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The new State Land Bank: An appropriate instrument to improve access to Agri-Finance?

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EXECUTIVE SUMMARY

Adequate access to finance is for agricultural enterprises in Ukraine of crucial importance. Empirical evidence suggests though that this access is often severely constrained, especially for small and medium-sized agricultural enterprises. Banks are reluctant to issue loans due to a number of reasons. A very tight monetary policy stance over the recent past implies that banks can’t afford to offer loans at acceptable interest rates, regardless of the economic sector. The problem of high cost of funding is aggravated by specific problems in the financial sector, which is still recovering from the impact of the global financial crisis. Finally, lending to agriculture is subject to a number of specific sectoral risks, and not all banks fully understand these risks.

In 2012, the authorities established the government-owned State Land Bank (SLB) with the explicit objective of improving access to finance for small and medium-sized agricultural enterprises. The Cabinet of Ministers of Ukraine and the Parliament completed most steps necessary to create the SLB and put into place some parts of the legal framework of the SLB, a process which is not yet completed. According to publicly announced plans by officials, the (multiple) strategic goals of the SLB consist of providing subsidised financing to the agricultural sector as well as the management of state-owned land plots. There are also plans that other elements of the state agricultural support framework will be transferred to the bank.

The key question is if the SLB is an appropriate institution that can facilitate access to finance in this environment. However, a detailed analysis of its structure and assumed functions reveals a number of concerns in different areas such as potential conflicts of interest, transparency and accountability, and competition neutrality, to name just a few. Specifically, the combination of land management and financing functions in one institution seems questionable, and is not supported by best international practices.

A starting point for ensuring improved access to finance for agricultural enterprises would deal with the constraints identified in our analysis, and includes a less restrictive monetary policy, measures to reform the financial sector, and the removal of policy-induced risks in the agricultural sector. Only if these measures do not suffice, and a market failure argument is firmly established, increasing state financial support (subsidies) to selected target groups might be an option. However, policy makers should follow international experience and first clearly state the goals to be achieved, then develop an adequate policy framework to reach these goals, and only in the last step establish a dedicated institution for the implementation.

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INTRODUCTION

For any enterprise in the agricultural sector, be it located in Ukraine or abroad, adequate access to finance at short-, medium and long-term horizons is of critical importance. Agriculture has turned over the years into a very capital-intensive sector worldwide[1], a trend which makes access to external financial resources a key factor for competitiveness.

In Ukraine, the common view is that access to agri-finance is severely impeded, in particular for small- and medium sized farmers and enterprises. This has in turn negative implications for investment, productivity and output growth in the sector, but also on economic growth and welfare. Respective negative implications on rural development and the social dimension are equally important.

How should policy makers react to these challenges? In the current policy discussion in Ukraine, the newly founded State Land Bank (SLB) seems to play an important role as a future (state) provider of finance to underserved farmers, especially small and medium-sized ones. Consequently, the objective of this policy paper is to provide a more detailed assessment of the current plans and the role of the SLB in this respect.

The paper is structured as follows: In the following chapter 1, we will provide some selected empirical evidence on the provision of finance to agricultural enterprises in Ukraine. We will compare Ukraine to a number of international peer countries, describe latest trends and developments, and search for reasons that may explain the developments observed. It will become clear that the problem of access to agri-finance has many dimensions, and is deeply rooted in macroeconomic, financial-sector-specific, and agricultural-sector specific reasons.

Chapter 2 tries to answer the question if the SLB in its currently known structure is an appropriate instrument of economic policy that will improve the access to finance. In order to do so, we briefly sketch its legal background, and discuss its stated objectives. Furthermore, we perform an assessment of its institutional structure, and try to clarify the question if it is in the currently proposed form well-equipped to deal with its stated functions. International best practices in land management and state-sponsored provision of finance to the agricultural sector are very benchmarks in this kind of analysis.

In the final chapter 3 we will deliver some concluding remarks and provide a short overview of alternative mechanisms to facilitate the access to agri-finance in Ukraine.

[1] See for this and chapter 1 also Berlin Economics (2012): "Turning Ukrainian Agriculture into an Engine of Growth, A Strategy for the Development of the Grains and Oilseeds Sector", Policy Paper on behalf of the American Chamber of Commerce (ACC) in Ukraine and the European Business Association (EBA).

