



Agricultural Support Review Ukraine

December 2021

Lending and state support in agriculture

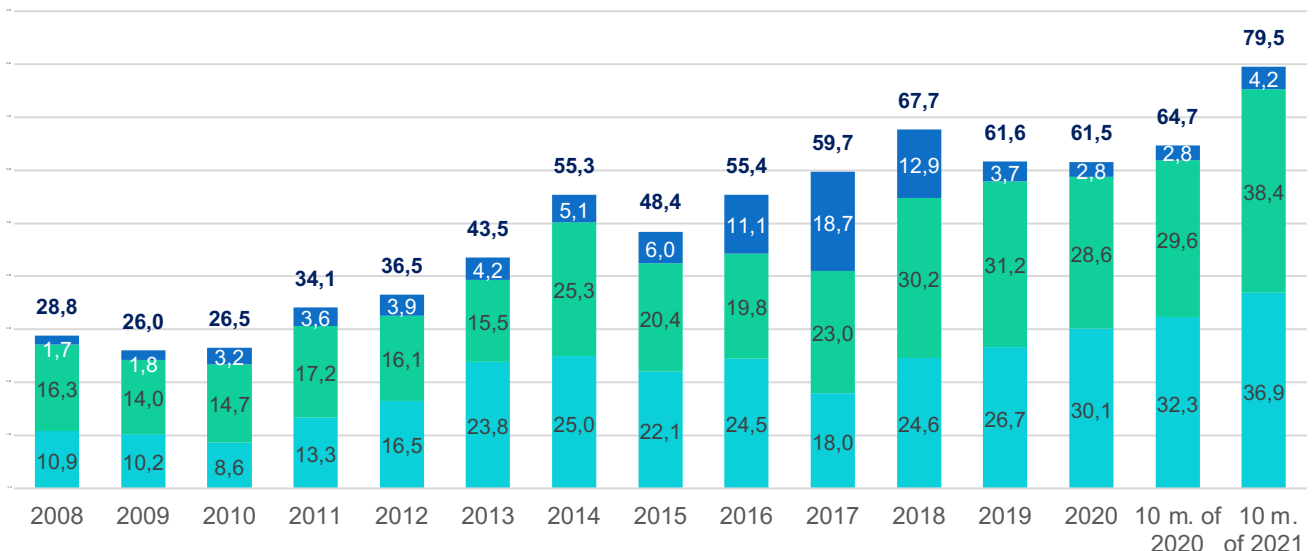
Historically, there have been issues with access to credit and cost of credit resources in Ukraine, especially for small producers. Currently, the level of lending in Ukraine is 20 times lower than in the USA (loan debt equals approximately \$60 per hectare in Ukraine vs \$1,190 per hectare in the United States), although the farmers' loan portfolio in 2021 is the largest since 1991 (see the graph below). In general, as of the end of October 2021, UAH 755.5 billion of loans were issued in Ukraine, of which UAH 75.5 billion (10.5%) were provided to agriculture producers. Processing (food and beverage production) and agriculture industries accounted for UAH 140.6 billion of the credit portfolio value. Thus, agribusiness (excluding agricultural engineering) accumulates 19% of the consolidated loan portfolio in the country. The loan portfolio by terms (on the graph below)

shows that the market demands short- and mid-term loans the most, specifically UAH 36.9 billion to replenish working capital (seeds, fertilizers, fuel) as of the end of October 2021, and UAH 38.4 billion to purchase new machinery and equipment. Simultaneously, the loan demand is the lowest for any long-term capital investments, such as the construction of processing facilities (UAH 4.2 billion).

The first step to simplify the access to credit for small farmers was the adopted law on the establishment of a partial loan guarantee fund in agriculture. This fund will bear a part of risks of loan non-repayment, which, thus, improves the credit access of small producers. In addition, the functioning land market should improve the access of Ukrainian farmers to mortgages.

