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Case Study

Agribusiness: Vendor Financing in Input Markets

The Evolution of Commercial Finance in Russian Agriculture

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A legacy of the Soviet era in Russia has been the decapitalization and downsizing of agriculture and a set of fragmented commodity, farm input and rural financial markets. The financial situation in the country is reflected in part by the weak condition of the rural banking sector and the incompleteness of financial markets serving agriculture. Conspicuous in this set of incomplete markets is the lack of liquidity and risk management instruments and few alternatives for commercial financing of operating inputs and investments. This problem has persisted throughout the past decade as the State played a dominant role in the financing of agriculture, crowding out the banks as well as vendor and supplier financing sources.

This paper explores how past state intervention, agrarian policies, and weak institutions have contributed to the current set of fragmented markets, and how those problems have effectively constrained the development of commercial financing sources for agriculture. As an overview of commercial financing in rural Russia, it provides an opportunity to see how agricultural input, commodity, and rural financial markets are interrelated. In this way we identify the factors that may inhibit the development of rural finance in a transition economy.

We take the general approach that financial markets are institution and information intensive and may be prone to fragmentation and market failure, due to the public good nature of information about investment projects (Stiglitz). Ordinarily transaction costs, informational asymmetries, and the lack of competition in product markets might provide the conditions for intermediaries such as vendors and input suppliers to succeed (Brennan et al.). However, interventions by the State (only some of which were to address market failures) have directly and indirectly undermined the development of these commercial financing sources in Russia.

1. The Soviet Legacy

There are several factors contributing to Russia's lack of success in developing robust rural financial markets. Collectively, we refer to these as the financial legacy of the Soviet era. During Soviet times agriculture was of secondary importance to industry, so that improvements in agricultural technology and productivity tended to lag behind other sectors. In the transition years that followed, the government consistently undermined the foundations of rural financial markets through heavy state (federal and regional) intervention and a lack of key institutional and

policy reforms. During the first decade of the transition policy makers focused mainly on increasing and making more efficient use of government funds, rather than on creating a commercial credit system for agriculture. Consequently, banking in the agro-industrial sector has been dominated during the transition by *Agroprombank* and its state-owned successors with little development of competitive private channels for farm and agribusiness credit (Csaki, et al.). Federally funded loans have operated through a soft loan facility and a majority of the banks have been crowded out by various interest rate subsidies.

A major part of the legacy of the Soviet era has been a predominantly large farm structure in agriculture and generic dependence on the State for subsidies. The financial condition of agriculture is one of low profitability and weak internal financing capacity, large unresolved debts, and fiscal responsibility for social services (e.g., worker housing, childcare centers, schools, hospitals and local infrastructure). Through the early 1990s production levels on the large state and collective farms fell sharply as the allocation of farm inputs and labor under the central plan was discontinued.[1] As productivity of the large farms fell, they incurred large losses. A significant part of these losses was attributable to operating inefficiency and adverse shifts in the terms of trade between artificially low farm output prices and rising input prices. By 1998 the share of large-scale farms reporting operating losses had climbed to nearly 85 percent. The level of payments in arrears owed by those farms to federal and regional budget, extra-budgetary funds, and supplier sources had also escalated to about 170 billion rubles ($5.7 billion) in January 2003. This overdue debt represented about 55 percent of the total outstanding debt of the large farms. These factors have greatly limited the financing options of the large farms and the majority of those farms have had little chance for debt repayment or investing in new, more efficient technology. Also, many of the newly established small, private farms failed in the latter 1990s as the government withdrew the subsidies that had been previously provided to them.

