

SYSTEM OF AGRICULTURAL CREDIT IN ITALY*

I. THE FUNDAMENTAL PRINCIPLES

THE system of agricultural credit in Italy is the result of a long process which has passed through a number of experimental phases. From the very beginnings of the Kingdom of Italy, the necessity has been recognised of furthering the development of this special form of assistance to agriculture. The first law dealing with the subject was that of 21 June, 1869, No. 560, which empowered the Government to authorise the formation of institutions for the carrying on of agricultural credit operations and empowered these institutions to issue as representing the operations effected, bearer bonds designated as *bouni agrari*. These bonds however which were payable at sight were not well adapted for supplying funds for any other than short term operations, and in consequence the results obtained from the legislation were small. Attention was thereupon directed on other methods with a view to making some considerable portion of the national savings available for agriculture; and it appeared that the best means of securing this object would be to introduce into agricultural credit operations strict forms of real guarantee. This was the principle on which was based the Law of 23 January, 1887, No. 4276, which abrogated that of 1869 and authorised agricultural credit operations to be carried on both by all ordinary and co-operative credit institutions and by the savings banks. These institutions were given power to raise the necessary funds by means of the issue of agricultural bonds, a power which however has never been exercised. Subsequently a number of other measures were adopted in succession, for the most part of a regional character. As a consequence of this somewhat loosely knit and fragmentary legislation, a certain disproportion was noticeable in the working of agricultural credit in the various regions and provinces, some of which derived no advantages from the special measures.

At the moment when the National Government put forward a wide programme for the general reinvigoration of agriculture after the effects of the war and the post-war crisis, the state of affairs was as described and the reform of the legislation on agricultural credit appeared to be a matter of urgency. This was accordingly carried out by means of the Royal Decree-Law of 29 July, 1927, No. 1509, converted into law on 5 July, 1928, No. 1760.

Provision was thus made for creating, with the object of giving effect to the reform throughout the whole of the national territory, a wide organisation with full technical and financial equipment, based essentially on ten regional institutions and a National Consortium, with functions shortly to be described.

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It may be stated in advance that the practice of agricultural credit in Italy has gradually come to conform to the following principles:

(1) credits are granted not merely to the landowner as such, but to whoever directs the working of agricultural land, in other words to those actually carrying on farming;

(2) in particular facilities are granted to operations supported by forms of real guarantee (liens with right of priority, pledges, mortgages), not excluding operations on personal security;

(3) there is a tendency to adjust with increasing rigour the total of the loans to the actual requirements of the farms;

(4) the land for which the loans are made must be precisely defined;

(5) the objects for which the loans are made must be stated in advance and subsequently checked; in other words care must be taken to maintain a check on the use to which the sums advanced are put, so that there may be a full assurance that these sums are being effectively utilised for the purposes of production;

(6) the agriculturist is considered in the two-fold aspect of the individual in isolation and the individual in association with others for the better satisfaction of common economic needs or the better performance of certain types of work.

(A) AGRICULTURAL CREDIT OPERATIONS

Agricultural credit operations are of two kinds: credits for current cultivation needs and those for improvements.

Credit for current cultivation needs include: (1) loans for farming in general and for the utilisation, manipulation and transformation of the products; (2) loans for the purchase of live-stock, farm machines and farm implements; (3) advances on pledge of agricultural products deposited in places of public or private store; (4) loans in favour of agricultural organisations and associations: (a) loans for the purchase of requirements for members' farms; (b) advances to members in the case of utilisation, transformation and joint sale of their products.

Loans and advances coming under headings (1), (2) and (3) may be made either to individuals, or to organisations and associations directly farming lands under a legitimate title or under an agreement of any kind.

Loans for current cultivation needs may be made in kind as in cash, but in view of the necessity of ensuring that these are actually applied to agricultural purposes, it is prescribed that preference be given to advances in kind whenever the purpose of the advance makes this possible.

