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SECOND AGRICULTURAL FORUM

FOOD FOR EUROPE

TOWARDS A NEW DEVELOPMENT STRATEGY FOR THE SERBIAN AGRO-ECONOMY

Subotica, October 11-13, 2012

PANEL 3: FINANCING OF SMALL AND MEDIUM ENTERPRISES IN AGRICULTURE AND FOOD INDUSTRY: SOLUTIONS

Major Constraints in Financing Agribusinesses

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Supply-Side Constraints		Enterprise-Side Constraints
<ul style="list-style-type: none"> • Inefficient credit enforcement • High costs of financing • Regulatory disincentives • Few alternative sources of finance • Weak supporting services • Lack of strong banks' focus on agribusiness • The uncertainty and inconsistency of Agricultural Policy • Poorly designed credit subsidy programs 	<p>FINANCING GAP</p>	<ul style="list-style-type: none"> • Liquidity constraints • Unsuitable collateral • Borrower psychology and risk aversion • Weak capacity to present business • Weak farmer and agro SME market leverage • Low creditworthiness of agribusinesses and high risk of the sector • Lack of adequate regulatory and institutional framework • Poorly designed production subsidy programs

Supply side constraints

- **Inefficient credit enforcement**
 - Persistent weakness of credit enforcement, low recoveries and high collection costs, unpredictability of the process.
- **High cost of financing**
 - Highest cost of financing in the region, high base rates because of the Government financing, high risk spreads, especially in agriculture, high administrative and regulatory compliance costs.
- **Regulatory disincentives**
 - Inadequate regulations concerning loan provisioning, credit file content, types of collateral, tax compliance monitoring, capital standards.
- **Few alternative sources of finance**
 - Limited supply of finance from banks, lack of unifying regulations for non-bank credit institutions, deficiencies in the leasing law, poor enforcement of inter-firm credit contracts, slow progress of building a capital market for larger SMEs.

Supply side constraints

- **Weak supporting services**
 - Challenges with the quality and availability of supporting services necessary for financing (asset appraisals, accountants, auditors etc.), shortage of information services and information based technology, insurance services for agro sector.
- **Lack of strong banks' focus on agribusiness**
 - Lack of specific knowledge and adequate banking products.
- **The uncertainty and inconsistency of Agricultural Policy**
 - Large number of different agricultural policies and priorities in the last decade, reduced borrowers' ability to plan and focus production and processing efforts in the coming years .
- **Poorly designed credit subsidy programs**
 - The subsidies are important, but for supporting the growth and offsetting market gaps, not competing with the market

Enterprise-related constraints

- **Weak farmer and agro SME market leverage**
 - Weakness in advocacy, poor communication with lenders, lack of reliable channels for public-private sector dialogue, absence of effective, member-oriented agricultural cooperatives.
- **Low creditworthiness of agribusinesses and high risk of the sector**
 - Irrigation and drainage system very undeveloped, beside the excellent natural conditions, unstable yield and high risk level, which disables cheaper and wider financing.
- **Lack of adequate regulatory and institutional framework**
 - Lack of important regulatory framework – Cooperative Law, Commodity Exchange Law, etc., which adds to high credit risk of the farmers and SMEs in agribusiness.
- **Poorly-designed production subsidy programs**
 - For the economic improvement, the production needs to be profitable, not only subsidized. The subsidies are very important, but for growth, not covering the losses.

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Solutions?