Subsequent to the devaluation of the ruble in 1998, the productivity of the agriculture sector began to rebound and profitability improved. The devaluation led to an expanded market for domestically produced commodities. One estimate is that Russian farmers gained about US$ 1.8 billion from the devaluation. The proportion of loss making large farms fell to about 52

[1] The decline in output of the large farms was partially offset by increased food production on small, private household plots which increased their share of total agricultural output from about 26 percent in 1990 to 54 percent in 2002.

percent in 1999 and about 45 percent in 2001. In 2001 the percentage of profitable agricultural enterprises was reportedly lower than either the food processing or the flour and feed milling enterprises (Table 1). Although devaluation brought about a temporary improvement in overall profitability, average total agricultural production remains only slightly above 60 percent of the level in 1989-91, and relatively little progress was made in addressing the debt problems of the large farms. Currently, the percentage of agricultural enterprises with overdue debts to suppliers, budget, and off-budget sources is relatively high and exceeds the levels in the agribusiness sector (Table 1). A breakdown of the debts of the agricultural enterprises shows also that suppliers of inputs such as gas, electricity, fuel and fertilizer were owed about 31 percent of the total debt in 2001 (Table 2).

The lack of access to financing through the banking system was the second major part of that legacy and it acted as a significant barrier to stabilizing the farm economy and establishing private farms. Throughout the transition the banks have been poorly capitalized and have lacked experience in lending to agriculture on a commercial basis.[2] Attempts by the State to fill the financing gap by extending credit to agriculture resulted in large budgetary outlays and mounting farm debt in the form of unpaid principal, interest and penalties. The poor financial status of the large farms and the lack of repayment of budget and extra-budgetary funds prompted the government to block the bank accounts of the delinquent farms.[3] Ironically, many of the affected farm managers learned to operate without bank accounts and found it easier to avoid paying taxes. As a consequence of the worsening liquidity situation and a nonfunctioning banking system, agriculture turned to barter exchange in the mid- and latter-1990s. Today, a majority of farm input payments are still made by various types of cashless transactions, mutual offsetting accounts, and barter exchange. A similarly high proportion (50 percent) of all grains, milk, cattle and poultry are marketed through cashless transactions.

Although the survivorship of the Soviet system remains high, there are signs that the Soviet legacy is beginning to wane and a new era of agricultural reform is beginning to emerge (Table 3). This has coincided with improvements in the overall macroeconomic situation in the country. The Russian Agricultural Bank (*Rosselkhozbank*) was revived and recapitalized as a

[2] At the beginning of 2002, there were 1,319 licensed credit organizations (including 1,276 banks) with a total registered capital of just 261 billion rubles (about $8.4 billion).
[3] In some regions about 80 percent of all large farms have blocked bank accounts.

state-owned bank from the defunct private SBS-Agro Bank in 2000, to provide a source of short- and medium-term credit to the sector through budget and nonbudget sources. In 2001, *Rosagroleasing*, a state-owned agricultural machinery leasing company was created and granted a monopoly position in the leasing market. As a result, the previous monopoly in the leasing area (*Rosagrosnab*) was replaced by another one. That same year the government announced an interest rate subsidy scheme to encourage more banks to make short-term loans to agriculture.[4] The rate subsidy was up to 20 percentage points and the banks were required to retain the credit risk. This generated limited success with about 60 banks participating. Based on that initial experience, the government adopted a new resolution in mid-2002 to provide 3-year loans for machinery and equipment purchases with interest rate subsidies amounting to 2/3 of the Central Bank refinancing rate. Although the subsidy was large, the encouraging sign was that 212 banks participated in the program and a significant increase in new investment credit occurred. In addition the national savings bank (*Sberbank*), the largest bank in Russia, became a major medium-term lender having never before made farm machinery loans. Collectively, the interest rate subsidy program signals the withdrawal of support from past inefficient lending and leasing activities. Yet, in spite of the sign of increased financing for agriculture, the interest rate subsidies are crowding out the banks and supplier credit sources at commercial market rates and the credit flowing to farms and agribusiness is still dominated by the State.

