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Development of recommendations for Ukrainian farming crediting based on the experience of other countries

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Abstract. The study aimed to address the farmers financing practices in Poland, France, Germany and Romania and to develop recommendations for reducing credit constraints in Ukrainian agriculture. Providing farms with financial resources is one of the most critical tasks for maintaining national resilience and stability in difficult times of military resistance. The study analysed statistical and economic indicators, the structure of farms and land use, financial instruments, features of financial

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institutions, practices and experience in lending in Poland, France, Germany, Romania and Ukraine. The impact of gross fixed capital formation on the volume of farm sales in comparable countries was addressed. The main reasons for the shortage of financing for medium, small, and micro-enterprises in the agro-industrial sector and numerous households that run private farms without establishing a legal entity were identified. The study noted that the main consequences of limited access to credit are low efficiency of land use, a decrease in gross domestic product and a deterioration in the viability of farms. The study analysed the impact of the state programme "Affordable Loans 5-7-9%" and other programmes to support medium, small and micro enterprises created with the help of international partners on the financial support of agricultural businesses. In recent years, these new financial instruments have significantly increased access to loans for farmers. The study addressed proposals of economic scientists of these countries on the elimination of credit restrictions in the activity of small agricultural producers. The analysis highlights the problems of farmers' lending that are common to all countries, as well as the many years of experience that have gradually resolved these issues. Recommendations on the implementation of the necessary measures for the timely receipt of affordable credit resources by small rural enterprises and family farms in Ukraine have been developed

Keywords: agricultural support; investment; limited resources; agricultural sector; small and micro enterprises; financial instruments

INTRODUCTION

As of 2020, agricultural land occupied 68.5% of the total land area of Ukraine (State Service of Ukraine for Geodesy, Cartography and Cadastre, 2020). The share of agriculture, forestry and fishery production in the country's total sales over the same period was 6.3% (State Statistics Service of Ukraine, 2022). For comparison: Poland's agricultural sector accounts for 16% of industrial output, while cultivated land accounts for 41.2% of the national total area (European Investment Bank, 2020). The state of the industry directly depends on the funds invested in its development. While large and medium-sized enterprises can still manage to get timely lending, small and micro enterprises are on the verge of survival. First and foremost, this is reflected in a decline in agricultural production and its competitiveness.

The problem of the shortage of credit resources in the agricultural sector has been repeatedly addressed in recent years in scientific economic studies by domestic scholars. S.V. Andros and V.H. Gerasymchuk (2023) formulated several strategic measures aimed at eliminating restrictions on obtaining loans. Y.O. Platonova (2024) and D.B. Klimenko (2018) addressed the positive impact on the financing of the agricultural sector through the introduction of new agricultural protection mechanisms (state subsidies, repayable financial assistance, special budgetary subsidies, lending under the general state programme "Affordable Loans 5-7-9%").

D. Artemenko (2020) highlighted a direct correlation between agricultural production and credit provision to the agricultural sector and highlighted the main problems of attracting credit resources. Yu.O. Lupenko and S.V. Andros (2019) also addressed the financial and agricultural expertise of borrowers, and the quality and reliability of documents and data provided to credit institutions. The paper notes that out of the total number of applications for long-term loans, banks approve

2% of them and 50% of short-term loans. N. Trusova *et al.* (2021) conducted a thorough analysis of the range of banking products and lending terms offered recently by credit institutions working with agribusinesses in Ukraine. The study noted that although banks have become more interested in cooperating with farmers than a few years ago, they still maintain strict requirements for financial reporting, stable positive performance over several years and a clean credit history. Farms are usually unable to meet these requirements.

S. Arzhevitin *et al.* (2021) proposed the global practice approach of lending to farmers, namely a different form of loan relations. It should account for preferential terms and careful accounting of the use of earmarked resources. The study addressed mainly lending to large enterprises, but it also points out the need to create credit unions in rural areas to meet the financial needs of small farmers. Although the topic of agricultural lending has been widely covered, research in recent years has mainly focused on large and medium-sized agricultural producers. Farmers face much greater difficulties in obtaining loans. Many of them are unable to provide banking institutions with the proper package of documents to obtain a loan for current needs, let alone for investment. On the other hand, banks perceive farms as risky (seasonality, high dependence on climatic conditions, long production cycles) and too costly (a large number of small borrowers with insignificant lending volumes) (Foltovych & Blashchuk-Devyatkina, 2024). In addition, a significant proportion of farms do not have legal entity status at all, do not keep records and do not prepare financial statements. The shortage of credit resources is becoming an insurmountable obstacle to the development of modern farming, the use of efficient land cultivation mechanisms, and the generation of decent profits. The products produced on farms

cannot compete with agricultural holdings in terms of cost and sometimes even quality.

Farming in Ukraine is a fairly young form of business. Most countries in the world have centuries of experience and achievements in this area. A.R. Khanal and O. Omobitan (2020) highlighted the path that US lawmakers took in addressing farm credit and concluded that improvements in agricultural lending practices at US rural institutions have led to improved access to credit and financial performance of small farms. The topic of financial innovations in Polish agriculture, which is relevant to Ukraine, was studied by M. Soliwoda (2020). The author identified the problems and prospects for the development of financial innovations in agriculture and analysed the typology and examples of foreign and Polish credit institutions working with farmers, their methods and efficiency. The author also noted that the rationale for implementing financial innovations in agriculture by non-governmental is different in developed and developing countries.

The study addressed issues related to solving the problems of Ukrainian farms with a shortage of credit resources based on the experience of Poland, France, Germany and Romania, such as the availability of the necessary financial instruments, guarantee provision, the cost of banking products, a complex mechanism for obtaining them, the low interest of credit institutions in working with small farms, etc.