Loans for general farming and for the purchase of live-stock, farm machines and farm implements, must be kept within the limits of the actual requirements of the farms; this proviso being dictated by the consideration that the facilities and guarantees specified by the law are intended only to assist operations undertaken in the strict interests of agricultural production. Loans for the purpose or maintenance of live-stock in excess of the normal requirements of the farm, in cases where animal husbandry is

carried on whether in view of the live-stock products, or in the form of breeding or rearing stock, may be granted within the limits in which the industry represents a rational complement to ordinary farming, or when the land cannot be utilised except for pasture.

The manipulation, transformation and utilisation of the products may form the object of loans for current cultivation needs, in so far as they represent a subsidiary and complementary activity of a farm, and do not constitute an independent industrial activity. The advantages of loans for these purposes are extended also to organisations and associations undertaking the manipulation, transformation and utilisation on a joint basis of the products coming from members' farms.

Advances on pledge of agricultural products deposited in places of public or private store are granted exclusively in favour of the growers in the event of a delayed sale or failure to sell the products; these advances must not exceed three-fifths of the current value of the deposited goods and must be reduced or extinguished even before the due date, if the goods have been either partially or wholly withdrawn from store, or have suffered deterioration of any kind.

The second category of operations is that of loans for the permanent improvement of farms. The following are the purposes indicated of such advances :

- (1) making of plantations and changes in the system of cultivation ;
- (2) construction of farm roads ;
- (3) levelling of land, terracing, etc. ;
- (4) construction of wells and stock drinking troughs, of walls, fences and other means of enclosing farmland ;
- (5) construction and conditioning of rural buildings intended for the housing of farm workers, for the shelter of live-stock or the conservation of farm stores and products, as well as for the manipulation of these latter ;
- (6) construction of works for supply to farms of drinking water and of water for irrigation purposes, also of works for levelling, draining and stabilising of lands ;
- (7) applications of electricity to agriculture, corrective work on mountain lands, reforestation and any other work directed towards the permanent improvement of farm lands.

The loans and advances here indicated may be made not only to individuals, organisations and associations which own or farm lands in virtue of a title which permits the execution of works of such a kind, the assumption of the obligation involved in the loan with provision of the required guarantees, but also to improvement and irrigation consortia and the like which undertake the carrying out of agricultural improvement and reclamation works in the interest of the members.

The following are considered as being operations of agricultural improvement credit :

(1) Purchase of plots for the formation of small farm holdings; by this is to be understood property forming a holding complete in itself but not exceeding the total area which can be normally cultivated by the family of the owner while not less than the minimum area required for the proper conduct of a family undertaking. Loans for the purchase of land for small-holdings may be granted to organisations or associations as well as to individuals; those to individuals are subject to ascertainment of the technical qualifications of the applicant and to the general conditions being such as to ensure that purchase and management of the holding in question are not being based solely and essentially on the credit applied for. Loans to organisations and associations — preferably taking the form of co-operative societies among the persons concerned — which purchase farm lands for the purpose of distribution among direct cultivators so as to establish small cultivating ownership, are granted subject to the submission of a comprehensive scheme for re-parceling and consolidation of the lands, such schemes to be adapted to local conditions. Grants of loans in either of the cases mentioned are not to exceed two-thirds of the value of the lands, as estimated for purposes of security.

(2) Purchase of lands, payment of rents and other charges due and conversion of any mortgages incurred for the purpose of permanent improvement of the farm lands.

(3) Construction and adaptation of buildings for joint use in storage and distribution of farm requisites and farm products, and for housing live-stock; this type of loan may be granted only to organisations or associations legally constituted, consisting of farmers who for the most part are farming their own lands.

In general, to obtain an improvement loan it is essential to present a detailed scheme of the improvements contemplated, with an estimate, also in detail, of the expenditure involved. The loan is granted only subject to the ascertainment of the technical and economic advantage of the operations proposed. Loans are to be made in instalments whenever the nature of the operations and of the work to be done allows a gradual utilisation of the sums loaned.