2. Channels of Agricultural Credit

We identify two primary channels for financing farms and agribusinesses in Russia today. One channel operates with the use of State funds and the other (commercial) channel operates without the use of State funds (Figure 1). The channel that involves lending to agriculture with the use of State funds is clearly dominant on a volume of credit basis. Commodity credit was initiated in 1995 at the federation level and discontinued in 1997, but this form of credit has been sustained at the regional level. State-sponsored leasing programs have continued under *Rosagroleasing*, a state-owned enterprise. Both the commodity credit and leasing programs have involved heavy participation by the regional governments. The State also provides some loans at preferential rates and terms using budget funds. Currently, there is growing use of State interest

[4] This marked the end of the Soft Loan Fund program.

rate subsidies on short- and medium-term loans extended through the banks.[5]

The second channel of lending shown in Figure 1 is in its infancy. Bank loans at market rates of interest are virtually nonexistent due to the presence of state-subsidized loans and the inability of most farms to pay market rates (currently in the 20-30 percent range). Commercial leasing has not emerged due to several barriers that prevent machinery and equipment manufacturers from offering leasing contracts and due to the inability of farmers to pay market lease rates. Nonbank lenders such as credit cooperatives, mutual funds, and microfinance institutions are just beginning to develop in part due to the recent passage of new federation laws, such as those permitting credit cooperatives. Finally, vendors and input suppliers in Russia represent an evolving dual industry structure. On one hand there are the dominant suppliers with historically strong monopoly roots, particularly in the energy sector. On the other hand there are private domestic and foreign suppliers which are only starting to develop. The large agro-industrial commercial "integrators" that provide working capital inputs such as fuel, fertilizers and machinery have also maintained their monopoly positions since the Soviet era. Some of these suppliers have also begun to form "agro-holdings" through which they have vertically integrated back into the production stage of agriculture through various contractual and ownership arrangements. Private vendor and supplier credit in the form usually seen in Western countries is relatively nonexistent in rural Russia.

As examples of the types of credit arrangements that have developed in Russian agriculture we take a look closer at two state programs (commodity credit and leasing) and the problems that they have created for the development of private commercial financing sources.

2.1 Commodity Credit

The commodity credit scheme was instituted in 1995 at the federal level, as a form of noncash procurement of commodities. Under this system the government supplied the farms with fuel, fertilizer and other operating inputs during spring planting through designated input suppliers in exchange for the agricultural production to be delivered at harvest. The government assumed the farm debts when the inputs were provided and then, as the commodities were delivered to the federal food corporation, the tax obligations of the input suppliers were canceled.

[5] By 2003 the federal budget allocated 3.2 billion rubles for seasonal credit interest subsidies and another 0.8 billion rubles for investment credit interest subsidies.

As a consequence, the farmers delivered their products at harvest when prices were the lowest. In 1997 the federal government discontinued the use of commodity credit, but the regional government administrations continued to operate this system through regional food funds. In the process the regions gained significant power to control the movement of farm commodities.

The scheme is mostly implemented not by the regional administrations directly, but rather through procurement agents, usually organized as regional food corporations. These corporations are responsible for supplying public organizations (hospitals, schools, social organizations, army, prisons, and others) with food at relatively low prices, though they also are assigned the task of ensuring that farmers receive high prices, giving them two mutually inconsistent objectives. These procurement agents use the system of noncash procurement methods, organized as commodity credit.

The commodity credit scheme that operates at the regional level creates various problems for the functioning of rural financial markets. First, it restricts trade by forcing farmers to deliver their production to the regional government in order to repay the loan. This restriction limits the range of marketing options that are open to the farmer and prevents arbitrage across output markets that would bring prices into better alignment. The result is the fragmentation of commodity markets and greater price divergence across regions. Second, the credit is mostly allocated to the large farm enterprises. This tends to restrict the amount that individual private farmers can obtain of those inputs, even though the private farms may be more productive in their use. The result is a severe segmentation of the input market. Third, these commodity credits are highly subsidized. The large farm enterprises are then able to pass these inputs on to the household plots of the farm workers who have remained as shareholders in the collective enterprise. This tends to discourage individuals from starting their own farming operations and it retards real restructuring of the large farm enterprises. Fourth, the commodity credit scheme impedes the development of improved marketing channels for farm inputs and outputs, which may provide better returns to the producers. Fifth, there is an inherent inefficiency of the transactions in the quasi-barter system that has supplanted cash payments.