MATERIALS AND METHODS

The study analyses statistical indicators that reflect the structure of land use, the number of agricultural enterprises, and the average size of farms in Poland, France, Germany, Romania and Ukraine and characterise the subject of the study – the farm. The latest Statistical collection “Agriculture of Ukraine” (State Statistics Service of Ukraine, 2021a) on the official website of the State Statistics Service was published in 2021 with data for 2020. There is no publicly available data for 2022-2023, which is necessary for the calculations. Given this, the calculation tables were based on statistical data from Poland, France, Germany, and Romania compared to Ukraine for 2020.

There is a significant difference between the concept of “farming” in Ukraine and the European Union. Hence, according to the Law of Ukraine No. 973-IV

(2003), the term “farm” can only be used for small, micro-enterprises and family farms that consist of only family members and do not employ workers permanently. Unlike Ukraine, the above-mentioned EU countries use the EU Regulation, according to which all enterprises in the agro-industrial sector are considered farms (Sarkisova, 2024). Thus, to obtain comparable data from the EU and Ukraine, the study uses the EU terminology for the concepts of “farmer” and “farm”.

The study analyses the state of farm lending in Poland, France, Germany and Romania, their similarities and differences in comparison with Ukraine with the help of

- calculating the dependence of agricultural sales on the level of gross fixed capital formation per hectare of land used;
- review of the state of investment lending and the role played by investments in the development of the national agricultural sector, as well as the main areas of investment;
- structures of financial institutions that provide lending services to agricultural producers and financial instruments to support farms;
- the percentage of rejected loan applications, the main reasons for loan rejections.

The current state programmes to support farms and their conditions were studied, namely the Law of Ukraine No. 973-IV (2003), Law of Ukraine No. 1877-IV (2004), Law of Ukraine No. 3254-IX (2023), Law of Ukraine No. 4618-VI (2012), Resolution of the Cabinet of Ministers of Ukraine No. 106-2018-p (2018) and Resolution of the Cabinet of Ministers of Ukraine No. 28-2020-p (2020). Programmes and practices on affordable lending to farmers, and recommendations of Western scientists to improve access to finance for farmers were also considered, namely reports to the European Investment Bank (2020), Romania (Dobre, 2020), European Commission (2023), European Union scientific publications (2023), N. Key (2020), U. Kambali and N. Panakaje (2022), etc.

RESULTS AND DISCUSSION

Land use and structure of farms. Table 1 shows statistical and economic indicators characterising the amount of land resources, the number of farms, and their average size in hectares.

Table 1. Agricultural land and the average size of farmland

Indicators	Poland	France	Germany	Romania	Ukraine
Agricultural land, thousand ha	14.733	28.573	16.592	12.951	41.310
Share of the national total area, %	47	53	47	48	68
Number of farms, thousand units	1.301	393	262	2.887	49
Average farm size, ha	11	73	63	4	835

Source: developed by the authors based on European Commission (2023), State Statistics Service of Ukraine (2021a, 2021b)

Poland's agricultural land is divided into arable land (76%), pastures (22%) and perennial crops (2%). The main agricultural activities in Poland are the production of animal products (52.7%), cereals (19.1%), vegetables and horticultural crops (9%), and industrial crops (8.2%) (European Commission, 2023). The average size of a farm is 11 hectares. The structure of Polish agricultural enterprises is dominated by small farms. More than half of the farms cover an area of less than 5 hectares. Over the past decade, there has been a decrease in the total number of farms, in particular farms under 10 hectares, and an increase in the number of farms over 20 hectares (Badach *et al.*, 2023). Agriholdings account for 3% of the number of enterprises, and their size is growing annually due to the expansion and acquisition of small and medium-sized farms (European Investment Bank, 2020).

France is the largest agricultural producer in the EU, accounting for 18% of agricultural production (European Investment Bank, 2020). France is one of the first countries to develop an agroecology policy and translate it into specific programmes and laws (Wezel & David, 2020). Agricultural land by land use category is divided into arable land (60%), pasture (37%) and perennial crops (4%) (European Commission, 2023). Wine-making (14.3%) and cereals (15.1%) are the dominant sub-sectors in crop production, while animal production accounted for 37.5% in 2020 (European Commission, 2023). The average size of a farm is 73 hectares. Almost half of French farms have 20-100 hectares of land and are classified as medium-sized family farms (European Investment Bank, 2020). The organisational and legal form of agricultural enterprises is gradually changing towards more cooperative farms. This trend is driven by more efficient management of resources, production systems, marketing methods, etc. (Smedescu *et al.*, 2023).

By land use category, Germany's agricultural land is divided into arable land (70%), pasture (29%) and perennial crops (1%) (European Commission, 2023). Livestock and meat production are the mainstays of farming. Dairy production (21.1%) and pig production (12.6%) are the sub-sectors that contribute the most to total agricultural production. They are followed by vegetables and horticultural crops (12.2%), cereals (11.9%), industrial (9.1%) and fodder plants (7.9%) as the most important crops. The average farm size in Germany is 63 hectares. Farms are becoming increasingly specialised in production: 47% of them are engaged in livestock production, 30% in crop production, and only 13% in mixed agriculture (European Investment Bank, 2020). The structure of agricultural enterprises is still characterised by a large number of small to medium-sized family farms. However, in recent years there has been a shift towards large farms. Many small farms are unable to compete with medium and large farms because they do not produce enough for the needs of large retail

chains, lack economies of scale, and cannot cope with high price fluctuations (Heinrichs *et al.*, 2021).