1. ACCESS TO AGRI-FINANCE IN UKRAINE: EMPIRICAL EVIDENCE

Adequate access to finance is for agricultural enterprises in Ukraine of crucial importance. Empirical evidence suggests though that this access is often severely constrained, especially for small and medium-sized companies. The underlying reasons why banks are reluctant to issue loans to the sector are manifold: They range from macroeconomic risks, risks in the overall financial sector to risks that are specific to the agricultural sector in Ukraine. The key question is if the newly founded State Land Bank is the appropriate instrument that can facilitate access to finance in this environment.

For agricultural companies operating in Ukraine, the adequate access to external finance is very important for two main reasons:

a) Financing investment in fixed assets (property, plant, and equipment)

Worldwide, agriculture has become a highly capital intensive sector. Despite some recent progress, Ukraine's agricultural sector has not fully followed this trend, which is one reason for its current low productivity. In order to increase productivity, the financing of investments in fixed assets is crucial. As a rule, increasing the capital stock (i.e. investment) cannot be financed solely from enterprises' own resources, and must consequently come from external sources like banks, non-bank financial institutions and through capital markets.

b) Financing of working capital

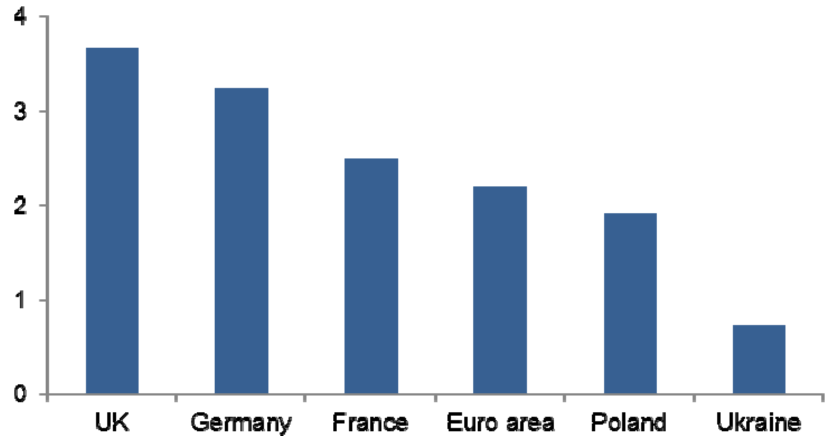
This concerns the purchase of inputs such as seeds, fertilizers and pesticides. The higher the quantity and quality of such inputs the higher the resulting productivity. Working capital and thus financial needs follow a typical seasonal pattern in agriculture.

1.1. International comparison

A natural starting point is to benchmark the comparison of the provision of external finance[2] to Ukraine's agricultural sector with those of other peer countries. In order to do so, we first need a suitable benchmark indicator. In the following analysis, we use an indicator that compares the extent of agricultural external finance to the size of the agricultural sector in each country. Specifically, we compare the relative share of loans to agricultural companies in total corporate loans with the relative share of the agricultural sector in total output.

[2] We will deal in the following analysis only with loans provided by the domestic banking sector. Due to data availability, we do not include funds attracted on domestic and international capital markets (i.e. IPOs, (Euro-)bond issuance) and by non-bank financial institutions.

Figure 1: Agricultural finance in Ukraine compared to other countries



Source: Own estimations based on information by national statistical offices and central banks; latest available figures (2010, for Poland 2009).

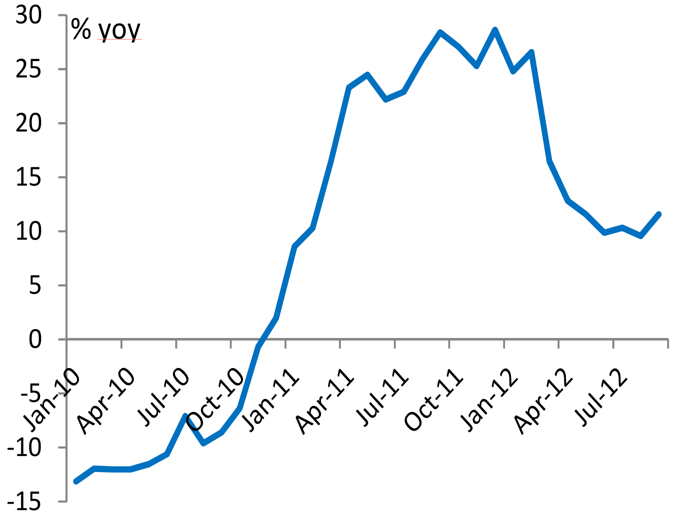
Note: Ratio between loans to agricultural companies in total corporate loans and the relative share of the agricultural sector in total gross value added.