(B) FORM OF THE OPERATIONS

All loans for current cultivation needs are effected by discounting "agricultural bills of exchange" (*Cambiali agrarie*); such a bill is, for all legal purposes, equivalent to an ordinary bill of exchange and should indicate the purpose of the loan, the farm land to which it relates or the place of deposit of the products that are to be utilised, transformed or preserved, and finally the guarantees securing the loan.

Improvement loans, on the other hand, are usually granted on the basis of the terms of the relative contract, and on production of mortgage guarantees or other guarantee approved by the lending institution as adequate. When however the nature of the improvements, the sums involved, or the manner of carrying them out make it advisable, these loans

may also be made by the method of discounting agricultural bills of exchange provided that the time taken by the operation does not exceed five years.

(C) LIMITS TO THE PERIOD OF THE LOANS

The following rules hold good in respect to the period for which the various loans are granted. Loans for the farming of lands and for the utilisation, manipulation and transformation of the products, fall due respectively at the time of harvest or on the completion of the utilisation or transformation of the products. However, exceptionally, institutions providing agricultural credit may be authorised (Royal Decree 23 October, 1930, No. 1415, converted into law of 29 December, 1930, No. 1787) to extend the period of this type of loan even beyond the time of harvest or the completion of the utilisation or transformation of the product once only and not beyond six months from the due date, when this extension is essential for the protection of the market and of the credit.

Loans for the purchase of live-stock, farm machines or implements are extinguished in annual instalments not exceeding five.

Advances on pledge of farm products fall due at the time when the sale of the products can be effected without loss to the producers.

A period of not more than six months is fixed for loans to agricultural associations for the purchase of farm requisites for members' farms or for advances to members in the case of joint utilisation, transformation and sale of their products; on expiry, however, of this period the loans may be taken up, wholly or in part, by means of bills of exchange released by the individual members.

As regards the duration of improvement credit, the loans made in the form of bills of exchange must, without exception be extinguished within five years; but the lending institution is empowered—whenever on account of circumstances as indicated above the extinction of the obligation resulting from the bill of exchange within the period assigned would be impossible or too burdensome for the borrower—to agree to the credit operation itself being transformed into a loan, the terms of the relative contract being first agreed. The amount of such mortgage loans cannot exceed 60 per cent. of the sum corresponding to the value of the loan, as estimated for purposes of security before the initiation of the improvements, increased by the value of improvements; they are repayable within a maximum period of thirty years, by means of the system of amortisation with half-yearly payments, inclusive of capital, interest and subsidiary charges. The date for commencement of the amortisation may be fixed also for the period succeeding that of the last instalment of the loan payment, *i.e.*, at the period when the improvements become remunerative, but in any case may not be fixed for a date later than five years from such payment.

(D) THE GUARANTEES

Special interest attaches to the provisions in regard to guarantees, the general principles of which may be indicated as follows:

(1) Loans intended to meet the expenses of the ordinary management of the farm (expenditure for seeds, fertilisers, spraying materials, etc., lubricating and fuel oils, preparation of the land, harvesting, labour, rent, transport, etc.) are guaranteed on the products of the Agricultural year. The provisions of the law are in fact that such loans are made against a prior right to levy distress on growing crops and on crops harvested, and on produce derived from the farm stored in the dwelling houses or buildings annexed to the farms. This right is a preferential claim, or lien, secured by law to the lending institutions, against whoever occupies, manages, or cultivates the farm within the year in which the loan, or any single instalment of the loan, may fall due; in the event of crop failure, either total or partial, this right is transferred to the crops of the succeeding year, provided that the borrower continues to farm the land. This claim itself has priority over every other claim, always excepting any claim there may be for legal expenses, so that the liability to the lending institution must be met even before that to the State for taxes or charges, or that of the landlord for the rent, if the land is held under a tenancy agreement. If moreover several associations or other bodies, authorised to carry on credit operations, have granted in respect of one and the same farm in the same agricultural year different loans for various purposes, all relating to the farm expenses, then these associations or other bodies will all enjoy the same priority.