With about 13 million hectares of agricultural land, 66% of Romanian arable crops are allocated to arable crops. In 2020, crop production accounted for the largest share of the national output (75%), with the most important sub-sectors: cereals (25.5%), vegetables and horticultural crops (20.9%), and industrial crops (9.8%) (World Bank, 2020). Agricultural production is characterised by a highly polarised farm structure, with large agricultural holdings favoured. Starting in 1997, foreign investors were allowed to buy land mainly because local farmers did not have access to capital. In addition, unlike its neighbours Poland and Bulgaria, Romania has not yet established a viable, commercially oriented medium-sized farming sector (Andreica, 2022). The average size of a farm in the country is 4 hectares. Around 75% of farms own land plots of less than 2 hectares and only 0.5% of enterprises manage agricultural land of more than 100 hectares. Over the past 5 years, Romania has seen a trend towards the creation of agricultural cooperatives.

Ukraine has excellent opportunities for agriculture, including about a third of the world's most fertile land, 79% of which was devoted to arable crops in 2020. Three crops dominate agricultural production: wheat, corn and sunflower, mainly for export. By 2021, agriculture will account for 41% of Ukrainian exports, up from 27% in 2013. Cereals (56%) and industrial crops (32.3%) account for the bulk of agricultural production (European Commission, 2023). Since the start of full-scale Russian aggression, Ukraine has lost millions of hectares of agricultural land. The area from which arable crops were harvested in 2023 decreased by 21.2% compared to 2021 (State Statistics Service of Ukraine, 2022). The average size of a farm in the country in 2020 was 835 hectares. This figure, which is dozens or even hundreds of times higher than in the European Union, is a direct result of Soviet collectivisation and the agricultural policies adopted after Ukraine gained independence in 1991. The key players in Ukrainian agriculture in 2020 were 8,600 medium-sized farms with an area of 200 to 2,000 hectares, producing more than 50% of grain and industrial crops. The structure of the country's very large agricultural enterprises included 22 agriholdings with leased land of over 50,000 hectares, and 10 of them cultivated over 100,000 hectares. Kernel, with about 500,000 hectares of leased land, is the largest land user in Ukraine (Román, 2024).

The calculation of the average size of an agricultural enterprise does not include data on individual peasant farms. They are covered separately in state statistical reports because they are not legal entities. In total, as of January 2021, there were 4 million private peasant farms owning 5.3 million hectares of land. Most of them are responsible for the majority of Ukraine's fruit and vegetable production, which is

almost entirely destined for domestic consumption (State Statistics Service of Ukraine, 2024). In addition, they compete in markets with large livestock producers. The average size of a private farm in 2020 was 1.4 hectares. K. Prib *et al.* (2021) noted the need to equate private peasant farms with business entities, which would allow them to access investment and credit programmes, but the direction taken by state legislation seems more appropriate. Recent amendments to the Law of Ukraine No. 973-IV (2003) should facilitate the gradual and voluntary re-registration of individual peasant farms into family farms. This is one of the moves towards European standards of operation in the agricultural market. In addition, the status

of a family farm provides access to state support and the possibility to legally receive pensions and social guarantees.

The state of lending to agricultural enterprises. The decisions made by different countries around the world regarding the availability of loans and support for agricultural producers indicate that this topic is of equal importance to all countries. The main goal (increasing productivity, achieving socio-economic stability, food and environmental safety) is achieved through various financial and legal instruments. The data shown in Figure 1 confirm that the state of the agricultural sector directly depends on the amount of funds invested in its development.

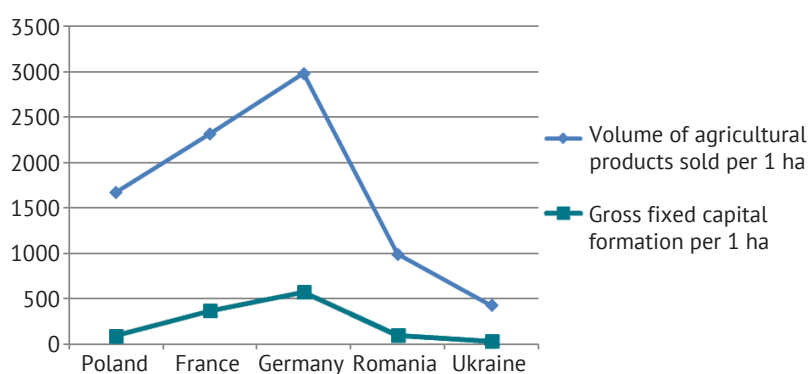


Figure 1. Dependence of agricultural sales on the level of gross fixed capital formation per 1 hectare of land in use in 2020, EUR

Source: developed by the authors based on European Commission (2023)

Investment in Poland's agricultural sector is growing annually, but the overall level is still low. In 2020, gross fixed capital formation per hectare of agricultural land amounted to €93, while in France and Germany, it was €369 and €575 per hectare respectively. The European Union Common Agricultural Policy (CAP) is an important incentive for investment in the Polish agricultural sector. Integration with the EU has resulted in an influx of modern machinery and investments in buildings, which has increased production and improved conditions for animals and land investments (Bórawski *et al.*, 2020). In terms of disbursements, Poland is the fifth largest recipient of CAP aid in the EU. Direct payments help to stabilise cash flows and thus make it easier for farmers to access finance. In addition, to increase the viability and competitiveness of farms, the Polish government has introduced several measures under the Rural Development Programme. To receive funding from these measures, farmers need to supplement the grant with their resources, which in many cases comes from bank loans. Subsidised loans account for more than a third of the loan portfolio granted to agricultural enterprises.

More than half of the loans are provided by cooperative banks. Since 2019, problems with the collateral

of agricultural enterprises have been partially resolved with the help of the European Agricultural Fund for Rural Development (EAFRD). The shortage of credit resources mainly affects small farms and long-term loans. According to surveys, rejected loan applications from agricultural enterprises account for 10% (European Investment Bank, 2020). Reasons for rejections include lack of collateral; insufficient information on the financial condition of the enterprise; inability to present a business plan due to lack of management knowledge and low financial literacy. The large share of rejected loan applications indicates that banks perceive the agricultural sector as risky and tend to apply less favourable pricing policies. One of the main elements limiting banks' interest in lending to small farms is the higher transaction costs associated with the evaluation of small loans, which leads to lower profitability for the lending institution.