Each of the above problems has a potentially adverse impact on the development of commercial financing sources. Commodity credit has led to more fragmented grain markets and greater volatility of grain prices due to the regional character of the program. To the extent that it

restricts financing access to the large farms, it leaves the small farm segment under-financed. Since the small farms require significantly smaller credit amounts, they are relatively more costly and less profitable for commercial suppliers and vendors to serve. The provision of commodity credit has entailed the designation of specific suppliers in the regions and, therefore, the program has limited competition by restricting the entry of commercial financing sources. Commodity credit has also retarded the restructuring of the collective farms and the potential for growth in demand for supplier credit among the newly formed private farms. The effect of subsidies has been also to distort input prices as suppliers (exerting market power) have charged higher than average market prices. In several regions there is a noticeable negative subsidy effect on input prices (i.e., the average prices paid by farmers actually rise as a result of the subsidies). Finally, suppliers are drawn into the commodity credit scheme in pursuit of higher prices for their goods, and they are less likely to participate in more competitive marketing activities in the agricultural sector.

2.2 Leasing

Leasing remains a relatively small source of overall financing in agriculture at a time when the need for investment credit is quite large. In countries such as the Czech Republic about 30 percent of fixed capital investment is leased, while in Russia the comparable figure is just 3 percent. Most of the leasing companies are located in the European region of Russia with sharply lower numbers of companies located in the Ural region and Siberia. About 37 percent of all equipment in the food processing industry is leased, and just 17 percent of agricultural machinery is leased, mostly through *Rosagroleasing*.

Leasing of machinery and equipment has been considered by the government to be a vital part of the modernization strategy for Russian agriculture. Lease financing provides the lessee with the use of an asset without ownership of the asset. This fit the Soviet system quite well, as leasing was a means of shifting equipment and machinery between the state enterprises with the State retaining ownership. Currently, most of the farms have a shortage of equipment and what they have is frequently obsolete. Also, leasing was viewed as a potential win-win strategy. It helped failing Russian equipment companies to sell their products and it served as one of the few sources of medium- and long-term financing for the farms. To renovate the leasing scheme the government introduced interest payments on leases in 2001, but at subsidized rates, and private

leasing companies became formally eligible to participate in the leasing program as sublessors. These and other reforms have the potential to increase competition and participation in the program and produce cost-sharing with the regional governments.

However, the reality of leasing in Russia is quite different from the objective of the government because of the way the program has been organized and managed. As it operates today, it still discourages private commercial leasing activity because of the large state subsidies and the central role of *Rosagroleasing*. The leases of farm machinery and equipment in Russia are long-term contracts, but they are not comparable to the financial lease instruments found in Western countries. Russian leases are structured like loans with subsidized interest rates and the operations of the leasing entities (particularly in the calculation of lease rates) are not transparent. The program operates as a state monopoly and private leasing companies do not have open access to participate in these leasing programs, since the programs remain in the control of the regional governments.

Several factors have inhibited the expansion of private leasing in Russia (International Finance Corporation, 2002). Lack of financing for manufacturers of machinery and equipment has been a major obstacle. Equipment companies have not become involved in private vendor leasing activities since they cannot obtain sufficient funds through the banking system to operate a lease program. There is also an absence of a reliable infrastructure for distribution and maintenance of the leased assets. This would require significant private long-term capital outlays to establish. Access to this type of financing requires improvements in the banking system. Second, the secondary market for used equipment (lease returns) is relatively underdeveloped in Russia. Third, leasing companies still experience problems when trying to repossess equipment. A key element of this problem is the inability of the courts to protect the property rights of the lessor. Each of these problems has been a particularly significant barrier to the development of a private lease financing market in agriculture.

