40.000 kroner over the 10 year period.

The subsidy can be granted even if the recipient has already been subsidized under the previous Danish interest limitation act and he will also be eligible in case he has received subsidy as a participant in a development project for another farm. This means that the individual farmer enjoys a position of greater freedom than is the case for the individual property unit, because only one development plan can be approved for each single property.

Grants of subsidy are withdrawn in some situations, for instance

- (i) at change of ownership. The grant may, however, remain valid if the new owner assumes the obligations stipulated in the development plan and if he has the required personal qualifications (vocational training background etc.);

Annex 2

- (ii) if incorrect or misleading information has been given;
- (iii) if the implementation of the development project is not carried through, for instance in case the investments are used for other purposes than those planned.

The application for interest subsidy must be written with assistance from an expert agricultural consultant appointed by the Ministry of Agriculture.

The application is addressed to Statens Jordlovsudvalg (the standing Land Legislation Committee of the Ministry of Agriculture) and it is submitted through the regional land-use commission. The Land Legislation Committee issues an advance notice of a grant if the application is approved.

When the development project has been fully implemented a report must be submitted, accounting for the economy of the farm operations and giving particulars on the labour income.

(ii) State guarantee for loans.

The act contains provisions for state guarantees for loans in cases where a property cannot be granted credit at normal terms. The act authorizes guarantee commitments within a yearly limit of 20mn kroner. It is considered doubtful whether this provision will prove of any practical importance.

(iii) Subsidy for specialization in meat production.

The scheme detailed in an EEC Directive of 15.5.1973 should not be mistaken for the general premium subsidy granted in connection with switch-over from milk to meat production. The premium subsidy for change in production under the modernization support act is computed as a rate per area-unit in accordance with specific rules issued by the Danish Ministry of Agriculture.

Annex 2

(iv) Subsidy for the establishment of co-operation between farming units.

The act provides for subsidies to cover administrative costs incurred in connection with the establishment of co-operation between farming units in the primary agricultural production sector; the objectives of such co-operation are the achievement of more rational exploitation of the production or they may be the establishment of an organized joint operation.

A once-for-all subsidy to cover administrative costs can be obtained. The subsidy may vary between 19.000 kroner and 56.000 kroner depending on the character of the joint venture. The yearly budget vote for this purpose is 200.000 kroner.

The provision may be used to support joint use of machinery or it may cover a scheme of farmer-relief; the establishment of joint sheds for herds of several farms may also be supported - in fact about 10 such co-operative societies for joint animal husbandry operations have already been organized in Denmark.

A N N E X 3.

State Loans for Initial Settlement of Young Farmers  
(Conversion Loss Loans) and Establishment Subsidies for  
Young Farmers.

Young farmers starting as independent agriculturists for the first time can, if they fulfil a number of conditions, obtain establishment loans (conversion loss loans) and settlement subsidies under a State scheme. The capital is treasury funds and it is allocated under a special act on lendings to young farmers <sup>x)</sup>. In the past, operation subsidies were available under the same act during the first 5 years following the acquisition of the beneficiary's first farm property, but this facility expired at the end of the fiscal year of 1972/73.

The conversion loss loan scheme started in 1967. Most later amendments of the act have been improvements, when viewed from the young farmers' angle. Still, it is a fact that the amount of the loans have not been adjusted to the rising prices of farm properties in the most recent amendments. The loans have become bigger, but the reason for this is the continued downward movement of the bond quotations at the stock exchange.

Young farmers choosing to start as tenants - they are few in Denmark - are ineligible for loans and subsidies under the act.

In the following schedule the terms for loans and settlement subsidies are listed as valid from 1.7.1973.

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x) Act No 326 of 13.6.1973.