The demand for agricultural finance in France is driven by farm expansion, diversification of income into non-agricultural activities (electricity generation, eco-tourism, etc.), modernisation (more efficient equipment, changes in production processes, energy-efficient buildings, etc.), and improved regulatory requirements

(compliance with organic or local production standards, animal welfare standards), digital information (smart equipment, drones, sensor technologies), adaptation to climate change (irrigation, water reservoirs, winter cover of land, etc.). As in all EU countries, French farmers benefit from financial and investment support from the CAP and the EAFRD guarantee fund. Demand for loans in the agricultural sector is highly concentrated, with most of it coming from large enterprises (over 100 hectares). In total, 15% of farms account for 65% of total loans. Surveys show that 75% of bank loans are used for investment and 25% for working capital (European Investment Bank, 2020). Most of the working capital is also provided by suppliers of raw materials.

Financing for the French agricultural sector is highly concentrated. Four co-operative banks account for 97% of the credit market: Crédit Agricole 68%; Crédit Mutuel 16%; Banque Populaire-Caisses d'Épargne (BPCE) 9%; Crédit Mutuel Arkéa 4% (European Investment Bank, 2020). Due to the decline in the national interest rate and intense competition among banks, interest rates on medium- and long-term loans are low. The rejection rate of loan applications from farms ranges from 1% to 3%, depending on the financial condition of the enterprise. Main reasons for rejections: low return on investment, especially under the new rules (animal welfare, organic production); low farm income; reducing the possibility of personal bail; lack of financial history (applies to newly established farms).

The main areas of investment in the German agricultural sector are the expansion and specialisation of farms, modern production technologies that meet the trend towards more capital-intensive farming, meeting the requirements of EU agricultural production standards, investment in non-agricultural activities as a guarantee of financial stability of farms, and adaptation to climate change. A substantial driver of invest-

ment in Germany is the support provided to farmers by the Common Agricultural Policy (CAP) programme. At the national level, Rentenbank offers a special concessional loan for agribusinesses, while the largest state-owned lender, Kreditanstalt für Wiederaufbau, provides several financial instruments to support small farms. In addition, at the federal level, farms can apply to state financial institutions (development agencies, guarantee banks, equity funds, etc.).

Agricultural lending in Germany is predominantly the domain of cooperative banks. They are followed by savings banks, and only a few commercial banks consider the agricultural sector a priority. The rejection rate for loan applications in 2020 was 10-12% (European Investment Bank, 2020). The rejections were mostly for small and medium-sized farms. Most difficulties in accessing finance are related to long-term loans. The main reasons for refusing to lend to farmers are lack of collateral; low profit margins; and poor credit history. Banks are also cautious about lending to higher-risk projects, such as start-ups or projects focused on innovative products.

Romania is a net supplier of unprocessed agricultural products to the EU. Grains and oilseeds account for the lion's share of total exports. Due to low productivity, underinvestment, and low capitalisation, demand for agricultural finance is limited. One of the major factors limiting access to credit for small farms is the small area under cultivation (Topor *et al.*, 2023). Also, many farmers lack the financial literacy to approach investments from a commercial perspective. The main influence on agricultural development policy is the EU's Common Agricultural Policy. Although it contains various instruments, the most common in Romania are subsidies and grants, while loans and guarantees are promoted to a limited extent. Lending by financial institutions to Romanian farms depends on the size of the farm (Table 2).

Table 2. Structure of farm lending in Romania

Financial institution	Farm size	Lending objectives
Banks	More than 1,000 ha	Investments, working capital replenishment
Leasing companies	From 40 ha	Agricultural equipment
Non-bank financial institutions	40-1,000 ha	Working capital replenishment
EU subsidies	Mostly large farms	Working capital replenishment
Supply chain financing	Small farms	Working capital replenishment
Microfinance institutions	Small farms and individuals	Working capital replenishment

Source: developed by the authors based on D. Harangus (2019)

In Romania, bank lending is focused on large and medium-sized agricultural enterprises. Clients are typically farmers with loan sizes above €50,000, supported by EU grants and government guarantees. Banks provide loans for grain, oilseeds and livestock production, while

financing for fruit and vegetable production is limited. Small farms are perceived as uncollectible and costly to service due to their fragmentation. About 75% of loans are for long-term investment (machinery, equipment, land, etc.). The remainder is used for working

capital and interim subsidy financing, as farmers receive subsidies with a delay (Harangus, 2019).

Non-bank financial institutions have several advantages over banks in agricultural financing in Romania. These include leasing companies that provide financing for agricultural equipment, as well as other agribusiness financing institutions that provide loans for working capital. These non-bank financial institutions cover the lending sector for small (40-100 hectares) and medium-sized (100-1,000 hectares) farms that are registered as legal entities. They are linked to agribusiness and have direct information and contacts with customers, as they are present in rural areas. The most important non-bank financial institution in Romania is Agricover Credit. Supply chain finance is an important source of non-bank credit for small farms. Typically, the loan, which farmers repay after harvest, is provided in kind in the form of inputs.

Direct subsidies from the European Union are received by large farms and only a small share of small farms. Funds are distributed by the Agency for Payments and Interventions for Agriculture under the Ministry of Agriculture and Food of Romania (World Bank, 2020). There is no specific legislation on lending to small businesses or individuals in the agricultural sector. Many farmers work informally and face problems in providing documented income statements and tax returns, which leads to their exclusion from the financial system. These farmers usually turn to microfinance institutions. According to the analysis of the dependence of agricultural sales on the level of gross fixed capital formation per hectare, in 2020, Ukraine ranked the lowest in terms of gross fixed capital formation per hectare of agricultural land (35 EUR), even compared to Poland (93 EUR) and Romania (98 EUR). This indicator is a direct consequence of the lack of funding for Ukrainian farmers, which leads to losses in productivity. A model connecting access to credit to farm productivity was presented by A.R. Khanal and O. Omobitan (2020), which is fully consistent with this conclusion.