3. Fragmented Markets

Financial markets are fundamentally different from goods markets. They are both information and institution intensive. For example, lenders rely on the availability of relatively low-cost, timely information in order to assess the risks of each transaction and make credit

approval decisions. These financing intermediaries also require good information in order to monitor the activities of the borrower. Moreover, efficient credit markets rely on relatively complete and transparent institutions to provide lenders with legal remedies that can be exercised when contract terms are not honored. Finally, they require a fairly predictable and flexible economic environment in which to extend the contract maturity and make pricing adjustments (Tuck and Yaron). While integrated financial markets do a good job in supporting credit transactions, fragmented financial markets produce wide differences in the risk-adjusted rates of return and, consequently, greater risk exposure for bank and nonbank (vendor/supplier) financial intermediaries. The differences in rates of return that are attributable to market inefficiency may be due to structural problems that prevent financial flows and arbitrage between markets. Imperfect information, costly contract enforcement, incomplete markets, and institutional weaknesses in the banking system and the legal framework are further examples of factors that leave financial markets fragmented in Russia. The result is a relatively large share of informal, nonmarket transactions for farm inputs and farm commodities and the discouragement of commercial financing sources from operating in Russian agriculture.

3.1 Supplier and Vendor Credit

According to the finance literature, suppliers and vendors may enjoy certain advantages when providing financing to customers over traditional lenders such as banks (Petersen and Rajan). Yet, because markets for inputs and commodities in Russia are quite fragmented they pose special problems for the development of vendor and supplier financing in agriculture. We look at several of the potential advantages that vendors might have and consider why those advantages may not be sufficient to promote the growth of vendor financing in agriculture at this time.

A primary motivation is that by providing point-of-sale financing to their customers, vendors are better able to increase their sales. If vendors have better access to money and capital markets and a resulting lower cost of funds, they may realize a larger scope for lending operations. In addition, the costs of credit delivery may be lower. In Russia vendors have had poor access to financing through the banks during the transition. In addition the money and capital markets are fragmented and they are not sufficiently accessible to vendors to acquire direct financing to realize this advantage.

Vendors may have a cost advantage in collecting necessary credit information about their customers, since some of this information may already be available from the records of past dealings with the customer. In the case of Russia, the market for vendor financing outside of the commodity credit scheme has been nonexistent. Thus, there is no credit information advantage for vendors. Moreover, the State has been the primary lender in most cases, so suppliers of agricultural inputs have not gained expertise or information concerning the assessment of default risk.

Vendors may have lower transaction costs associated with accessing asset markets in which to dispose of collateral (i.e., lower collateral value risk). For example, a machinery manufacturer or equipment dealer would find it easier than a bank to dispose of repossessed machinery. Unfortunately, this has been a problem in the agricultural leasing industry in Russia, since there is no established secondary market for used machinery and equipment.

Vendors may possess an advantage in risk management due to the fact that they are better able to control the servicing of the contract, directly affecting the customer's operation by withholding delivery of the inputs unless repayment is made. Suppliers of gas and electricity have used this practice in rural Russia, but the evidence of its effectiveness in reducing repayment risk is not available.

3.2 Indirect Lending

Vendor financing opportunities may also emerge through the use of “indirect lending” arrangements with the participation of the banks. According to indirect lending theory, banks may accept vendor-originated, indirect loans. These loans are potentially less costly to evaluate, since qualitative credit risk information is revealed by the borrower’s choice of where to apply for financing (Staten et al.). In principal indirect lending evolves when borrowers self-select and signal their risk characteristics to lenders. Since the banks are not active in financing agriculture in Russia, the opportunity to develop indirect lending arrangements in conjunction with vendor financing activities will need significantly more time to evolve. The indirect lending approach has some decided cost advantages due to the potential for use of communications technology when originating loans.

