

PECULIARITIES OF FINANCING AGRICULTURAL PRODUCERS UNDER HARVEST USING AGRICULTURAL RECEIPTS**Kushnir S. O., Dibrova V. O.***Zaporizhzhia National University
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Key words:

agricultural receipt, loan, agricultural producer, future harvest.

The article is devoted to the study of the functioning of agrarian receipts in Ukraine, their features, prospects for development. In the work analysed programs for financing agricultural producers in 2020, such as "Financial support for measures in the agro-industrial complex by reducing the cost of loans", "Financial support for agricultural development", "Granting loans to farmers" and determined the rate of increase of financial support in 2020 to 2019. The agricultural index, its importance in different years and the program of state support for agriculture of the agro-industrial complex – 2020 are considered, the sectors that are priorities this year are considered and their financing. The term is "agrarian receipt", its classification and introduction of this instrument in Ukraine has been also defined. The conditions of granting loans to them are the amount of granting, at what interest rate for what term and under what collateral they are given in banks of Ukraine (Pravex Bank JSC OTP Bank JSC Piraeus Bank ICD JSC PJSC First Ukrainian International Bank JSC KB "Privatbank" JSC "Agroprosperis Bank"). The number of submitted agricultural receipts by regions, their advantages and disadvantages are also analyzed. The article compared the number of preferential loans and loans for agrarian receipts, and identified the problems of developing lending for future harvests, such as farmers' distrust of the new lending instrument. However, suggestions have been made to improve the operation of this tool in Ukraine.

ОСОБЛИВОСТІ ФІНАНСУВАННЯ АГРОВИРОБНИКІВ ПІД ВРОЖАЙ ІЗ ЗАСТОСУВАННЯМ АГРАРНИХ РОЗПИСОК**Кушнір С. О., Діброва В. О.***Запорізький національний університет
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аграрна розписка, кредит, агровиробник, майбутній урожай.

Статтю присвячено дослідженню функціонування аграрних розписок в Україні, їх особливостям, перспективам розвитку. Проаналізовано програми фінансування агровиробників у 2020 році, такі як «Фінансова підтримка заходів в агропромисловому комплексі шляхом здешевлення кредитів», «Фінансова підтримка розвитку фермерських господарств», «Надання кредитів фермерським господарствам», та визначено темп зростання фінансової підтримки у 2020 році. Розглянуто індекс сільськогосподарської продукції, його значення в різні роки та програму державної підтримки сільського господарства АПК – 2020, досліджено галузі, які є пріоритетними в цьому році та їх фінансування. Також визначено поняття «аграрна розписка», надано їх класифікацію та проаналізовано впровадження цього інструменту в Україні. Детально досліджено умови надання кредитів, суму їх надання, під яку відсоткову ставку, на який термін та під яку заставу вони надаються в банках України (АТ «Правекс Банк» АТ «ОТП Банк», АТ «Піреус Банк МКБ» ПАТ «Перший Український Міжнародний Банк» АТ КБ "Приватбанк" АТ «Агропросперіс Банк»). Проаналізовано кількість наданих аграрних розписок по областях, їх переваги та недоліки. Порівняно кількість наданих пільгових кредитів і кредитів під аграрну розписку та визначено проблеми розвитку кредитування під майбутній врожай, такі як недовіра фермерів до нового інструменту кредитування. Надано пропозиції для покращення роботи цього інструменту в Україні.

Statement of the problem

Creating and implementing a supportive environment for rural development is one of the important national-level tasks that can only be achieved by using the most effective

support tools for small and medium-sized businesses. The problem of crediting of such enterprises is explained by such factors as high requirements of commercial banks for collateral, issuance of small loans, low level of creditworthiness of agro-enterprises, etc. Under such

conditions, agricultural enterprises require the use of other forms of lending.

Agrarian receipts are a fairly modern tool that has been operating in Ukraine since 2015, thanks to which the farmer can get a loan for future harvest.

Analysis of recent studies and publications

The research on the functioning of agricultural receipts in Ukraine has started relatively recently, as agricultural receipts are a certain innovation in the domestic practice of attracting the necessary funds to agricultural enterprises. Leading specialists of agrarian and legal spheres are studying the procedure of introduction and functioning of agrarian receipts in Ukraine: V. Andrievsky, S. Klyutsa, V. Kolisnik, N. Seperovich, S. Tarakanov, O. Protchenko, T. Kovalenko, A. Lukyanenko, L. M. Khudoliy, O. V. Grigorash, S. V. Mamaliga.