The cost of loans for agriculture producers is reduced due to the program 5-7-9 and a budgetary state support program for agriculture sector, with the latter being the focus of this Review issue.

Agriculture loan portfolio, as of the end of each year (period), UAH bln



Financial support of activities in agriculture by reducing the cost of loans

Program design

As noted in the September issue of this Review, the reimbursement for the cost of loans program is one of the largest state support programs. In 2020, the program was the second largest in terms of funds allocated (22% of the total state support budget). The same largest share (27%) of all programs' budget was planned for 2021.

The program is for **agricultural producers** (enterprises, institutions, individuals), who supply agricultural products produced at their own or leased facilities, and their share of agricultural products must be at least 75% of all delivered products during one year¹.

The amount of reimbursement is equivalent to 1.5 of the NBU key interest rate on the date of interest payment. Specifically, a borrower must pay at least 5% of interest, and the rest is covered by the budgetary subsidy.

The limit on the amount of subsidy is **UAH 15 million** for entities operating in animal husbandry and having obtained credit funds for animal husbandry; and **UAH 5 million** for entities operating in other sectors of agricultural production². The restriction applies to each entity (and related parties) during one year.

The object of program support is **the amount of interest actually paid for the use of loans by agriculture producers** (short-, medium- and long-term loans). It is possible to use the credit fund to replenish working capital, purchase capital assets, and conduct the construction or reconstruction of production, processing and storage facilities.

Requirements to the program participants are as follows: not being bankrupt (i.e. no bankruptcy cases filed) and having no tax debt.

Data analysis

We analyzed the data on program state support payments for interest rate reimbursement in 2020 for a total of **UAH 460 million**. Agricultural producers in Poltava, Kyiv, Kharkiv, Ternopil and Vinnytsia oblasts received the most total state support (Table 1). These regions are also in the top ten by agricultural production volume in monetary terms.

Table 1. Regional ranking by received state support for interest rate reimbursement in 2020

Ranking by the share of total state support in gross production of agricultural enterprises	Oblast	Total state support in UAH mln	Share of total state support in gross production of agricultural enterprises	Ranking by the share of total state support in gross production of agricultural enterprises	Oblast	Total state support in UAH mln	Share of total state support in gross production of agricultural enterprises
1	Chernivtsi	8.75	0.23%	13	Poltava	32.39	0.09%
2	Odesa	23.75	0.20%	14	Kharkiv	30.23	0.09%
3	Rivne	16.78	0.15%	15	Cherkasy	25.70	0.08%
4	Ternopil	28.74	0.13%	16	Dnipropetrovsk	24.95	0.07%
5	Mykolaiv	20.00	0.12%	17	Vinnytsia	28.36	0.06%
6	Lviv	19.45	0.12%	18	Luhansk	6.91	0.06%
7	Kirovohrad	24.35	0.11%	19	Khmelnytskyi	18.93	0.06%
8	Zaporizhia	24.01	0.11%	20	Zakarpattia	0.74	0.06%
9	Kherson	22.88	0.11%	21	Donetsk	9.27	0.05%
10	Ivano-Frankivsk	8.36	0.11%	22	Sumy	17.69	0.05%
11	Volyn	12.13	0.10%	23	Zhytomyr	9.79	0.05%
12	Kyiv	30.92	0.09%	24	Chernihiv	15.73	0.04%

Note. Data on payments under the state support program cover the period from January to December 2020

¹ Full list of industries eligible for state support is given in the Law of Ukraine "On State Support of Agriculture in Ukraine" No. 1877-IV dated June 24, 2004.

² According to the Order of the Cabinet of Ministers of Ukraine 00300 dated April 29, 2015.

Program Analysis (continued)

During the period from January to December 2020, **most enterprises received 2 payments under this program**, and 3.1 payments on average. Two enterprises received the maximum number of 129 and 113 payments respectively, which accounted for 77% of the total program state support amount in the analyzed data. The maximum payment was 7,57 million UAH.