The indicator shown in Figure 1 can be interpreted in a relatively straightforward manner, as an example illustrates: In the UK, bank loans to the agricultural sector have a relative share of 2.4% in the overall loan book of domestic banks. Since the share of agriculture in the overall economy is a tiny 0.6%, the resulting ratio is 3.7. Ukraine, on the other hand, has a higher share of agri-loans in total loans of 5.9%; however, the sector share in the overall economy is even higher at 8.3%. Thus, the corresponding ratio is only 0.7, i.e. significantly lower than one. This implies that agriculture receives a smaller share of corporate loans than it contributes to output (measured in terms of total gross value added) in the country. This is a rather surprising observation; given agriculture's comparative advantage in Ukraine one would expect a rather different development. The results in Figure 1 thus show unanimously that the provision of loans to agriculture is rather low in Ukraine as compared to benchmark countries, a fact which seems to be restraining investment and growth.

1.2. Recent trends in Agri-Finance

Turning from an international comparison to more recent domestic developments in the provision of agri-finance, we see in the following Figure 2 a clear slow-down of credit to agricultural enterprises. While the year 2010 can still be characterized by the aftermath of the global financial crisis, which hit Ukraine particularly hard, the banking sector started to supply significantly more loans to the agri-sector during 2011, at growth rates with reached up to 30% yoy (in nominal terms). However, this development came to a sudden stop during 2012, and growth in new lending decelerated to a level of around 10% yoy currently.

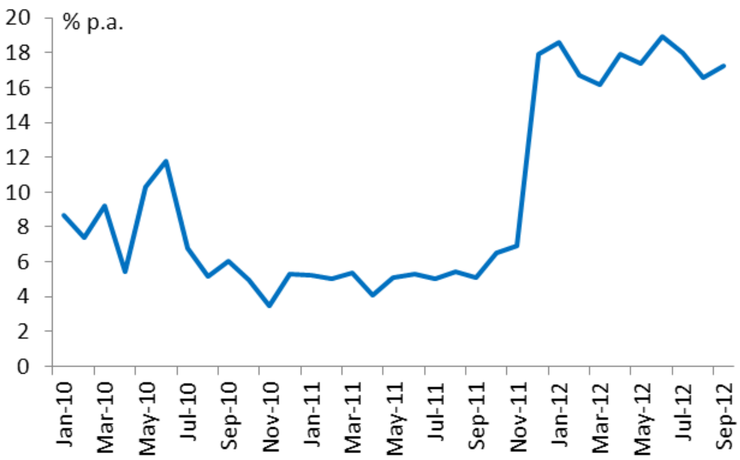
Figure 2: Growth of agri-loans outstanding



Source: NBU

The sudden decline in the pace of new lending to agriculture coincides with the surge in lending rates, as the following Figure 3 clearly demonstrates:

Figure 3: Real interest rates on agri-loans



Source: NBU, own adjustment

The real, i.e. inflation-adjusted lending rate reached at the end of 2011 a level of around 18-20% p.a., which makes new lending prohibitively expensive.

Finally, some recent estimates[3] of the mismatch between supply and demand of agricultural finance (the "agri-finance gap") support the claim of a constrained access to finance in the sector for many, especially smaller enterprises. The agrifinance market gap was estimated for 2010 at **USD 8.7 bn**, which equals the difference between a demand of USD 12 bn and a supply of USD 3.3 bn.

