



IPM Research Center



German Economic Team in Belarus

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Measures to Improve the Access of Agricultural Enterprises to Capital

Summary

This paper deals with Belarusian agriculture and its access to financing for investment purposes. The current system of agricultural financing in Belarus is mainly based on government support that is provided through different channels. Belagroprombank as the prime institution of the current system fulfils the role of the government's financial agent, granting loans mainly at the expense of state funds. This system of granting loans perpetuates soft budget constraints for Belarusian agriculture. We argue that the goals of hardening budget constraints for agricultural enterprises and of increasing competition and efficiency in the commercial banking field should define and drive policy. Some government intervention to make loans more affordable may be used as a temporary expedient. In particular, partial interest rate compensations on loans provided according to commercial criteria and by commercial agents would be an incentive-compatible means of increasing the access of agricultural enterprises to capital. The provision of loans according to the non-market criteria employed by Belagroprombank should be phased out as quickly as possible.

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1. Introduction

The Belarusian agricultural sector is the most problematic one within the national economy. About 60% of all agricultural enterprises make losses. The overall profitability of the sector was negative (-0.7%) in 2003. This suggests that a number of measures need to be taken in order to improve the financial stability of agricultural enterprises and to raise their ability to generate profits. The difficulties these enterprises face when borrowing funds is one of the priority problems that need to be solved in order to help future development (see Table 1).

Table 1. Profitability of Agricultural Enterprises and Market Interest Rates on Newly Granted Loans

	1H99	2H99	1H00	2H00	1H01	2H01	1H02	2H02	1H03	2H03
Profitability	14.4	19.6	7.0	6.2	-0.1	-5.7	1.3	-2.7	-3.3	-0.7
Nominal interest rate	77.3	90.0	96.3	79.3	73.6	64.4	63.6	48.0	39.2	29.7

Profitability is the profitability of agricultural enterprises during the period in question. The nominal interest rate is the average nominal interest rate for newly granted loans.

Source: Ministry of Statistics and National Bank of Belarus.

Table 1 shows that the overall borrowing ability of the sector is extremely low. This does not mean that no agricultural enterprise can afford to obtain credit at market interest rates. Certainly, the reticence of banks to lend to farms at market interest rates is largely a consequence of their low efficiencies. In other words, we face a situation where the cost of the loans exceeds the farms' abilities to repay them. Hence, the best solution is to increase the efficiency of the agricultural enterprises so that they can compete for capital. This process could be aided by a thorough and fundamental agricultural policy approach dedicated to generating sustainable increases in the sector's efficiency. At the same time, it is important to focus on the supply side of the market for loans, i.e. on the process of agricultural borrowing, and to consider measures that would make bank loans more affordable. In this paper we focus on the supply side by analyzing the existing mechanism for granting loans to the rural sector. We also deal with possible ways to lower risks within this mechanism. We propose reforms that could be implemented to increase the efficiency of the agricultural finance system in Belarus.

The paper is structured as follows: In Section 2 we consider the necessity for efficient financial intermediation to improve the chances for more successful performance of agriculture. Section 3 deals with the actual framework of bank lending to agricultural enterprises in Belarus. We identify the banks involved and to which extent they grant loans to the rural sector, what the sources of these funds are, and how the banks (mainly Belagroprombank) perform. In Section 4 we describe the terms and conditions of lending to agricultural enterprises and the principal tools of providing subsidized access to capital. In Section 5 we evaluate the effectiveness of these tools and make policy recommendations that could be managed within the existing system.

2. Rural Finance System Development is a Prime Factor for Raising the Performance of the Agricultural Sector

Developing the finance system and financial intermediation are important elements for a growth strategy for the whole economy. This has been recognized by the so-called 'new growth' theory. King and Levine (1992, 1993) found that the development of the financial sector precedes economic development and causes growth. For this reason it is important to consider what the banks' functions are, and to emphasise the importance of their efficient and independent operations.

In market economies, banks and other financial intermediaries are profit-oriented enterprises making independent decisions. In order to attract savings on the one hand and borrowers on the other, they must provide attractive conditions (interest rates, periods of validity, risk reduction) for both of them. By using funds obtained from enterprises or private savers, banks make external financing available to enterprises and households - they work as financial intermediaries.

Banks fulfil several additional functions. For individual savers it would be too costly to evaluate potential borrowers. Banks, however, have strong incentives to evaluate all potential investment projects properly as this is the precondition for generating profit. In this way, banks can reduce the risk of financing loss-making investment projects. Furthermore, they realize economies of scale when evaluating and later monitoring investment projects. This

leads to reduced costs of initiation and of monitoring the relationships between banks and borrowers¹.