Since the purpose of this state support program is, in particular, to encourage farmers to work with the banking sector, we analyzed the distribution of state support funds by banks (Table 2).

The biggest share of total state support (37%) was provided to agricultural producers who had obtained loans from Raiffeisen Bank Aval.

To analyze the equity and efficiency of the state support distribution, we combined the data on economic performance of agricultural enterprises in 2019 with the data on state support program disbursements in 2020. We ended up with **3,603 support recipients**, whose amount of interest actually paid for the use of loans in 2020 was partially reimbursed, under the program provisions. These are 3,452 enterprises producing crops and 151 enterprises of animal husbandry.

Table 2. Top 10 banks by transactions of state support for partial reimbursement of the amount of interest actually paid for the use of loans in 2020

Ranking by the share in total state support	Authorized banks	Total amount of state support, UAH million	Share of received state support in total state support	Transactions number
1	Raiffeisen Bank Aval	170.52	37.0%	4768
2	ProCredit Bank	64.47	14.0%	1288
3	The State Savings Bank of Ukraine (Oschadbank)	44.94	9.8%	1255
4	OTP Bank	38.43	8.3%	325
5	Credit Agricole Bank	34.10	7.4%	532
6	PrivatBank	17.17	3.7%	2441
7	The State Export-Import Bank of Ukraine (Ukreximbank)	14.40	3.1%	385
8	Kredyt Dnipro Bank CJSC	9.20	2.0%	135
9	Agroprosperis Bank (AP Bank)	7.70	1.7%	248
10	AB Ukrhazbank PAT	6.69	1.5%	97

Note. Data on payments under the program covers the period from January to December 2020

Table 3 demonstrates that, in terms of total support amount, **the main beneficiaries of the program among agriculture enterprises growing crops are enterprises of 500-2,000 hectares (42% of total program support) and 2,000-10,000 hectares (35%).**

The least state support under this program (9%) was directed to the largest agricultural enterprises (with the area of more than 10,000 hectares). Small enterprises (up to 500 hectares) received only 14% of program state support. For them, however, state support was **the most tangible**: the average payment under the state support program amounted to 0.23% of their average revenue, while for large agricultural producers this indicator was 5 times smaller.

There is a **direct relationship between the area of agricultural enterprises and the share of total expenditures that the program state support covers**. Thus, it has covered 3.5% of total expenditures of the smallest agricultural enterprises (up to 500 hectares) and only 0.6% of total expenditures of agricultural enterprises with an area of 500 to 2,000 hectares.

The program state support is provided to partially reimburse for the amount of interest actually paid for the use of two types of loans. These are loans raised to replenish working capital and loans to finance the purchase of fixed assets. Hence, we investigated the ratio of state support to direct material costs of an enterprise, and the ratio of state support to the cost of purchasing new machines and equipment.

State support helps small enterprises (up to 500 hectares) the most, covering almost 15% of their direct material costs. With the increase in the size of agricultural producers, this percentage decreases rapidly: only about 1% of direct material costs of enterprises with an area of 500-10,000 hectares, and 0.5% of direct material costs of enterprises with an area of more than 10,000 hectares would be covered by program state support.

With regard to state support covering the fixed assets purchase value, the picture is slightly different: **state support covers the largest share of the purchase value of new machines and equipment for medium-sized enterprises with an area of 500-2,000 hectares (89%) and 2,000-10,000 hectares (52%).**

Table 3. Analysis of the program of partial reimbursement for the amount of interest actually paid for the use of loans in 2020 and economic indicators of this support program recipients – crop production