[3] See EFSE Sector Study (2012) "Potential for Agricultural Finance in Ukraine"

1.3. Reasons for constrained access to Agri-Finance

What are the reasons for the situation described in the previous sections? It seems that on average banks seem to consider agricultural lending as rather risky and thus are not ready to provide sufficient loans, despite the fact that demand is clearly high and agricultural enterprise would be eager to borrow much more than they currently do. This in turn makes it necessary to identify the underlying reasons for the constraint access to finance. The riskiness of agricultural lending has to a significant extent not only to do with financial issues in a narrow sense, but with other factors as well. In the following, we thus distinguish between a) macroeconomic risks, b) general risks in the financial sector, and c) problems that are specifically associated with agricultural finance.

a) Macroeconomic risks

Ukraine's macroeconomic environment is currently subject to a number of domestic and external challenges. The current exchange rate policy of fixing the value of the Hryvnia tightly to the US-Dollar has contributed to the negative effects of such shocks. The continuation of this policy under severe depreciation pressures implied an extremely tight stance of monetary policy in order to defend the peg. These tight monetary conditions, which are mirrored in interbank interest rates that can reach 50% p.a. at certain times, have effectively brought bank lending to a halt. The effects of this credit crunch can also be felt in the provision of bank loans to the agri-sector.

b) General risks in the financial sector

The banking and financial sector in Ukraine was hit very strongly during the global financial crisis 2008/09. Still, the situation in the banking sector is rather unstable and fragile, as can be seen from the still high number of non-performing loans (NPLs) in the system. There are still significant problems in the legal and institutional environment (e.g. related to contract enforcement, repossession of collateral) that affect creditor's rights negatively and imply high risks for bank lending.

c) Particular risks to agricultural finance

There are also a number of risks that are associated with the provision of bank loans to agriculture in a more narrow sense. This concerns the following areas, to name just the most important ones:

- Government intervention policy

From the viewpoint of banks, past experience shows that there is a sizeable risk that the government may intervene in the market (e.g. through direct price intervention, export tariffs, export quotas), thus having a very negative impact on the profitability of a company. As a consequence, the company might not be able to realise its business plan and pay back a loan as agreed.

- Lack of creditworthy borrowers

In the agricultural sector, a lack of sustainably profitable companies with a proven track-record of generating positive cash flows can be observed. Such companies would be highly desirable from the bank's side, as they can be considered creditworthy and thus relatively low risk. Of course, the problem of low profitability has many facets, including the already mentioned issue of government intervention in input and output markets.

- Lack of proper accounting and bookkeeping in agricultural enterprises

Lending by banks requires from the side of the enterprises proper bookkeeping, accounting, and the development of professional business plans, as this is crucial information to assess the financial situation of the enterprise. Many agricultural companies are so far not able to cope with these requirements, which results in insufficient information provision and thus a denied access to credit[4].

- Lack of proper understanding of the specifics of the agricultural sector by banks/information asymmetries

Looking at the supply side of finance, an adequate provision of loans requires also loan officers who understand the specifics of agriculture and its many risks and who are able to assess a loan request. A sparse bank branch network in rural areas means that few rural residents use banking services and have credit histories. This increases information asymmetries inherent in creditor-borrower relationships. So far, banks in Ukraine are often not able to cope with this task, even though the situation has already improved over the recent past, as banks have expanded into the sector and correspondingly build-up expertise.

- Lack of collateral

After the discussion above, it is quite easy to understand that agricultural lending in Ukraine is mainly collateral-based. However, land, which is the main potential source of collateral in the sector, cannot be used as because of the existing, recently prolonged land market moratorium. While it is questionable if a lifting of the moratorium would improve the collateral/access- to-finance situation in the short- to medium-term, some positive gradual long-term effects are likely.

[4] See APD PP/04/2012 "Buchführung und Besteuerung von landwirtschaftlichen Betrieben in der Ukraine" (in German) for further analysis and recommendations.

2. THE STATE LAND BANK

According to information from public sources, the new State Land Bank is supposed to fulfil three major strategic goals: To provide cheap financing to small and medium-sized agricultural companies, to manage state-owned land plots, and to support the National Development Programme for the Agricultural Sector. However, a detailed analysis of its structure and assumed functions reveals a number of concerns in different areas such as conflicts of interest, transparency and accountability, and competition neutrality, to name just a few. Specifically, the combination of land management and financing functions within one institution seems questionable, and is not supported by best international practices.

The analysis in the previous chapter concluded that there is indeed a problem of constrained access to finance for many companies in the agricultural sector in Ukraine. This in turn prevents them from adopting modern technologies and hinders an efficient resource allocation. A natural question that arises for policy makers is what can be done to improve this access? Is there a role for the state in improving access to finance? And, more specifically, is the State Land Bank (SLB) an adequate instrument in this respect, as has been repeatedly publicly mentioned?