Notably, the volume of products sold per hectare depends on several factors, among which the structure of products sold is a significant one. The fact that Ukraine, similarly to Romania, is a net supplier of unprocessed agricultural products to various countries around the world also plays a major role. In recent years, the situation with lending to farmers has gradually started to improve. The structure of targeted financing of the agricultural sector by banking institutions is changing. While in 2022, working capital financing accounted for 80% of all agricultural lending programmes, in 2023, most loans received were for investment projects. Since 2021, despite the withdrawal of a significant amount of arable land from Ukraine's turnover as a result of full-scale hostilities, the volume of lending to farms has increased by 33%, and by another 44% in the following year (Fig. 2).

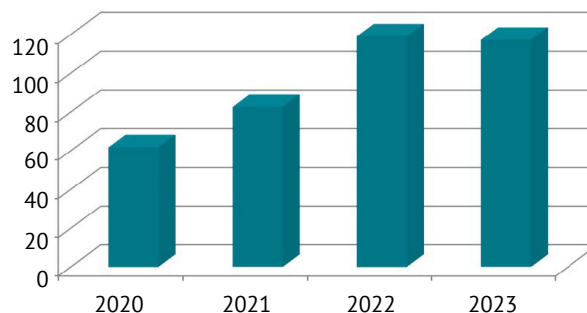


Figure 2. Dynamics of lending to farmers in 2020-2023, billion UAH

Source: developed by the authors based on *Lending to farmers almost doubled in 2022. Which banks in Ukraine support farmers? (2023)*

Until 2023, Raiffeisen Bank was the leader in financing farmers, but in 2024, state-owned banks took the key positions in the agricultural lending market: Privatbank, Oschadbank, Ukreximbank, and Sensbank. The top ten also include large commercial banks: Raiffeisen Bank, FUIB, Credit Agricole, and OTP Bank (Financing of the agricultural..., 2024). The shift in agricultural lending towards state-owned banks is explained by the expansion of state support for lending to small and medium-sized farms in Ukraine, as well as funding under joint programmes with international partners:

- The European Bank for Reconstruction and Development;
- The European Investment Bank;
- The International Bank for Reconstruction and Development;
- European Investment Fund;
- The European Union;
- The World Bank and other donors.

Most initiatives from international partners can be combined with the Affordable Loans 5-7-9% Programme and other farm support programmes. Currently, several financial products are offered, aimed at small and medium-sized agribusinesses, as a basis for the development of the agricultural sector of the economy. The "5-7-9%" support programme. As of December 2023, loans at preferential rates under the 5-7-9% programme accounted for about 40% of the loan portfolio of Ukrainian banks, with Privatbank leading the way (Entrepreneurship Development Fund, n.d.) (Fig. 3). In the face of extreme turbulence and business disruption since the start of the full-scale war, the programme has become the basis for economic stabilisation, providing timely financing for agricultural enterprises, supporting exports and increasing the chances of survival for numerous small and medium-sized farms. The government programme to support small business development, Affordable Loans 5-7-9%, was launched in Ukraine in 2000 and immediately became a point of contact between banks and farmers. The purpose of the loans is to purchase and

repair premises, purchase or upgrade fixed assets, acquire intellectual property rights, and refinance existing debt. Loan terms and conditions in force in 2024: for borrowers conducting business activities in the

area of high military risk – 1%, up to 150 million UAH; for small and micro enterprises – 7%, up to 90 million UAH; for medium-sized enterprises – 9%, up to 90 million UAH; for all others – 13%, up to 90 million UAH.

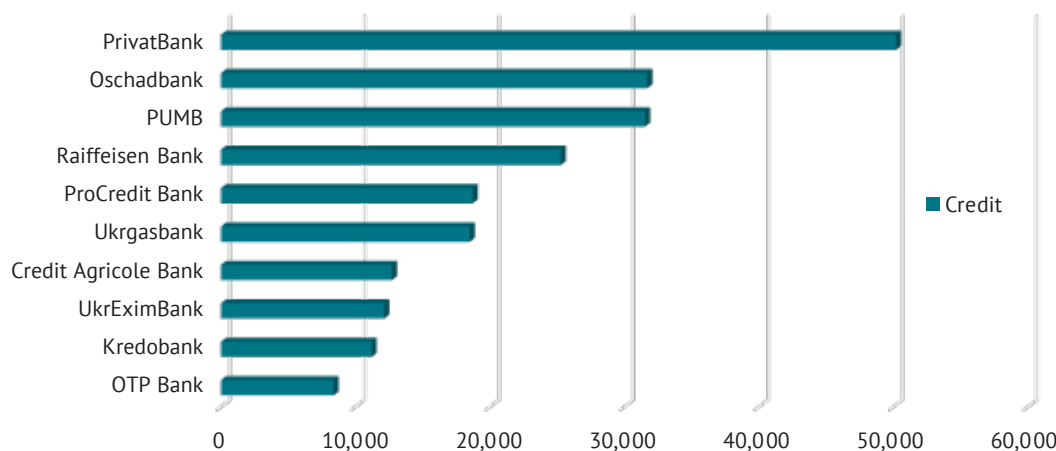


Figure 3. Top 10 banks that lent to farms under the support programme "Affordable Loans 5-7-9%" in 2023

Source: developed by the authors based on the Ministry of Finance of Ukraine (2023)

In addition, the 7% or 9% rates can be reduced by creating new jobs. The rate is reduced by 0.5% per annum for each new employee, but in the end cannot be less than 5% (Resolution of the Cabinet of Ministers..., 2020). During the programme's existence (2020-2023), agricultural enterprises received 49% of all soft loans under the programme. The national policy of supporting agriculture contributed to the growth of this share in 2023 to 68% of all active hryvnia loans in this sector of the economy, and agricultural producers who used such loans generated about a third of the total income of the sector (Ministry of Finance of Ukraine, 2023). The important role of the "Affordable Loans 5-7-9%" programme in reviving business activity and ensuring the country's economic security was also noted by I. Chugunov *et al.* (2024).