The transformation functions of banks, their cost-reducing effects on the saver-borrower relationship and their ability to reduce overall economic risk in an economy are reflected in the so-called interest rate spread (the difference between the credit and deposit rates). The better the banks function, the more intense the competition between them, and the lower the overall economic risk, the lower the interest rate spread will be. A low interest rate spread is, of course, good for the economy. It implies that deposit rates are as high and credit rates as low as possible, *ceteris paribus*. Hence, saving becomes more attractive and additional funds are mobilized for investment, while investment becomes less expensive, spurring growth. Table 2 shows that the average interest spread in 2002 in Belarus (15.1 percentage points) was rather high and its increasing trend over time is not exhibited by the other countries listed. Thus there is potential for improvement.

Table 2. Interest Spread in Belarus and Other Transition Countries

	1995	1996	1997	1998	1999	2000	2001	2002
Belarus	5.2	8.4	6.8	10.8	15.7	10.3	12.1	15.1
CIS-7	48.7	25.2	27.3	28.1	15.3	18.3	15.2	12.6
Other CIS	63.3	38.1	20.8	23.2	29.2	25.3	15.7	13.5
SEE	13.8	20.7	21.2	14.8	12.5	13.3	12.6	10.7
CEE+B	9.5	8.5	6.7	6.3	6.5	6	5.4	5.3

CIS-7 – Armenia, Azerbaijan, Georgia, Kyrgyzstan, Moldova, Tajikistan and Uzbekistan; Other CIS – other CIS countries including Belarus; SEE – Albania, Bosnia and Herzegovina, Bulgaria, Yugoslavia, Macedonia, Romania; CEE+B – Croatia, Czech Republic, Hungary, Poland, Slovakia, Slovenia, Estonia, Latvia, Lithuania.

Source: National bank; Nicolo, Geadach, Rozkov "Bridging the great divide".

The capital requirements of enterprises in transition economies are usually higher than in developed ones. Any period of high inflation leads to a reduction in the ratio of own current assets availability (in Belarus it dropped from 35.4% in 2000 to 1.4% in 2002), which at the same time results in a low ability to make capital investments using one's own funds. A high interest rate spread makes it even harder for enterprises to make the necessary investments.

3. The Organizational Framework of the Agricultural Finance System in Belarus

Three banks dominate the agricultural finance system in Belarus. They are Belagroprombank, Belarusbank and Priorbank, which hold about 70%, 18% and 7% respectively of the total amount of loans granted to agriculture. The second and third banks listed can be left out of the following analysis. Though they hold significant shares of loans to agriculture, these loans are not very significant within their total portfolios (loans to the agricultural sector make up about 15% of the credit portfolio for Priorbank and only about 3% for Belarusbank).

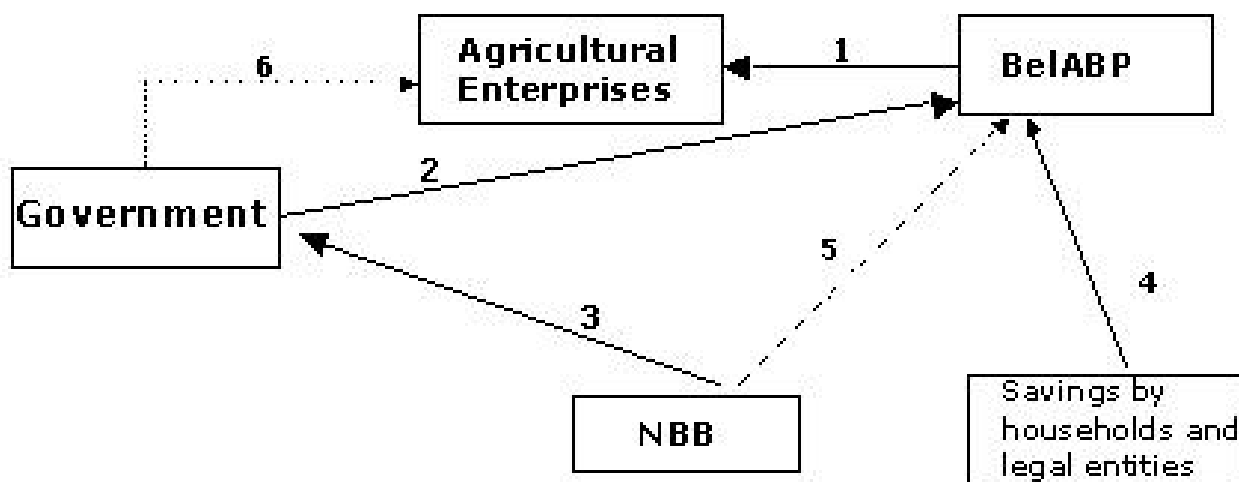
Chart 1 presents a graphical overview of the Belarusian agricultural finance system. The government and the banking sector are the main donors. Using this Chart we can separate the direct government financing from the indirect government financing (via the banks), which is the object of our analysis.