Since the SLB is a rather new institution, which has not been operational so far, we will first review its legal background briefly, before we move on to describe its main stated objectives and functions. Afterwards, we provide an assessment on how likely the SLB can perform its stated objectives, specifically in terms of providing access to finance. International best practices regarding institutional structures that aim for similar objectives are an important benchmark in this respect.

2.1. Legal Background

Plans to found a State Land Bank have gained significant traction during 2012. Preparatory work on this issue had been done by the National Bank of Ukraine (NBU), the State Agency of Land Resources of Ukraine (SALR) and the Ministry of Agrarian Policy and Food of Ukraine. The initial decision of establishing the SLB was taken by the Cabinet of Ministers of Ukraine (CMU) in its Resolution No. 609 from 02.07.2012. This Resolution defines the SLB as a Public Joint-Stock Company (PJSC), and sets the authorized capital of the SLB at UAH 120 m (120 m ordinary shares with a par value of UAH 1). A second CMU Resolution from 25.07.2012 (No. 934) approved the statute of the SLB. The decision became effective on 19.10.2012.

Parliament was actively involved in the founding of the SLB as well. The "Law on segregating government and municipally-owned land" (Law No. 5245 - VI) was hastily adopted on 06.09.2012 and will become effective 01.01.2013. The law foresees, among other issues, the establishment of the SLB, which cannot be privatised. The law also tasks the CMU of transferring all state land (including the seabed belonging of Ukraine) to the authorized capital of the SLB[5]. Shortly afterwards, the Parliament adopted amendments

[5] See Law No. 5245 – VI.

to the Banking Law regarding the establishment of the SLB (Law No. 5248 – VI). This decision was taken on 18.09.2012 and became effective 13.10.2012. This law[6] specifies, that

- the SLB has the right to deal in land (and property rights to land),
- the National Bank of Ukraine (NBU) will deal with licensing, regulation and supervision of the SLB, and
- the CMU has the right to form the charter capital of the SLB in cash contributions and contributions in the form of land plots.

Finally, a Parliamentary Resolution adopted on 16.10.2012 (№ 5464-VI) appointed the supervisory board members of the SLB. It became effective on 07.11.2012.

2.2. Strategic Goals

As of now, the SLB as a legal entity does not exist, and many details of its operational framework are known from statements of government officials and not from legal documents. According to such sources, the SLB shall achieve a number of strategic goals. Based on the latest available public information, the following tasks are to be conducted by this institution once it becomes fully operational:

1. Financial support to small and medium-sized farmers/producers

Judging from public statements, one of the main tasks of the SLB is the provision of "soft" (i.e. subsidised) loans to small and medium-sized farmers in Ukraine. While further details are spare, in particular on the concrete form of crediting (direct/indirect), officials stated that the bank will provide concessional loans at interest rates of about 8-9% p. a., which are secured by land plots of the debtors, or by the right to lease if the land is rented. Thus, the bank is supposed to fulfil functions similar to those of a state development bank dedicated to the agricultural sector.

2. Management of state-owned land plots

Agricultural land occupies approximately 69% (41.6 m hectares) of the territory of Ukraine (60.4 m hectares). These 41.6 m hectares of farmland are split between private owners (30.8 m hectares) and the state (10.7 m hectares). The latter are scattered throughout the territory of Ukraine[7].

The SLB is tasked to own and manage these state land plots, which involves in practice a number of activities, in part depending on the further status of the recently prolonged land market moratorium. During the existence of the moratorium, the bank's activity is mainly concentrated on gaining profits from the lease of state land plots to private farmers.

With a possible opening of the land market in the future, the bank will aim to consolidate state-owned agricultural land to large contiguous plots in order to improve its value. This also implies the buying and selling of land which is referred to as "creating a dynamic exchange fund of state-owned agricultural

[6] See Arzinger (2012) "Newsletter October" for further information on the legal background.
[7] See for this and the following Berdnikov (2012) „Opening of Land Market and State Land Bank Development", FAO workshop presentation.

land". One major driver is the need to consolidate smaller, fragmented land plots into bigger, more investment-attractive structures that can be managed more effectively. Another factor is the conservation and preservation of the ecosystem. According to official claims, the previous land parcelling destroyed ecological complexes and contributed greatly to the degradation of soils and other ecosystems.

Related to the management of state land plots, further planned activities of the SLB are the implementation of infrastructure investment projects as well as contributing to the food security of the country.