Annex 3

State Loans and Subsidies to Young Farmers

Conditions	Loans	Subsidies
First acquisition of agric. property 1)	First property must be bought after 31.3.1967	First property must be bought after 31.3.1969
Occupation 2)	Applicant must own and run an agricultural property and must have farming as his main occupation	
Applicant's Age	Applicant must be below 40 years of age at the time of his first purchase of the property	
Vocational Training Qualifications 3)	Applicants born after 1.4.1945: Certificate showing he has undergone training under the Farmers' and Small-Holders' Unions Training Scheme.  Applicants born before 1.4.1945: At least 3 years of practice training on, at least, 2 different farms and, in addition, 5 months' attendance as a trainee at an agricultural school.	
Loan and Subsidies Allocation Basis 4)	The commercial value of the property (land, buildings live stock, production movables) at the time of the application. Max.loan basis is 600.000 kroner	After 1.7.1973: Max.subsidy basis 600.000 kroner
Amount of Loan and Subsidy	The conversion loss of a 5 per cent 30-year loan with a principal of 30 per cent of the comm. value	After 1.7.1973: 2½ per cent of the comm.value

### Annex 3

The following comments highlight certain aspects of the scheme as presented in the schedule:

#### 1. First acquisition of property.

In principle, the facilities are available only in connection with the applicant's first property, bought by him to start farming on his own account. If the applicant's first property has served mainly as accommodation he may be granted an exemption from this rule when he buys a larger property at a later time; the administrative authorities will, in each single case, consider whether the applicant has genuinely settled as an owner-farmer when making his first purchase of landed property.

#### 2. Occupation.

Agriculture must be the applicant's principal occupation. The latest amendment of the act has defined more clearly than before what is understood by principal occupation. In the context of the act an eligible applicant must

- (i) use more than half his working time farming his property;
- (ii) earn at least half his total gross income from agriculture.

#### 3. Vocational Training.

The young farmer shall be able to certify that he has gone through the Farmers' & Small-holders' Unions Training Scheme, under which the so-called "green certificate" is awarded. The training scheme is programmed as follows:

- (i) 3 years' practical training in agriculture, after applicant's 15th birthday, on at least two different farms, one of which may belong to his parents; of the 3 years at least  $\frac{1}{2}$  - 1 year must be served on animal husbandry.



Annex 3

- (ii) participation in steps 1 and 2 (288 lessons) of the agriculture section of a young people's school for occupational training, or in the 3-months' course in the basic school of agriculture.
- (iii) participation in a 6 months' course at a residential agricultural school, or in a 9 months' course if the requirements under (ii) above are not fulfilled.

4. Allocation Basis - the Commercial Value.

The commercial value of an agricultural property comprises the assets of land, buildings, live stock and movables (machinery etc.). The applicant's actual purchase price is not used for the fixation of the commercial value, which can be either of the following:

- (i) the value arrived at by an assessment made by the valuers of a mortgage credit association or the DLR, provided such valuation has taken place at approximately the same time as the filing of the application for the state loan and the subsidy;
- (ii) a value fixed through the Ministry of Agriculture in such cases where an assessment by a mortgage credit institution is not of recent date.

If the property has been bought at a reasonable price the commercial value fixed in either of the two ways mentioned above will correspond closely to the actual purchase price.

5. The Amount and Terms of the Conversion Loss Loan.

The amount of the conversion loss loan shall equal the conversion loss incurred by the sale of 5 per cent mortgage credit association bonds issued for a loan with a principal of 30 per cent of the commercial value of the property; the conversion loss loan is, however, granted on no higher commercial value than 600.000 kroner.

Statens Jordlovsudvalg (the Government Land Legislation Committee) computes the average stock exchange quotation for 5 per cent 30-year mortgage credit association bonds at the end of each month. If such average has been, for

Annex 3

instance, 50 and a property has been bought for 600.000 kroner (and the commercial value has been fixed at the same amount) the amount of the loan will be worked out as follows:

$$(i) \quad \frac{600\ 000 \times 30}{100} = 180\ 000$$

$$(ii) \quad \frac{180\ 000 \times 50}{100} = 90\ 000$$

which will then, in this case, be the conversion loss loan granted by the treasury - provided all conditions are found fulfilled by the applicant.