The first peculiarity of the system is the government's choice of borrowers. According to NBB statistics, agriculture was granted BYR 463.1 bn of loans of which BYR 322.5 bn or 69.6% were provided based on presidential or government instructions backed by corresponding legal acts. Besides, agricultural enterprises were granted a share of the BYR 1409.5 bn of loans administratively initiated for wage payments². *Thus, 75% is a lower bound estimate of the share of loans for agricultural enterprises initiated by the government, which illustrates the crowding out of market capital from the lending market for agriculture.*

¹ Vincentz, V & W. Quaisser (1998) "Factors of growth in transition countries", Eastern European-Institute Munich, Working Paper N° 211.

² This figure is given for all branches of the Belarusian economy and there is no data on what share of these loans was directed at the rural sector.

Chart 1. The System of Granting Loans to Agricultural Enterprises



Where: 1 – loans granted to agricultural enterprises by Belagroprombank; 2 – flow of government’s funds to Belagroprombank in the form of replenishment of its authorized capital, interest rate compensation, etc.; 3 – emission loans by the NBB to the government, which are then redirected towards the authorized capital of Belagroprombank (was used before 2004); 4 – deposits by households and legal entities with Belagroprombank; 5 – preferential treatment of Belagroprombank compared with other banks, concerning reserve requirements, terms of refinancing and deposit insurance; 6 – direct financing, budget loans and grants to agricultural enterprises and subsidies by the state.

The second peculiarity is the government’s decision concerning the terms of the loans and the interest rates (see Appendix 1). There is a lack of disaggregated official statistics on the interest rates of these loans, but we may conclude (assuming that all loans granted at a rate higher than the NBB’s refinancing rate are market loans) that the share of market loans in total lending to agricultural enterprises was close to zero in recent years.

The most important institution within the current system of granting loans is Belagroprombank. The government’s share in its authorized fund is about 99%. The share of loans to agriculture in the bank’s credit portfolio fluctuates around 55%. The rest of Belagroprombank’s portfolio is in other sectors and tends to perform better than the agricultural part of the portfolio, resulting in some cross-subsidization of the bank’s agricultural lending activities. Policy makers are convinced that agriculture in Belarus is in need of government financing at concessionary conditions, and Belagroprombank is ordered to provide this finance. *Thus Belagroprombank is not an independent market oriented agent, but rather an institution that acts as the government’s financial agent for agriculture.*

To fulfil its duty given agriculture’s poor financial performance, Belagroprombank needs access to inexpensive refinancing. This has resulted in the use of equity capital as the main source of its asset operations. Therefore, some financial indices of Belagroprombank differ strongly from those of other banks. The equity multiplier (EM) ratio for Belagroprombank was only 1.7 as of April 1st; while the average ratio for the other authorized banks (excluding Belagroprombank) is 6.7 (for a developed universal bank this ratio is usually between 10 and 15). The structure of equity capital is based on the authorized capital that forms 83% of it. *Thus, Belagroprombank does not primarily channel capital obtained from savings into the agricultural market. In order to execute the government’s instructions it needs a steady inflow of inexpensive funds from other sources.*

As illustrated in Chart 1, the system of financing comprises many channels. Many measures are needed to maintain this complicated system of state-owned agricultural enterprises and banks. It is necessary to attract nearly all the forms of support for the banks as direct financial inflows from the state and indirect legal measures. Channel 4 (traditional source for granting loans) and Channel 6 (direct financing of agriculture by the government) exist in any economy and do not create many distortions within the system of agricultural finance. The impact of channel 5 is rather significant, but this tool is used not only in regard to the agricultural finance. In order to analyze the concrete schemes of granting loans, we will select only those measures that are most significant from the point of view of volume. Among them three important tools for subsidizing capital for agriculture stand out: a) providing subsidized loans (directing funds into the bank’s authorized capital) for banks (channels 2,3 in Chart 1); b)

interest rate compensations (channel 2 in Chart 1); and c) administrating and discharging government guarantees (channel 2, in Chart 1).