3. Support of the National Programme for the Development of the Agricultural Sector

Apart from performing functions that are characteristic for a state-owned lending institution, the SLB is also supposed to become financially involved in the "National Programme for the Development of the Agricultural Sector". This implies that the bank regularly receives subsidies originating from the budget for the agricultural sector, and channels them further to the companies that are legally entitled to receive them.

2.3. Assessment

While it is obviously not possible to assess the operational performance of the SLB, the publicly stated objectives of this institution already allow us a preliminary judgement. Specifically, we have a number of concerns that relate to the specific institutional structure of the SLB, and wonder if this structure is adequate for reaching the stated objectives. Below, we will deal with each concern in more detail:

1. Potential conflicts of interest due to very different functions?

According to the stated objectives, the Bank is by construction pursuing rather divergent interests. First, it is supposed to work as a normal development bank for the agricultural sector, providing soft loans to farmers against collateral (see #1 in the previous section). Parallel to that, it is heavily involved in land management activities (e.g. land consolidation and portfolio management, infrastructure projects), which require substantial expenditures. On top of that, it is supposed to take over certain sovereign activities like ensuring food security as well as dealing with the provisions of subsidies in the framework of National Development Programmes.

The enumeration of all these –structurally quite different– functions that the SLB is tasked with gives rise to the concern that potential conflicts between these activities are a significant threat to its smooth operation.

2. Is the unique structure of the SLB fully transparent and accountable to the taxpayer?

The proposed bundle of quite different functions mentioned in the last section raises a direct further concern regarding its institutional transparency, and its accountability to the taxpayer. The latter two issues can only be ensured if each single field of activity is completely separated in terms of its budget (revenue/expenditure) and the associated flow of information (i.e. the building-up of "Chinese walls" is required). This seems almost impossible to achieve in practice, since by construction the different activities are supposed to be cross-subsidised and thus depend on each other. Specifically, profits from the land management function are supposed to subsidise the soft loans that the bank is going to issue.

The further involvement into above-mentioned sovereign activities complicates this issue further, since the administration and distribution of these funds would need to be strictly separated from the remaining activities of the bank. The "sovereign activity part" of the bank would thus need to be completely ring-fenced from any potential claims on the bank.

3. Competition neutrality?

Since the SLB can cross-subsidise its loan rates through the fee-based management activities involving state land, it has a competitive advantage, which may be substantial. This raises the additional concern of the existence of a competitively neutral, level playing field with private banks. Thus, the SLB must be careful only to operate in areas where the market fails to provide adequate financing.

Another issue is that, according to plans, the SLB is supposed to become a dominant force on the land market. It's far from certain that in this role the SLB can perform its other tasks in a neutral manner, which may again lead to possible conflicts of interest. In particular, the SLB as land consolidator may benefit from repossessing land pledged as collateral to the SLB in its lending function.

4. Operational risks?

The accumulation of many different tasks and activities discussed above can lead to a high level of bureaucracy and thus a lack of flexibility within the bank. Furthermore, if one particular activity of the bank runs into severe financial difficulties (say, the level of non-performing loans surges rapidly), this has an impact on the land management and other sovereign functions of the Bank. In the worst possible case, the state land that formed the original equity of the bank would turn into insolvency assets.

Even abstracting from such an extreme case, the tight link of the loan subsidies to proceeds generated from state-land management activities (lease and eventually sales revenues) may backfire in cases where such revenues are rather small. This may have adverse implications on the size and conditions of loan programs.

Lastly, little is known about the concrete form of its planned lending actives. In case the bank plans to turn into a full-fledged lender, with an extensive branch network, this has significant implications for the operational structure and the associated costs.

5. Charter capital of SLB made up of (illiquid) land

The standard practice when founding a bank in the form of a PJSC that is foreseen in banking legislation is to make the charter capital contribution in monetary terms. Since it was planned to make this contribution in the case of the SLB in form of land plots, the banking law had to be amended for this particular case.

This procedure raises additional concerns, as there are fully justified reasons for a purely monetary contribution when founding a bank. Banks are special institutions that need to be very liquid, in order to satisfy claims by third parties at any time. Land is by definition a very illiquid asset.