Financial leasing is available at 5-7-9%. Interest rate for leasing agricultural machinery and equipment with a 5-year term: 11% for large and medium-sized enterprises; and 9% for small and micro enterprises. It can be combined with partnership programmes from John Deere, CLAAS and other well-known agricultural machinery manufacturers at 0.01% per annum. The lease term is up to 5 years with an adapted repayment schedule. Partner lending from 0.01%. Loans of up to 6 million UAH for the purchase of seeds, pesticides, agrochemicals and mineral fertilisers from producers on special terms from banks at 0.01% per annum.

Commodity financing. Before the start of the full-scale Russian aggression, commodity financing was as good as bank lending, and even better during the sowing season. However, after the war broke out, major suppliers suspended instalment programmes for distributors and farmers (Malik *et al.*, 2023). The US

project USAID AGRO (United States Agency for International Development, n.d.), which aims to accelerate the economic development of rural communities and micro, small and medium-sized agricultural enterprises, helped to restart commodity finance with grant support in 2023. ADAMA, Ukravit, Agro Arena, ALFA Smart Agro, LNZ, Agrosem, Ukragrokom, Plant Agro, and other suppliers of the necessary inputs for sowing have introduced commodity financing, including in combination with barter instruments for grain purchase.

Loan with a cashback of up to 15% of the amount from the European Bank for Reconstruction and Development. The loan can be used for agricultural and construction equipment, vehicles, and renewable energy. This loan programme is aimed at small and medium-sized enterprises with up to 250 employees and an annual turnover of up to 50 million EUR. Agents of the programme are Ukrgasbank, Kredobank and OTP Leasing. Terms of financing: interest rate from 7% per annum; currency – hryvnia or euro; the possibility of financing without collateral (with a state guarantee); cashback up to 15% of the financing amount; term – up to 5 years; amount – up to 3 million EUR (in equivalent).

Lending for the purchase of land. OTP Bank offers a loan at a rate of 12% in UAH for up to 10 years for the amount of 1-30 million UAH. The usual requirements for borrowers include a land bank of 400 hectares or more. Loan guarantee fund for farmers. On 1 January 2024, the Agricultural Loan Guarantee Fund, launched by the European Union and the World Bank Group together with the Government of Ukraine, became operational. The Fund covers up to 50% of liabilities on investment and working capital loans to borrowers – small and medium-sized farms that own or use an area

of up to 500 hectares. In addition, the mission of the Partial Guarantee Fund for Agricultural Loans is also to encourage Ukrainian banks to diversify their portfolios to agriculture. The Fund has sufficient capitalisation due to a 10 million EUR grant from the European Union under the “Strengthening the Partial Credit Guarantee Fund for Small Farmers in Ukraine Project” (World Bank, 2023b) and “Accelerating Private Investment in Agriculture Programme: Environmental and Social Systems Assessment” (World Bank, 2023a). The Loan Guarantee Fund will make it easier for small and medium-sized agribusinesses to access bank loans and minimise the risks of possible non-repayment to banks:

- guaranteeing the credit risks of banks. The World Bank, together with the European Bank for Reconstruction and Development, has launched portfolio guarantee instruments, which allow Ukrainian banks to share their credit risks 50/50, thereby providing financing to small and medium-sized businesses with more confidence;

- a loan against agricultural receipts. For agricultural producers engaged in the cultivation of grain and industrial crops with a land bank of more than 200 hectares, banks have simplified the process of attracting additional financing and introduced the option of financial agricultural receipts as collateral. This type of collateral can be combined with the “Affordable Loans 5-7-9%” programme.

Financial support from the Ukrainian State Farm Support Fund is provided on a repayable basis and a competitive basis in the amount not exceeding 1 million UAH: to newly established farms with separate farmsteads for a period of 3 to 5 years for the production, processing and marketing of their products; to other farms for up to 5 years to purchase machinery, and equipment, renew working capital, plant perennial crops, and develop credit and service cooperation; family farms without obtaining the status of a legal entity to purchase agricultural land of up to 20 hectares for up to 10 years (State Service of Ukraine for Geodesy, Cartography and Cadastre, 2020).

Grants are provided by the Ministry of Economic Development and Trade (Resolution of the Cabinet of Ministers..., 2022) through Oschadbank for planting and arranging a new garden, berry or vineyard with an area of 1 to 25 hectares, and for the construction of greenhouses with an area of 0.4 to 2.4 hectares. At the same time, in 2022, more than 3,000 farms received financial assistance from the State Agrarian Register, which has been distributing various types of support to farmers from the Ukrainian budget and grants from international partners since August 2022. The amount of assistance provided for growing crops is 3,100 UAH per hectare. It is available to farms with at least 1 hectare and no more than 120 hectares of land, and the amount of assistance is limited to 372,000 UAH. The budget subsidy for cow breeding of 5,300 UAH per head

is paid for cattle from 3 to 100 heads, and the amount of assistance is limited to 530,000 UAH (More than 3,000..., 2023).