(2) As has been seen, advances may also be made to the farmer for utilisation, handling and transformation of agricultural products. These same loans may equally be granted to organisations and associations which undertake the utilisation, handling and transformation jointly of the products coming from the farms of members. In these cases the prior right to levy distress must be understood as confined to the product thus utilised, handled or transformed.

(3) Advances for the purchase of live-stock, farm machines or implements are subject by law to the same prior right in relation to the stock, machines or equipment, respectively, thus purchased. The credit institution has thus automatically the right described under (1). In the case of the purchase of live-stock the question arises whether this lien is exclusively over the head of stock purchased and is limited to these, or whether it is really applicable to a certain number of animals of the same kind as those purchased. Clearly the second interpretation is the one that must be accepted.

(4) For further guarantee of the loans referred to under (1) and (3), there may also be constituted a special contractual lien on the growing crops and those harvested in the year, over the produce of the farm stored in the farmlands of the debtor, and over any other object used for cultivation or for supply of the farms. The amount of this lien is however limited to the part of the value that is in excess of the credits guaranteed by the statutory lien with right of priority. The special lien must have as basis a written document, it must have received a date in consequence of registration and must be entered at the *Conservatoria* of mortgages; it must be constituted for the period of the loan which it is intended to

guarantee, and in any case, for a period not exceeding five years. It may however be renewed before the date of expiry for another period of five years. In no case may the period of this lien exceed the date at which the borrower ceases to farm the land in question.

Although this lien has not such absolute binding force as the statutory lien, it may however serve a very useful purpose in guaranteeing agricultural credit operations, since it is prescribed that, in the event of the sale of the chattels subject to the special lien, delivery cannot be made to the purchaser until the credits due to the lending institution has been paid. Moreover, the seller who has made such delivery without discharging the credits due to the lending institution incurs the penalty (as in the case of the statutory lien) prescribed by Art. 203 of the Italian Penal Code; and the buyer is expected to meet the credits due to the lending institution, but may take proceedings against the seller.

In competition with the holders of mortgages registered before the date of the registration of the special lien, the lending institution cannot obtain precedence over the holders of mortgages, since in this case the precedence of the other creditors with competing claims to priority holds good in accordance with the provisions of the Italian Civil Code.

(5) If the farmer, who has already harvested his crop products or some of them, applies for an advance to be paid off when these products shall have been sold, the specific guarantee which may be constituted is that of the pledge, but in this case it is essential that the products are stored in public or private store places. If the storage is effected in general warehouses, these, in virtue of the special legislation in force in respect of them, are already legally constituted guardians of the pledge, and the issue of certificates of storage and of pledge notes serves to facilitate transfers of merchandise and the credits guaranteed by it. If the storage is effected in private store places, belonging to third persons or to companies, the manager of the warehouses is appointed guardian of the pledge, for which a deed of registration is required.

(6) Loans directly made to agricultural associations or co-operative societies of the capital required for the purchase of goods or machines, distributed afterwards to the farmers, are made under no special guarantee. The said associations or co-operative societies however, when authorised for agricultural credit operations, if they give credit advances in kind, that is to say, if they sell goods and farm machines to their members on credit, may make use of the liens in the manner and within the limits already indicated.

(7) For agricultural improvement credit to private farmers, the special guarantees are of two kinds: the agreed lien, for operations not extending beyond five years, and the mortgage, for improvement operations, whatever their duration.

The mortgage may be constituted as guarantee of improvement loans granted for not more than five years, but as a rule it is constituted for loans of a longer period.

On the other hand, in the case of loans made in favour of consortia for land reclamation the guarantee is constituted in the following way: the contributions normally payable by the members to the consortia are made payable instead to the lending institution, the payments being recoverable by the same procedure as is in force for the collection of the land tax.

It should be noted that the lending institutions may make good their claim on products and on chattels over which they have an agreed or a statutory lien, even after the products and chattels in question have been removed from the farm, provided they take the necessary action within sixty days of such removal.