However, the current state of financial support for domestic agricultural production requires further in-depth studies of the circulation mechanism of this important financial instrument.

Objectives of the article

The objective of the article is to investigate the results of implementation of agrarian receipts and the terms of granting loans in banks of Ukraine.

The main material of the research

With the onset of spring, active sowing work begins, requiring considerable labor costs as well as financial investment. And at this moment, before each farmer faces the question of where to find some funds for financing.

The article is devoted to the analysis of the benefits and risks of agrarian receipts and loan securing programs.

In 2020, in Ukraine, the government has set a task to raise the level of the agro-industrial complex. During 2019-2020, the following state programs have been created and are operating in Ukraine:

- budget program of the CPCWK 2801580 "Financial support for agricultural producers" in the direction of "Partial compensation for the cost of agricultural machinery and equipment of domestic production";
- budget program of the CPCWK 2801230 "Financial support for the development of farms".

As well as state support programs for agriculture:

- Government program to support the maintenance of young cattle;
- Government program to support partial reimbursement of livestock facilities;
- Government support the program for purchased breeding animals, cattle semen and embryos;
- Government program to support population of cows;
- Government program to support the compensation of value of objects financed without the value added tax from bank loans;
- Government program to support bank interest compensation;
- Government support program Partial reimbursement for construction and reconstruction of grain storage and processing enterprises;
- Government program for the development of viticulture, horticulture and hops.

Table 1 – Analysis of financing status of agribusiness support programs in 2019, bln

	Program / direction	Aimed at 2018	Expected for 2019	Listed to recipients (13.11.2019)	Actually sent to 01.01.2020,	Growth rate 2020 to 2019 year., %
1	2	3	4	5	6	7
	Together:	4 166,2162	927000,16	2 835,1374	565 936,6	61%
2801030	Financial support for activities in the agro-industrial complex through cheaper loans	265,913	127,16	103,9364	103 936,40	81%
	<i>Partial Compensation of Interest Rate to Agribusiness Entities on National Bank Borrowings</i>	265,913	127,16	103,9364	87,0	68%
2801230	Financial support for the development of farms	203,2637	800,0	230,4406	462,2	58%
	<i>Partial compensation for the value of seeds of agricultural plants of domestic production purchased from entrepreneurs and legal entities that produce and / or sell it</i>	6,4252	80,0	11,5698	50	63%

	<i>Partial compensation for the costs associated with the provision of agricultural advisory services</i>	0,2035	5,0	0,4681	0,613	12%
	<i>Financial support for agricultural service cooperatives</i>	8,5755	50,0	0	2,8	5,6%
	<i>Partial compensation for the cost of purchased agricultural machinery and equipment of domestic production</i>	108,0307	250,0	121,5018	195	78%
	<i>Budget subsidy per unit of cultivated land (1 hectare) - to newly established farms</i>	28,6617	89,8887	7,5838	18,4	20%
	<i>Budget subsidy per unit of farmland (1 hectare) for farms (excluding newly created ones)</i>	42,9098	239,8934	29,9959	96,8	40%
2801460	Granting loans to farms	0	200,0	140,0	231,9	116%

Source: [1].

In 2019, the program "Financial support for measures in the agro-industrial complex by reducing the cost of loans" was provided 19% less than was planned, the direction of this program was allocated 32% less funds. Financial support for the development of farms received 58% of the planned funds, 63% for the "Partial compensation of seed value", for "Partial compensation for the costs related to agricultural advisory services" "Financial support for agricultural servants cooperatives", "Partial compensation for the cost of agricultural machinery purchased", "Budget subsidy per unit of cultivated farms", "Budget subsidy per unit of cultivated land (1 hectare) for farms (except new payments) amounted to 12%, 5.6%, 78%, 20%, 40%,

respectively. The program "Loans to Farmers" provided more than planned funds by 16%.

Also, some banks have developed special programs for lending to farmers.

But farmers often face problems in the process of obtaining additional financing for high-cost seasonal activities, in particular, spring sowing of agricultural crops. The reason is the lack of sufficient assets that could be collateral commensurate with the amount of the loan received.

Consider the agricultural production index, which reflects the level of changes in the physical volume of agricultural production produced during the periods selected for comparison [2].