Local regional and city administrations are also beginning to allocate funds to support small and medium-sized farms (Lych & Korsun, 2023). For instance, the Kyiv Regional State Administration additionally reimburses interest on loans under the Affordable Loans 5-7-9% programme for investment purposes up to 0% per annum, and the Dnipro City State Administration reimburses it by 25%. Despite the twenty years of experience of Law of Ukraine No. 3254-IX (2023), this practice has not been developed in Ukraine, unlike in France and Poland. On the contrary, the number of credit unions more than halved between 2017 and 2023 (from 378 to 151). The new version of Law of Ukraine No. 3254-IX (2023) provides for: expanding membership in credit unions, including farms, microenterprises, cooperatives, trade unions, etc; expanding services, including the ability to transfer funds and pay supplier bills without going to the bank; introducing early intervention measures in cases of critical problems with credit union loyalty.

Discussing the potential for the development of credit unions in the agricultural sector of Ukraine with L. Kostyrko and T. Solomatina (2020), the authors of the study, despite several advantages of credit unions financing small farms (representation in rural areas, the ability to lend small amounts, etc.), do not believe that this financial institution will be widespread among farmers due to too high interest rates and distrust of the credit union institution on the part of farmers. Micro-, small and medium-sized agricultural enterprises up to 200 hectares, family farms and individuals running private farms, as in Romania, usually turn to financial, leasing and factoring companies, whose products cost up to 40% per annum. Financial companies such as Activitis, Nadezhda Ukrainy, ESKA Capital, Enira and others operate in this market.

Recently, free online platforms to facilitate lending to farmers have appeared in the financial services market. They allow agricultural producers to quickly make the best choice of lending, submit an online application for financing or a grant, and receive a bank decision. Such platforms include AgroApp, AgriAnalytics, and Uteka. Other digital banking tools include the Oschad-business platform, where an agricultural producer can receive a loan in a fully digital format. As can be noted, the financial services market offers a wide range of preferential offers aimed directly at supporting small and medium-sized farms. Nevertheless, according to a survey conducted on the Kurkul.com website, the rejection rate of loan applications is about 40%, 15% of farmers received a loan, and 45% did not apply to banks (Makovey, 2022). According to the Ukrainian Bureau of Credit Histories (n.d.), the most common reasons for loan rejection are absent or insufficiently informative

credit history; low income or large financial liabilities; damaged credit history; errors and inaccuracies in filling out the application form; and unreliability.

Recommendations for solving lending problems for farmers. The European Investment Bank (2020c) report formulated the following recommendations: continuity of the EAFRD guarantee instrument; introducing a special mechanism for microcredit in the form of a guarantee or a credit risk-sharing fund; the possibility of combining a financial instrument with grants; establishment of a pilot credit risk-sharing fund to address banks' problems with loan repayments and their perception of the high risks of lending to the agricultural sector; providing technical support to farmers in the form of financial training and advisory services in the process of preparing loan applications.

The European Investment Bank (2020) report highlighted the following areas of work to strengthen support for farmers, namely the creation of a special instrument in the form of a guarantee or a risk-sharing loan fund with a strong focus on start-ups and small and medium-sized farms; a combination of financial instruments and grants; and the creation of a pilot equity or quasi-equity financial instrument to support start-ups. European Investment Bank (2020) formulated the following proposals: to facilitate access to finance for new farmers and small farms that face certain collateral constraints or have acquired farms with existing debt, introduce EAFRD financial instruments as part of the new CAP Strategic Plan; the ability of EAFRD to support counter-guarantees with a higher guarantee rate than the current guarantee rate; and "one-stop shop" options that combine one scheme with one-time grants and financial instruments.

E.A. Dumitru *et al.* (2023) see the development of lending to the Romanian agricultural sector through increasing the economic size of small farms by establishing agricultural cooperatives, including the full cycle of production, processing and marketing. Analysing the structure of farms, the specifics of production, and the financing instruments used by farmers in Poland, France, Germany, and Romania, it is possible to conclude that in 2024, Ukraine will have almost all the lending opportunities available in other countries. However, despite the positive dynamics of lending to farmers in 2020-2022, which was largely due to the implementation of the government programme "Affordable Loans 5-7-9%", growth stopped in 2023. According to the authors of the study, this is due to the active expansion of lending to the medium-sized sector, the most active in Ukraine, of agricultural enterprises with land use of more than 1000 hectares in 2020-2022, which did not extend to smaller farms in 2023. Thus, the problem of lending to farms is not the lack of necessary financial instruments, but the volume, distribution and accessibility of existing mechanisms in Ukraine.

The vast majority of micro, small, and medium-sized farms with less than 200 hectares of land are experiencing limited access to credit, and they are still being ignored by banks. Tens of thousands of enterprises in this segment and millions of individual farmers engaged in growing wheat and corn, vegetables, fruits and berries, and raising poultry and livestock remain within the scope of shadow cash payments. The study revealed that the solution to the problems of farm financing lies in two areas. On the one hand, there is a complete lack of interest in banks in lending to small and medium-sized farms for the following reasons: higher transaction costs associated with servicing many contracts with small amounts, which leads to a decrease in bank profitability; the perception of small farms as insolvent enterprises with a high degree of risk.

T. Bondaruk and M. Lukashuk (2020) also believe that one of the ways to solve such problems in Ukraine could be the creation of a specialised agricultural bank or the use of economic incentives by the state for banks that lend to the agricultural sector. Another aspect of the problem of lending to medium, small and family farms is the inertia and lack of awareness of farmers about the opportunities available in the financial services market. It is very difficult for an average farmer to navigate through the variety of financial products available on the Ukrainian market (Lopatynskyi *et al.*, 2023). If banking institutions are interested in lending to small agricultural businesses, their advisors will be more active in helping farmers choose the best loan programme for them, combined with grants and partnership programmes, and will consider various options for loan guarantees, including the Farm Credit Guarantee Fund.