4. Challenges for Commercial Financing

Russia will likely experience an improvement in the future availability of working capital and investment credit in agriculture through commercial sources. However, this will take significant time and effort to accomplish even with the assistance of donor agencies. It will likely depend on some major events during the years of transition that lie ahead – the development and integration of input and commodity markets, the continued restructuring of large, insolvent farms to improve profitability, and the evolution of a more complete set of financial and legal institutions. The banks have provided savings facilities in the rural areas but they have not been responsive to the credit requirements of agriculture because of their fragile capital positions, State interest rate subsidies, and the weak legal framework for lending in Russia. Also, there will need to be an increase in the availability of financing provided to input suppliers (to expand their role in financing inputs) and an increase in the effective demand by the farm enterprises for external financing.

Commercial sources (vendors and input suppliers) may eventually provide an alternative avenue to develop a competitive rural credit market, due to their knowledge of agriculture and their potentially lower costs of delivery. In this regard, the potential development of indirect lending arrangements between vendors and/or input suppliers and the banks has some advantages in the extension of credit at competitive rates. However, for progress to occur in vendor financing at this stage of the transition there are several constraints that need to be addressed. These constraints fall into three categories: agrarian policies, the deficiencies of the credit system, and the low profitability of agriculture.

4.1 Agrarian Policy

Russian agrarian policy is largely regionalized and, as a result, the policies and programs used by the government at the federal and regional levels have segmented the input markets for agriculture (Serova et al.; Frohberg and Serova). A substantial part of the federal expenditures on agriculture are for leasing, interest rate subsidies, and charter capital for the *Rosselkhozbank*. These allocations are mostly subjective and not justified by an analysis of alternative uses of public funds. Federal programs are often duplicated in the regional budgets just to co-finance the federal programs, often on a larger scale.[6]

Regional budgets are heavily targeted at the regulation of agrifood markets. This

[6] As a result, approximately 70 percent of the budgetary support for agriculture is at the regional level and just 30

regionalization is the result of “food security” and “food self-sufficiency” policies that are targeted to keep the prices of strategic foodstuffs relatively low. These socially oriented policies have engendered special procurement programs that have linked the financing of inputs to the procurement system and have promoted the fragmentation of markets. These programs have strengthened the control of monopolies in the provision of farm inputs and they have removed alternatives that would lead to greater competition among suppliers of inputs and providers of input credit. In addition the regional programs are not transparent and are frequently corrupt.

Thus, the agricultural policy environment contributes to widespread subsidization of interest rates, intervention by federal agencies and regional authorities, and the continued fragmentation of both input and rural financial markets. This represents a rather hostile environment in which to initiate commercial financing activities. Some would argue that even though current interest rate subsidies tend to crowd out private creditors, it is still preferable to the previous system of credit subsidies.

4.2 Deficient credit system

The fact that the banking system in Russia does not serve agriculture on its own is a symptom of the problems that are present in the institutional framework. The regional banks are weakly capitalized and they have not been willing to make agricultural loans without significant guarantees or subsidies. This is due to credit risk associated with the large debts that the farms carry on their balance sheets and their limited capacity to repay loans from their earnings. The banks are also hesitant to lend to agribusiness due to similar liquidity and profitability problems. The lack of bank financing for agriculture and agribusiness, and the fact that a rural financial system does not exist, tends to fragment the financial market in rural areas.

An increase in the availability of commercial credit and leasing services in Russian agriculture will depend critically on access to good information and the further development of what are now incomplete financial markets and institutions. To effectively control their portfolio risk exposure, vendors and suppliers of agricultural inputs will need access to legal institutions to perfect their security interests in property, and access to legal remedies to foreclose, take possession of, and liquidate assets when borrowers default. At this juncture Russian law has not developed a balance between the interests of the debtor and the creditor due to the low priority

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percent is at the federal level.

given to secured and unsecured creditors. That is a major deterrent to the establishment of vendor financing. In addition commercial lenders would desire that transactions be covered against insurable losses through credit life policies and property insurance policies on the property or activity being financed. However, the insurance system in Russia is not developed to provide guaranteed compensation to the lender if a loan is not paid through no fault of the borrower. Other financial instruments are still missing or insufficiently used in agriculture. For example, a system of warehouse receipts needs to be developed so that grain inventories can be used as collateral and farms can improve their overall liquidity positions at critical times in the year. Similarly, land is not widely used as collateral to secure credit, even though the new land law permits its use for that purpose. The problem is that only a small part of all agricultural land is actually privately owned, and it is more common for ownership not to be clearly established.