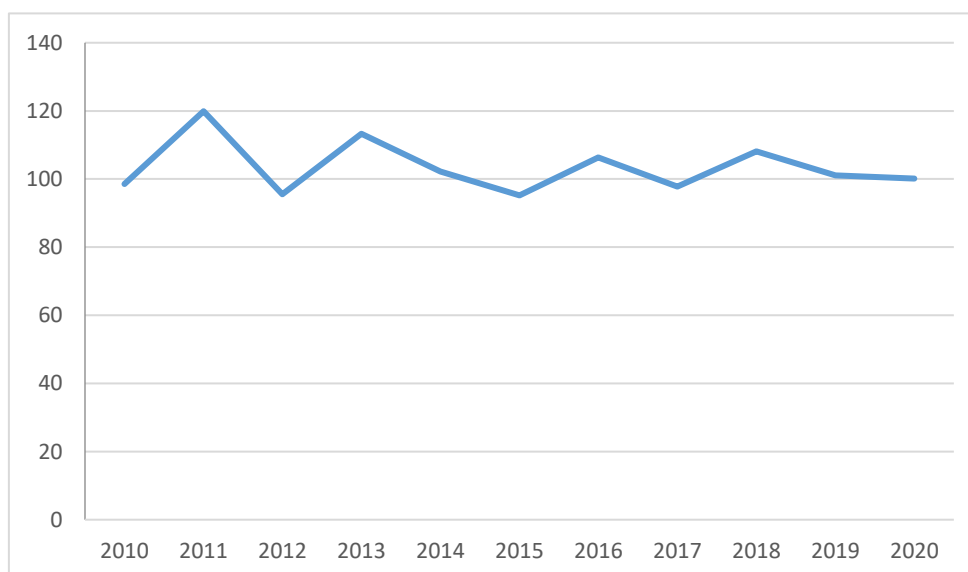


Fig. 1. Dynamics of agricultural production indices for the period from 2010 to 2020 [2].

The graph shows the dynamics of the agricultural index for 10 years with a maximum value of 119.9 in 2011 and

a minimum of 95.5 in 2012. The last two years trace the relative stability of production, in 2020 compared with 2019 agricultural index decreased by 1%.

At the moment, any farmer couldn't exactly determine how much crop he can get because of the abnormally warm winter. Of course, cooling-off periods are still possible. With many years of observations, two or three more cold waves can be expected, which can bring 20 degrees frost. Now winter crops from time to time restore vegetation. Crops that haven't sprouted in the fall, thanks to the warm weather have done so right now, which will have a positive impact on cereals [3].

Therefore, experts expect a harvest not worse than last year. However, of course, much depends on what the weather will be in the spring and summer.

On February 11, 2020, the Ministry of Economic Development, Trade and Agriculture presented a program of state support for agriculture of the agro-industrial complex - 2020, which identified the areas in which support would be provided, among them the mentioned cheaper loans, support animal husbandry, the development of farming and cooperatives, and support for horticulture, viticulture and hops.

It is envisaged that the cost of loans will be reduced - in general, the compensation for loans will sum up to 1.2 billion UAH. The loans will be provided for land acquisition, current and capital investments and for livestock development. But there will also be restrictions: up to 15 million UAH. per 1 animal husbandry, up to 5 mln. - for 1 entity for land acquisition and other types of loans; one client - 1 authorized bank; compensation will not be given to participants in the Affordable Loans program of 5.7.9% [4].

However, the granting process remains difficult for small and medium-sized farmers as they cannot provide the collateral that banks need.

To solve this problem, the Law of Ukraine dated 04.07.2013 № 406-VII "On Agrarian Receipts" was adopted, in which Article 1 is legislated the term "agrarian receipt", which is fixed as a commodity ordinance, which records the unconditional obligation of the debtor, which is secured by the pledge, to deliver agricultural products or to pay cash on the terms defined therein [5]. That is, the subject of collateral for agricultural receipts is the future

harvest of agricultural products of the agricultural producer.

The Agrarian Receipts in Ukraine project was implemented by IFC, a member of the World Bank Group, in partnership with the Swiss Confederation in Ukraine, the main purpose of which was to create a new agricultural credit facility.

First of all, the law was aimed at medium and small agricultural producers with limited access to credit because of its high interest rates and high risk of non-payment of interest.

Agrarian receipt is the most convenient instrument for lending to small and medium-sized farmers.

Agrarian receipts are divided into several types:

1. Commodity agricultural receipt is an agricultural receipt which establishes an unconditional obligation of the debtor on the agricultural receipt to deliver the agreed agricultural products, the quality, quantity, place and time of delivery of which are determined by the agricultural receipt.