The loan is disbursed at par and is free of interest and repayment for a period of 5 years, but during these 5 years the loan principal is appreciated at a halfyearly rate of 2 per cent - or by a total of 20 per cent during this period of grace, as far as interest and repayments are concerned. The loan payment starts after 5 years with halfyearly annuity amounts of 5 per cent on the appreciated principal (the loan is then paid in full after about 16 years). The payments can be broken down into 3 1/4 per cent as interest on the outstanding balance and the rest will be instalment to reduce the debt. The interest equals 6½ per cent per annum.

At disbursement the loan must be entered on the property's land register record and it must be placed within 90 per cent of the approved commercial value with addition of the appreciated treasury loan. In the example mentioned above where the treasury loan was computed to be 90.000 kroner the appreciated loan will be 90.000 + 20 % = 108 000.

Annex 3

This loan must be placed within 90 per cent on

	commercial value	600 000	
+	appreciated		
	treasury loan	<u>108 000</u>	
		<u>708 000</u>	on which

90 per cent is 637.200. The treasury loan is, in other words, in a most marginal position. At the time of registering the treasury loan it will hardly ever infringe upon the normal mortgage credit on the property. The loan amount registered is the original principal plus the 20 per cent appreciation.

The act permits the registration of mortgage loans for investment purposes in precedence to the treasury conversion loss loan. This loan must, however, after such recession still remain secured within 90 per cent of the commercial value without addition of the appreciated treasury loan, as such modified commercial value will have been fixed by a new assessment in which the investments have been included.

C O N T E N T S

	<u>pages</u>
I/1 Agricultural Credit Compared to the Aggregate Issue of Credit in Denmark .....	1
<u>a</u> Sources of Finance open to Agriculture .....	2
(i) Bond Loans through the Mortgage Credit Institutions .....	2
(ii) Cash Loans through the Banking Institutions .....	5
(iii) State Loans .....	9
(iv) Loans from Private Persons .....	10
(v) Suppliers' Credit .....	11
<u>b</u> The Agricultural Proportion of the Capital Formation .....	13
I/2 The Indebtedness of Agriculture .....	16
I/3 The State Influence on the Availability and the Allocation of Credits in General as well as Agricultural Credits Specifically .....	19
<u>A</u> General Provisions .....	19
a. Legislation on Commercial Banks and Savings Banks .....	19
b. Legislation on the Capital Market in respect of the Bond-issuing Institutions .....	22
c. Legislation on Other Matters .....	29
<u>B</u> Special Government Schemes for Agricultural Credit .....	29

	<u>pages</u>
I/4 Agricultural Credit - Organization and Costs of Borrowing .....	33
The Primary Agricultural Sector .....	33
1. Loans with issue of bonds .....	34
a. The Mortgage Credit Associations .....	37
b. Dansk Landbrugs Realkreditfond .....	45
c. Repayment Periods and Credit Costs of Association and DLR Loans .....	53
2. Banking Institutions .....	56
a. Savings Banks .....	56
b. Commercial Banks .....	60
c. Co-operative Village Banks .....	61
3. Private Mortgage Letters .....	62
4. State Loan Schemes .....	66
a. Land Purchase Loans etc. ....	66
b. Commutation of Ground-rent .....	68
c. Older State Loans .....	69
d. Conversion Loss Loans and Establishment Subsidies for Young Farmers .....	69
5. Supply Associations .....	71
a. Small-holders .....	71
b. Farmers' Unions' Supply- and Credit Societies .....	72
6. Land Improvement .....	73
7. Suppliers' Open Account and Contract Credit	75
Financing the Joint Enterprises of Agriculture (the Secondary Agricultural Sector) .....	75
Sources of Finance	
a. The Mortgage Credit Associations .....	80
b. The Manufacturing and Manual Industries Finance Corporation .....	81
c. Insurance Companies and Pension Funds .	83
d. ATP Loans (The Labour Market Additional Pension Scheme) .....	83
e. Foreign Loans .....	84
f. Agricultural Financing Funds .....	84
g. Regional Development Support .....	84
h. Commercial and Savings Banks .....	85