4.3 Low profitability of agriculture

It is likely that commercial financing sources in Russia will evolve gradually in response to an increase in the effective demand for financial services by farm and agribusiness firms. Profitable firms typically experience cash flow and other working capital shortages during the growth process. Profitable firms can finance part of that growth from internal sources, but they typically turn to loans, vendor and supplier credit, and leases to cover the financing gap that is created by asset growth and rising productivity levels.

Yet, there are many unprofitable firms in Russia and they are not in a position to effectively demand outside financing due to their inability to generate a competitive rate of return. Thus, a necessary condition for commercial financing sources to evolve in Russia is that there must be an effective demand for their services at market rates. Agricultural producers must become commercially profitable and to accomplish that many of the large farms must gain access to better technologies and management along with financing. Relatively little real farm restructuring has occurred in the first decade of the transition. In the years ahead agriculture must achieve greater profitability at the farm and agribusiness levels and actual restructuring will be needed. That requires that there be less state intervention and a larger role for input and commodity market development and integration.

4.4 Donor strategy

Given the constraints of limited donor resources, existing agrarian policies, and the scale

of the rural finance problem in Russia, it is likely that donors will find it strategic to focus their efforts jointly on the development of commercial financing alternatives and the improvement of market integration and competition. For example, to improve the conditions for supplier and vendor financing to emerge in the rural areas it is important that the set of institutions and instruments for liquidity and risk management become more complete. Donors can improve the liquidity of agriculture by working towards the successful establishment of a system of warehouse receipts. Donors can also play an important role by facilitating the formation of insurance schemes for farmers and agribusiness. These institutional innovations would benefit both large and small farms by facilitating an expansion in the availability of credit.

Donors can also assist in the development of financial institutions by supporting the formation and development of credit cooperatives for producers and consumers to provide greater competition in the rural areas. These institutions are still in the early stages of their development. Donors could also help to improve the availability of creditor information by investing in systems for the registration and retrieval of information on creditor liens. This system will increase transparency in the credit market and could be instrumental in bringing about more secured credit transactions and in increasing the availability of longer-term loans.

Finally, marketing and credit systems need to be developed to provide better credit access to small private farmers to start and expand their farming operations and to improve efficiency. As donors work toward that objective, they can jointly pursue programs that train managers of small and large farms how to work with banks, credit cooperatives, vendors and suppliers in securing credit. This type of training would be equally useful to small agribusiness managers. In each of these areas, donors should consider working with producer associations and other agrarian organizations to identify, develop, and fund these types of market-building initiatives.

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Figure 1. Channels for Farm and Agribusiness Credit in Russia