2. Agrarian financial receipt is an agrarian receipt, which establishes an unconditional obligation for the debtor to pay a sum of money, the amount of which is determined by the formula agreed on by the debtor and creditor, taking into account the prices for agricultural products in a certain quantity and quality.

The agricultural receipt shall be issued separately for each type of agricultural product, identified by generic or individual characteristics, and shall be subject to compulsory notarial certification at the time of its issue.

In the case of an agricultural receipt, the pledge is a future crop and it guarantees the protection of the interests of the creditor in case of default on the part of the borrower, and at the same time is safe and cost-free for commodity producers who do not risk losing their basic assets in case of complication of performing their obligations. [6].

The process of obtaining a loan for an agricultural receipt at each bank is different. Let us analyze the conditions of several banks.

Table 2 – Comparative characteristics of credit conditions for agricultural producers

Bank	The name of the loan program	Sum	Interest rate	Term	Pledge	Collateral coverage
Pravex Bank JSC	«Under the harvest»	from 5 million		Up to 6 months	The pledge of the future crop with the issuance of the Agrarian receipt	at least 75% of the loan
OTP Bank Ukraine	«Instantaneous»	From 1 to 15 million	17%	Up to 5 years	The pledge of the future crop with the issuance of the Agrarian receipt	150% credit

Piraeus Bank SA		1-5 mln. (possibility of increasing the amount of credit subject to providing additional collateral)		Up to 12 months	The pledge of the future crop with the issuance of the Agrarian receipt	1.5 from the market value of the future crop without VAT
The First Ukrainian International Bank	«On replenishment of working capital»	Up to 45 million UAH*	from 17,5%	up to 36 months (with annual repayment and limit renewal)	The pledge of a future harvest with the issuance of an Agrarian receipt or real estate, equipment	
PrivatBank	AgroCUBE	50 000–2 000 000 UAH	1.6% per month of the loan amount - the first 6 months; 1.4% per month of the loan amount - the next 6 months	Up to 12 months	No collateral	
Agroprosperis bank	«Invest»	Up to 600 thousand dollars		Up to 7 years	The pledge of the future crop with the issuance of the Agrarian receipt	150% credit

* - in July 2018, Public Joint Stock Company First Ukrainian International Bank concluded an agreement granting a loan of UAH 45 million to a Sumy region agricultural producer.

Let's take a closer look at the features of credit conditions. Yes, to obtain a loan at JSC Pravex Bank, you need to have documents such as double warehouse certificates for agricultural products stored in certified granaries. If the goods in their own warehouses meant as a guarantee of the major shareholders or a solid security of at least 75% of the credit, on the elevators of unrelated persons - double warehouse certificates.

The term of this loan is shorter than the loan for sowing company, up to 6 months, but not later than May 31 must be the last repayment, and there is a grace period of 3 months. The main source of debt repayment is the sale of the pledged harvest.

One of the first banks to start issuing such loans was OTP Bank. Drawing on best global experience in improving access to finance for small-scale agricultural producers and processors of agricultural products, OTP Bank together with the International Finance Corporation (IFC) has implemented a simplified and accelerated approach to financing farmers in the OTP Agro Factory program.

OTP Agro Factory is one of the subdivisions of the corporate sector, which deals with financing of small and

medium-sized agricultural producers, for the amount of UAH 2 million, up to 30 million UAH.

The specially developed approach to the analysis of agricultural producers allows to make a basic decision on crediting in 1 day and to issue a loan in record time for Ukraine - within 7-10 days. Also, the program "OTP Agro Factory" provides a possibility for crediting agricultural producers for processing solely financial agrarian receipts, which reduces the cost of the mortgage - as a pledge can be used for a future harvest.

In OTP Bank JSC, a loan that is secured by a future crop is called AgroCredit "Instant" [7]. The advantages of such a loan are:

- 1) fast preliminary decision in 2 days;
- 2) a simplified package of documents;
- 3) financing is possible in UAH, USD and EUR;
- 4) a minimum initial contribution of 30%.

Piraeus Bank IBC also requires:

1. The right of the mortgagor to the land plot (ownership or use) is documented;
2. Land plot of agricultural purpose (for the production of agricultural products);

- 3. The land plot has a cadastral number;
- 4. The land plot is used by the mortgagor independently.