The significant number of specific concerns raised above point to an underlying faulty design of the SLB: The combination of land management and finance (banking) activities in one bank seems to follow a fundamental misconception. Furthermore, the "uniqueness" of the proposed operating model of the SLB in Ukraine becomes even clearer when international experience is taken into account. To the best of our knowledge, we were not able to identify a similar institutional structure operating in the world, which supports our reservations and underlines the fact that the model does not correspond to international best practices.

Of course, this is not to say that public institutions shall not get involved in the activities that the SLB is tasked with. On the contrary, there are fundamental reasons – to varying degrees though- for each one of them. However, and this is the key distinction, there is usually more than one institution that deals with these multiple objectives. And the reasons behind this "one instrument – one goal" structure that is commonly found are precisely rooted in our concerns raised above.

To give an example, also Germany has a number of state institutions that deal with related objectives of public policy, namely state financing of agriculture, the privatisation of state-owned agricultural and forestry land plots, land consolidation in the context of agri-structural measures, etc.. But, and this is the main difference to the current plan in Ukraine, each of these functions is implemented by a different state agency with a narrow focus. Coming back to the focus of this paper, in terms of providing finance, the "Landwirtschaftliche Rentenbank" (Rentenbank) is the main institution, which is solely focussed on lending. More information can be found in the box below.

Box 1: The Rentenbank in Germany

The "Landwirtschaftliche Rentenbank" (English: Rentenbank) is a bank that serves as a development agency for agribusiness in Germany. It is a direct federal institution under public law. The bank fulfils responsibilities according to the "Governing Law of Landwirtschaftliche Rentenbank". It provides refinancing to banks within the European Union involved in financing agriculture, related sectors thereof and rural areas. As a central refinancing institution, lending is principally carried out through other banks, therefore, it has no own network of branches. The bank focuses on granting standard promotional loans as well as special promotional loans at subsidised interest rates for agribusiness and rural areas. Besides this, the Rentenbank realises development measures assigned to it by the federal government and the Länder (federal state) governments (e.g. liquidity support and loan subsidies).

Source: Rentenbank

3. Conclusions and Outlook

Empirical evidence suggests that the lack of access to agri-finance is clearly a problem in Ukraine, especially for small- and medium sized companies as well as individual farmers and households that are responsible for over half of agricultural production in Ukraine. Improved access to finance of such companies would undoubtedly help to develop the sector, increase investments and raise productivity.

Coming back to the starting point of this paper, the question if the new State Land Bank is the right instrument to improve access, we are rather sceptical. This view is based on an analysis of the institutional structure of the SLB and the different functions that it is supposed to perform. A basic mistake with the current concept of the SLB is the confusion of goals, policies, and institutions. We have the impression that policy makers started first with the idea of establishing an institution, then tasked it with multiple (and conflicting) goals, whereas the concrete policy design (including the question of what will happen to existing mechanisms) is still not entirely clear. This approach is doomed to fail. Rather, policy makers should first agree on the goals they are trying to achieve, set afterwards clear policy guidelines on how the goals can be fulfilled, and create subsequently the right institution(s) to implement this. Given this faulty design, which furthermore does not correspond to best international practice, improving access to finance for the agricultural sector seems not very likely as a result.

Consequently, policy makers should better think about alternative policies, mechanisms and instruments to improve access to finance on a sustainable basis. A natural starting point would be a deeper analysis of the different reasons for this constrained access, involving macroeconomic risks, financial sector risks, and agriculture-specific risks. These risks associated with lending to agricultural companies have to go down considerably and thus help to create more creditworthy borrowers that enjoy an improved access to finance. In particular, it is of utmost importance to eliminate the high risks linked to government interference in agricultural markets. Agricultural finance is also affected by overall financial sector trends. In this respect it is important to strengthen creditor's rights, an issue that has gained more prominence in the aftermath of the financial crisis. Strengthening these rights will automatically benefit "good" agricultural borrowers, which will enjoy lower interest rates. Also macroeconomic policies need to be adjusted in a way to allow the banking sector to support the real economy, and there the agricultural sector in particular.

Once policy makers have set the right policies in above-mentioned areas, it would become much clearer if there continues to be a strong case for government involvement, e.g. when private markets fail. If difficulties in obtaining agri-finance remain, the state could think about increasing state financial support (subsidies) in order to support rural areas and agriculture. Access to agri-finance for SMEs could also be improved within the framework of general SME lending support schemes, such as educational efforts and government guarantee schemes.