	<u>pages</u>
I/5 The Impact of the Economic Development on Agricultural Credit .....	90
II/1 The General Development in the Money- and Capital Market, the Development in the Agricul- tural Credit Area - a Prognosis for the Period until the Middle of the 1980s .....	97
II/2 Investment- and Finance Problems in Agriculture - a prognosis to Mid-1980s based on Perspektiv Plan II (PP II) .....	108
a. Ordinary Agricultural Properties (Primary Sector) .....	114
b. The Joint Enterprises (Secondary Sector) .....	127
III Summary and Conclusions .....	130

-----

#### A n n e x e s

Annex 1: The Danish Bond Loan System

Annex 2: The EEC Structure Directives  
of 17.4.1972 with the Main  
Emphasis on the Modernization  
Support Schemes

Annex 3: State Loans for Initial Settlement  
of Young Farmers (Conversion Loss  
Loans) and Establishment Subsidies  
for Young Farmers

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T a b l e s	<u>pages</u>
Table 1: Net Issue of Bonds and the Proportion of Issue to Agriculture .	3
Table 2: Savings Banks Loans against Mortgages in Agricultural Properties in Proportion to the Total Loan Issues by Savings Banks. Data from Savings Banks with a Deposit Volume of at least 5 million kroner	5
Table 3: Commercial Bank Credit and the Proportion of Issues to Agriculture	7
Table 4: Consolidated Balance Sheet of Agriculture .....	13
Table 5: Capital Changes in Agriculture, Million Kroner per Year (Approximate Figures) .....	14
Table 6: The Distribution of Consolidated Assets, Liabilities and Equity in Agriculture .....	16
Table 7: The Impact of Interest Costs on the Agricultural Production .....	18
Table 8: Conversion Table on Mortgage Credit Associations Loans .....	41
Table 9: Per Cent-wise Distribution of Agricultural Mortgage Loans from Mortgage Credit Institutions during the Period of 1.4.1972 to 31.3.1973 by Repayment Periods and Nominal Rates of Interest .....	54
Table 10: Effective Interest Yield from Bonds Issued for New Mortgage Loans in Agricultural Properties .....	55
Table 11: Distribution by Sectors of Savings Banks Loans .....	59
Table 12: Consolidated Balance Sheet of Danish Co-operative Bacon Factories (Abattoirs) .....	77
Table 13: Consolidated Balance Sheet of 155 Danish Co-operative Dairies 1972 ..	78
Table 14: The Development in Gross Investments in some Private Enterprises .....	109

E

	<u>pages</u>
Table 15: The Development in the Total Fixed Investments, 1972 Prices .....	110
Table 16: The Balance of Savings and Investments .....	111
Table 17: Danish Agricultural Structure and Production in 1972 - Compared to Estimates for 1977 and 1987 .....	115
Table 18: Technical Working Capital 1970-72 and Estimates for 1977 and 1987, at 1972 Prices in Million Kroner .....	118
Table 19: New Acquisitions, Improvements and Additions to the Agricultural Technical Working Capital 1970-72 and Estimates for the Periods 1973-77 and 1978-87 at 1972 Prices, in Million Kroner .....	118

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C h a r t s

Chart 1: Chart of Organization - Mortgage Credit Association (Kreditforeningen Danmark) .....	39
Chart 2: The Development in the Effective Interest of Bonds Issued with Different Nominal Rates of Interest.	43
Chart 3: Organization Chart - D L R .....	47

-----