JSC Agroprosperis Bank is the only bank in Ukraine that finances only small and medium-sized agricultural producers. The Bank provides loans secured by future harvests or agrarian receipts, facilitating access to finance

Table 3 – Financing Programs of Agroprosperis Bank JSC

	Sum	Term	Pledge
AP Harvest	up to 600,000\$	up to 18 months	financial agrarian receipt, future harvest
AP Invest	up to 600,000\$	up to 7 years	financial agrarian receipt, future harvest

The advantage of agrarian receipts for lenders is the fact that it is a more reliable tool. The receipt provides a mandatory security deposit (future harvest), a mechanism for collecting the notary's executive inscription and the Register of Agrarian Receipts, which essentially acts as a source of credit history for the debtor. In addition, agrarian receipts are an opportunity to enter new markets and new customers [8].

The benefits for farmers are:

- 1. Unlike working with other financial instruments, an agrarian producer only needs to have two main things. The first is the right to use agricultural land. This can be land ownership, lease or even sublease of land, etc. It is important to have a land bank in cultivation. The second condition is the crop that farmer harvests on this land, that is, the desire to cultivate the land rather than keep it without use. The farmer must also be registered in a single state register as an agricultural producer.
- 2. Short term of making a loan (in some banks it's up to 5 days).
- 3. Credits cost farmers up to 30% per annum, the rates for agrarian receipts are generally lower.
- 4. Agricultural receipt can be considered a universal tool, they can be used in relations with different people. For example, how to calculate plant protection products, fertilizers, fuel, etc. Or how to secure a loan. Or it can be used in the forward contract for additional support for the trader [9].

But besides the benefits, the agrarian receipt has its risks. The forthcoming harvest cannot be predicted accurately and therefore the farmer may suffer significant losses.

The amount of yield from the sale of the crop depends on many factors, including weather conditions, quality or

for producers who do not have a strong enough pledge to obtain the classic loan of the required amount.

The Bank has two programs for financing the sowing campaign (AP Harvest) and a loan for the purchase of new and used agricultural machinery (AP Invest).

price issues, logistical restrictions, and more. From the farmers' point of view, these risks affect the overall outcome and the opportunity to grow the business. From the standpoint of creditors, it is a matter of returning their resources to farmers in the form of money or commodities on credit terms. For example, in 2020, a farmer does not know exactly what amount of crops he will be able to harvest due to an abnormally warm winter. The draft law on the sale of land in Ukraine is also under consideration in the Council, in the case of which it is difficult to predict its impact on the development of agriculture.

To avoid these risks, an out-of-court enforcement procedure has been put in place to allow creditors to be confident of returning their resources when a farmer fails to fulfill his obligations. This mechanism protects the rights of the creditor, but at the same time its action is limited only to the collection within the subject of the pledge on a specific receipt, thus protecting the rights of the farmer.

The procedure stipulates in case of farmer's failure to fulfill his obligations on the receipt, from the next day after the end of the term of execution; the creditor can obtain a writ of notary and contact the executors for opening enforcement proceedings. Within 7 days, the executor must transfer the collateral (crop) to the creditor. For a long time in Ukraine, there were no practical cases of using the procedure on practice, but even after multiple increases in the number of receipts and the difficult season of 2018, the statistics remain in favor of the reliability of Ukrainian farmers: enforcement was used for less than 1% of the total number of issued receipts. they arose because farmers were exaggerating their capacity [10].

