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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**

**Anthony Sinclair, USAID Business Enabling Project**



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

## *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?