Area	up to 500 ha	500 – 2,000 ha	2,000-10,000 ha	more than 10,000 ha	Total
Number of agricultural enterprises	1,847	1,194	386	25	3,452
% in total program support	14%	42%	35%	9%	100%
Revenues					
Total program support amount, thousand UAH	50,545.26	155,281.17	128,729.57	32,636.29	367,192.29
Total revenue, thousand UAH	10,348,417.69	34,577,797.04	38,156,358.24	15,068,422.62	98,150,995.59
% of total program support in total revenues	0.5%	0.4%	0.3%	0.2%	-
Average support payment amount under the program, thousand UAH	12.71	42.97	79.56	321.06	-
Average revenue, thousand UAH	5,602.82	28,959.63	98,850.67	602,736.90	-
% of average program support in average revenue	0.23%	0.15%	0.08%	0.05%	-
Expenditures					
Average % of program support in total expenditures	3.5%	0.6%	0.4%	0.3%	-
Average value of current assets, thousand UAH	5,021.02	15,115.43	45,264.93	280,906.60	-
Average % of program support in the value of current assets	14.9%	1.1%	0.9%	0.5%	-
Average expenditures on fixed assets (new machines and equipment) purchase, thousand UAH	1,314.00	2,560.49	5,603.41	18,366.31	-
Average % of program support in expenditures on new machines and equipment purchase	45.5%	88.9%	52.2%	25.8%	-
Average total expenditures, thousand UAH	8,510.76	26,069.69	80,559.68	508,021.43	-
Average % of expenditures on new machines and equipment purchase in total expenditures	24.7%	10.3%	7.0%	3.5%	-

Such results are likely due to the fact that medium-sized agricultural producers obtain more loans to purchase new machines and equipment than the smallest enterprises with an area of up to 500 hectares.

The analysis of animal husbandry enterprises receiving program state support is summarized in Table 4. **The larger a livestock enterprise, the more state support it has received under the program of partial reimbursement for the amount of interest actually paid for the use of loans.** The largest amount of state support in 2020 was directed to enterprises with the volume of agricultural production over 10,000 centner in animal live weight in 2019 (69% of program state support designated for livestock enterprises, with an average state support payment of 225 thousand UAH) and of 2,000-10,000 center (21% of state support).

Smaller agricultural enterprises that had processed up to 2,000 centners of animal live weight received only 10% of state support under this program, with an average support amount of UAH 65,000. This is legitimate since larger enterprises, naturally, have a larger amount of working capital. Its replenishment often has to be financed by loans. As, for most livestock enterprises, the ratio of state support to the cost of purchasing new machines and equipment exceeds 100%, one may conclude that most state support that they have received is not connected with the loans raised for the purchase of new machines and equipment (this doesn't apply to the smallest enterprises with animal live weight of up to 500 centner).

Table 4. Analysis of the program of partial reimbursement for the amount of interest actually paid for the use of loans in 2020 and economic indicators of this support program recipients – animal husbandry

Animal total live weight (centner)	up to 500 c	500 – 2,000 c	2,000-10,000 c	more than 10,000 c	Total
Number of agricultural enterprises	18	47	49	37	151
% in total program support	5.2%	5.0%	21.2%	68.6%	100%
Total program support amount, thousand UAH	2,542.92	2,418.94	10,278.04	33,268.09	48,507.99
Average support payment amount under the program, thousand UAH	65.22	23.85	53.44	224.79	-
Average animal live weight, tons	23.51	108.35	490.25	34,757.97	-
Expenditures					
Average % of program support in total expenditures	1.71%	0.39%	0.44%	0.44%	-
Average value of current assets, thousand UAH	5,603.04	12,581.87	50,772.43	584,300.01	-
Average % of program support in the value of current assets	2.27%	0.58%	0.59%	0.55%	-
Average expenditures on fixed assets (new machines and equipment) purchase, thousand UAH	668.45	500.90	2,002.19	4,278.82	-
Average % of program support in expenditures on new machines and equipment purchase	56%	150%	526%	389%	-
Average total expenditures, thousand UAH	7,623.08	18,420.82	67,161.34	682,649.52	-
Average % of expenditures on new machines and equipment purchase in total expenditures	13.7%	2.4%	2.0%	1.3%	-

Source: analysis is based on the support program budget data and available data on economic performance of agricultural enterprises in 2019