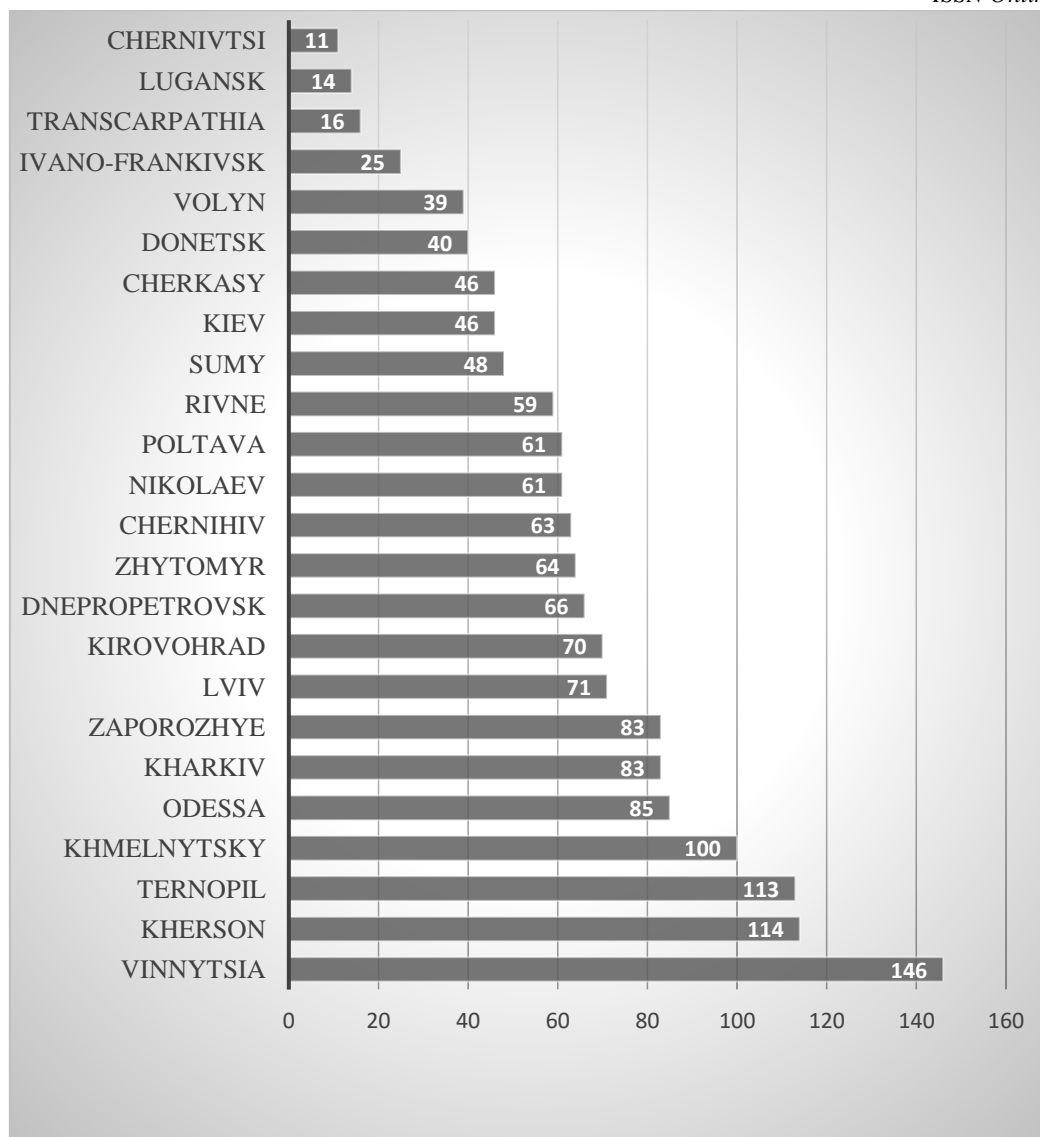


Fig. 2. Number of submitted agricultural receipts by regions from 2015 to 2020

In total, as of 2015, 1,506 agricultural receipts have already been issued throughout Ukraine over \$ 11 billion. Moreover, the lion's share - US \$ 7.8 billion was raised by agricultural enterprises during 2019 [10].

In 2020, more agricultural receipts are expected, only at the beginning of the year they were issued for the amount of 1.25 billion UAH.

Table 4 – Comparison of preferential and agrarian receipts

Year	Total preferential loans (UAH billion)	Amounts of loans granted for agricultural receipts
2015	15,5	0,252523
2016	6,8	0,310266
2017	6,6	0,537211
2018	8,0	0,950 000
2019	5,9	7,8
2020	4,34*	1,25

*- is planned for 2020

Source: [11].

During analyzing the table, you can see that at the beginning of the development of agrarian receipts farmers did not have much confidence in them and used

preferential loans that need collateral. But good examples of the use of agrarian receipts in 2019 significantly increased the popularity of this type of lending.

Conclusions

Therefore, agricultural receipts, in our view, are very easy to use as a universal tool because it enables small and medium-sized farmers to grow. They can make it much easier to take out a loan to grow their business, and if they do not pay off their loan, they only lose their crops and not their property.

Many banks have developed special programs for lending to agrarian enterprises, agrarian receipts, which has also encouraged the spread of such lending practices. A large number of receipts issued in the period from 2015 to 2020 showed the effectiveness of this financial product, which allows to support agriculture, expand business, create jobs and more.

However, over the years there remain questions that have not yet been resolved - these are issues that regulate the mechanism of collection and require better regulation in legislative and regulatory acts.

Having analyzed all the material, our opinion is that it would be advisable, in addition to domestic agrarian receipts, to introduce international legislation, they will help to increase the number of banks that would lend for future harvest. Also, educating farmers to properly use agricultural receipts will increase their use, allowing more small and medium-sized farmers to develop and more jobs.

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