



Project “LAND REFORM BAROMETER: Information and Advocacy Campaign”

Land reform barometer

Lending to agricultural producers

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Agricultural producers attract loans for different purposes, including for funding working capital, making long-term investments, paying off debts and even paying wages. Opinion poll in the framework of the "Land Reform Barometer" project showed that banks serve as a source for loans mainly for agricultural enterprises, while farmers rely mostly on friends and family. Usually, banks give the full sum of the requested loan. Yet, there are instances when banks either refuse lending or give fewer sums than requested. Agricultural enterprises take bigger loans than farmers, but their interest rates do not differ significantly.

Previous studies describe the purposes for which loans were attracted. According to the results of the 2010 Centre for Social Expertise poll, agricultural producers normally borrowed to replenish working capital and to make long-term investments. Borrowings to pay wages and to refinance previous loans were less common. Also, according to this poll, most agricultural producers did not plan to take loans.

The poll in the framework of "Land Reform Barometer" project reveals both the sources of loans and their corresponding terms (size, interest rates, etc). Additionally, the poll shows the feedback of banks to loan requests of agricultural enterprises.

According to the results of the poll, farmers more often than agricultural producers report that they do not need loans (see Fig. 1). However, both farmers and other agricultural producers turn to banks and informal sources (friends and family) when the need for loans arises. Yet, farmers tend to attract informal sources more often, and agricultural enterprises mainly resort to banks. It should be noted that a third of the polled agricultural enterprises had a credit history.

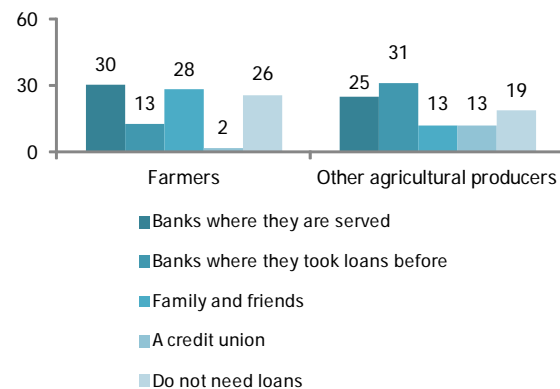
Most agricultural producers that had applied for loans to the banks (64.9%) received the requested sum in full. 13.5% report about the experience of both getting a loan and being refused by a bank. Other 13.5% received the sum smaller than they requested. And banks refused to lend to 8.1% of agricultural producers.

Average size of loans to agricultural enterprises (379,286 UAH) is bigger than that for farmers (147,800 UAH). Interest rates do not differ significantly, i.e. on average 21.3% for farmers and 19.8% for other agricultural producers. The average term of loans is longer for farmers due to the fact that they had taken

several long-term loans for 10 and 15 years (see Table 1). And the most common lending term for both farmers and agricultural producers is 36 months.

To summarize, farmers attract loans of a fewer size than other agricultural producers. However, the terms of lending to farmers are slightly longer because some of the loans are as long as 10 or 15 years. Agricultural producers take loans both from banks and from informal sources, such as their friends and family. The share of farmers that borrow from informal sources is especially high. Banks tend to provide loans to agricultural enterprises. However, sometimes banks refuse to lend to agricultural enterprises or provide smaller loans than requested.

Fig. 1. Sources of credits for agricultural producers, %



Source: own data

Table 1. Size, interest rates and terms of loans to agricultural producers, %

	Farmers	Other agricultural producers
Average size of loan	147,800 UAH	379,286 UAH
Average interest rate	21.3%	19.8%
Average term	43.7 months	36 months

Source: own data