Local Employment Centres could be involved in this work, with training sessions for managers of small and medium-sized agricultural enterprises, family farms and individuals running private farms. Training on how to prepare a correct loan application, calculate the return on investment, and draw up a business plan, etc. can be provided by experts in economics and credit. Yu.O. Lupenko and S.V. Andros (2019) also note that the possibility of obtaining a loan is maximised if the farmer convinces the bank that the loan will be repaid within the timeframe specified in a clear business plan. A relevant example for Ukraine is the investment of farms in France and Germany in electricity production (Shahini *et al.*, 2024). The creation of a separate area of lending to small and micro enterprises under the state support programme "Affordable Loans 5-7-9%" in combination with grants will not only diversify incomes and stabilise farmers' financial flows, but also strengthen Ukraine's energy independence. N. Key (2020) confirmed that higher off-farm income can increase farmers' access to credit, stimulate investment, expand production, and improve the financial stability of the farm. Support the further development of online lending platforms

for farmers as a means of facilitating access to credit. N. Trusova *et al.* (2021) also discuss the widespread introduction of FINTECH solutions as a means of ensuring an effective communication process between all parties to credit relations. L. Si *et al.* (2021) also note that a financial platform can integrate the capital flow, logistics, and information flow of small and micro enterprises into the entire supply chain and effectively identify the risks of financing small and micro enterprises.

The Ukrainian agricultural sector is currently facing the most challenging times since independence. As a result of the war, agricultural enterprises have been suffering daily losses for more than two years due to blocked ports, destroyed elevators, logistical problems, low commodity prices, rising costs and an acute shortage of labour. In these conditions, solving the problems with timely financing of farmers is the key to Ukrainian food security.

CONCLUSIONS

The study has identified the reasons why the average size of land use of Ukrainian farmers is significantly higher than the average size of farms in Poland, France, Germany and Romania. Normally, such a large average farm size (839 hectares versus 83 hectares in France and 73 in Germany) should indicate the high economic performance of enterprises, since the more land under cultivation, the more efficiently it operates. However, in the case of Ukraine, this axiom is not confirmed, mainly because the state of the agricultural sector directly depends on the level of investment in its development. The gross accumulation per hectare in Ukraine is 2.6 times lower than in Poland, 2.8 times lower than in Romania, 10.4 times lower than in France, and 16.2 times lower than in Germany.

The research examines the state of lending to agricultural enterprises, the structure of financial institutions providing lending services to farmers, and farm support programmes in the EU countries selected

for the article in comparison with Ukraine. The study proved that as of mid-2024, almost all financial instruments for lending that are available in other countries are present in Ukraine. The study found that the limited access to credit mainly affects medium, small and micro farms that cultivate less than 1,000 hectares of agricultural land. Based on the results of the research, the article formulates the necessary measures to increase the interest of banking institutions in providing loans to this category of agricultural producers.

The significance of the study lies in the recommendations for facilitating access to credit for medium, small and micro enterprises in the agricultural sector, both by credit institutions and farmers, and the introduction of a special programme of lending to farms for investments in electricity production as a means of supporting and stabilising farmers' financial flows in difficult times for Ukraine. An important topic for further research is access to credit for medium, small, and micro enterprises and individual farmers based on farm survey data disaggregated by the number of lands in cultivation. The study of the experience of international institutions in supporting farms through grants, subsidies and other direct payments, and the development of recommendations for their implementation in Ukraine, is also relevant for the agricultural sector. The study is limited to lending to farms and does not cover such possible instruments to support farmers as compensation for the difference in selling prices for key products below the fixed price and other direct payments and subsidies to farmers. The survey did not include a survey of farms by land use category on problems and access to credit.

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CONFLICT OF INTEREST

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Розробка рекомендацій з вирішення проблем кредитування фермерів України на основі досвіду інших країн

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Анотація. Метою дослідження було вивчення практик фінансування фермерів Польщі, Франції, Німеччини та Румунії та розробка рекомендацій щодо зменшення кредитних обмежень сільських господарств України. Забезпечення фермерських господарств фінансовими ресурсами є одним із найважливіших завдань підтримки стійкості та стабільності країни у важкі часи воєнного спротиву. У роботі проаналізовані статистично-економічні показники, структура господарств та землекористування, фінансові інструменти, особливості фінансових інститутів, практики та досвід у кредитуванні Польщі, Франції, Німеччини, Румунії та України. Був досліджений вплив валового нагромадження основного капіталу на обсяг реалізованої продукції фермерських господарств у порівнювальних країнах. Виявлені основні причини виникнення дефіциту фінансування середніх, малих, мікропідприємств агропромислової галузі та чисельних домогосподарств, які ведуть особисте селянське господарство без створення юридичної особи. Зазначено, що основними наслідками обмеженого доступу до кредитування є низька ефективність використання земельних ресурсів, зменшення отриманого валового продукту та погіршення життєздатності ферм. Проаналізовано вплив на фінансове забезпечення аграрного бізнесу державної програми «Доступні кредити 5-7-9%» та інших програм для підтримки середніх, малих та мікропідприємств, створених за допомогою міжнародних партнерів. За останні роки ці нові фінансові інструменти суттєво збільшили доступ фермерських господарств до кредитування. Розглянуто пропозиції економічних науковців цих країн щодо усунення кредитних обмежень у діяльності аграрних виробників малих форм власності. Аналіз висвітлює спільні для всіх країн проблеми кредитування фермерів, а також багаторічний досвід, завдяки якому ці питання поступово вирішуються. Розроблені рекомендації щодо впровадження необхідних заходів для своєчасного отримання доступних кредитних ресурсів дрібними сільськими підприємствами та сімейними фермерськими господарствами України

Ключові слова: підтримка сільського господарства; інвестиції; обмеженість ресурсів; аграрна галузь; малі та мікропідприємства; фінансові інструменти