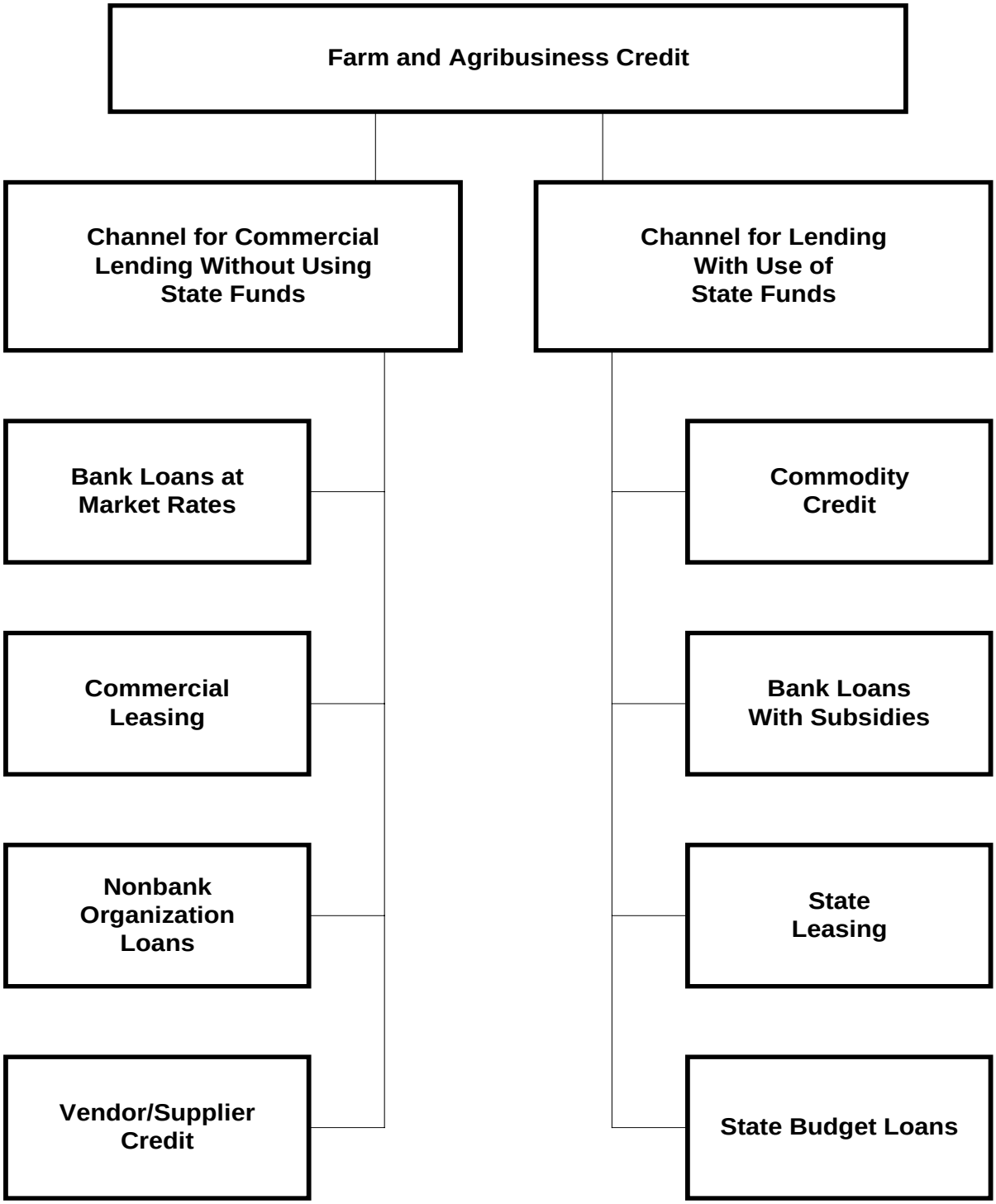

Table 1. Profitability and Overdue Debts of the Agribusiness Sectors, 2001

Indicator	Agriculture	Food Processing	Flour and Feed Milling
% of Profitable Enterprises	52%	61%	59%
% of Enterprises with Overdue Debts to:			
Suppliers	80%	43%	57%
State budgets	75%	30%	34%
Lending institutions	46%	11%	11%

Table 2. Debts of the Agricultural Enterprises, 2001

Debts owed to:	% of total debts
State budget	11.2
Extra-budgetary funds	30.3
Suppliers	31.3
Other lending institutions	19.2

Table 3. Phases of Agricultural Reform in Russia

Indicator	Phase I 1991-1999	Phase II 2000-2003
Key agents	Farmers and owners of asset shares	Investors
Principle of reform	Social equity	Economic efficiency
Methods of reform	Privatization and reorganization	Bankruptcy, buying and leasing of assets
Source of funds	Own funds	Investor funds
Slogan	“Land to the peasants”	“Land to those who can work it”