4. The Lending Procedures For Agricultural Enterprises

As a first stage, every lending procedure includes such aspects as funding and originating a loan. Originating a loan should include a borrower's applying for a loan and a bank's consent to grant it. However, in actual practise the government takes upon itself both of these functions through following procedures:

A) Providing subsidized loans

This scheme is organized as follows: The government notices the agricultural enterprises' financial problems and decides to finance certain of their activities. This may concern a specific enterprise or a group of enterprises that need financing, or it may involve a government program for all agricultural enterprises that meet certain requirements (for instance the acquisition of tractors and agricultural machinery described in Appendix 1, item 1). After the appropriate legal act is passed, Belagroprombank is ordered to service the programs or to give loans to specific enterprises at given interest rates and terms. In order for Belagroprombank to be able to execute these government orders the legal act foresees supplemental payments by the government to the authorized fund of Belagroprombank³. The source of these funds may be the Fund for Agricultural Producer's Support (agricultural fund)⁴. More often these funds are not provided for in any budgeted expenditure item, hence the budget item "deposits and share payments" is corrected (increased) and the resulting deficit is then financed in one of two ways. The first alternative is for the NBB to issue a loan to the government. This was the usual procedure before 2004. The second is an increase in government borrowing by emitting government securities, which are mainly bought by Belagroprombank.

Regardless of the source of the funds, we can classify this tool as a quasi-fiscal operation amounting to direct financing of the agricultural enterprises by the state. The scope of this scheme is significant. During 2003, the authorized capital of Belagroprombank was increased by BYR 333.0 bn. This sum should be reduced somewhat, because some funds were provided to Belagroprombank in order to grant loans for rural home building. But even after this correction at least 50% of all loans granted to agricultural enterprises were actually quasi-fiscal financing⁵.

B) Interest rate compensation

These are considered to be subsidies to the agricultural enterprises and a form of interest income for the banks. According to the Instruction by Minselhozprod "On the way of using funds of the agricultural fund in 2004"⁶, the agricultural fund is the source of the interest rate compensation for enterprises. The interest rate compensation procedure operates as follows. A listing exists of all enterprises that were granted loans with interest rate compensation according to certain legal acts by the President and the government, in which the fixed part of the interest rate for compensation is defined. A portion of funds provided for compensation and certain beneficiaries are approved in this case. Another portion is transferred to the local executive committees who then define the beneficiaries and the rate of compensation for each particular beneficiary. Among the potential beneficiaries are those agricultural enterprises that have accomplished certain activities mentioned in the government's Regulation "On the measures for preparation of the agricultural enterprises to fieldwork", which is a necessary condition for receiving compensation. Compensation is provided according to the residual principle, i.e. the local authorities can provide compensation only within the funds granted by the expenditure plan. If an enterprise fulfils all the requirements of the Regulation but there are no more funds available, the local authority (or enterprise) cannot apply for more funds

³ In some cases the increase in the authorized fund may be accomplished *ex post*. This means that the first step is to provide Belagroprombank with funds in the form of government loans or to allocate deposits to this bank and to issue the corresponding orders to grant loan to particular borrowers. Later these resources are transformed into government payments to the authorized capital of the bank.

⁴ According to legislation (Appendix 1, item 5) the agricultural fund includes funds in the form of capital transfers for increasing the government's share in the authorized fund of Belagroprombank. In 2003 this sum was BYR 78.4 bn, in 2004 BYR 31.0 bn.

⁵ Of the above-mentioned 75% share of the state in all loans provided to agricultural enterprises, 66% can be considered quasi-fiscally financed.

⁶ An instruction released in 2003 included similar regulations.

from the government. Compared with subsidized loans, interest rate compensation required relatively fewer funds in recent years. In 2003, the agricultural fund included BYR 51.675 bn for interest rate compensation and BYR 46.000 bn in 2004.

C) The granting of state guarantees

The provision of state guarantees is regulated in the Regulation "On the way of administrating the government's guarantees". In practise it is quite similar to the previous procedure. State guarantees are provided for export-oriented or for import substitution activities, for activities connected to new technologies and for home building. The guarantees can be administered by the central government through the Ministry of Agriculture and Food (it administrates mainly guarantees for foreign lenders) or by a local authority to which the guarantee sums are transferred by Ministry of Finance, and which then becomes the body providing the guarantees. Providing state guarantees is quite rare and is mainly used when borrowing from abroad. The total sum of the funds anticipated for discharging guarantees in 2004 is BYR 79.02 bn, of which BYR 48 bn is foreseen for guarantees to foreign lenders. In addition, part of the BYR 10.40 bn expenditure item "granting loans" in the agricultural fund may be spent for this purposes. In 2003 agricultural fund did not contain any expenditure item for guarantees: they were administrated based on the "granting loans" item that totalled BYR 31.47 bn. Thus the scope of this instrument is relatively limited within Belarusian agriculture.

Taken together, these mechanisms result in low interest rates for agriculture⁷ as a whole and on loans granted by Belagroprombank compared to loans by other banks (see Table 3).

Table 3. Nominal Interest Rates in 2003 by Loan User and Originating Bank

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Loans to agriculture	10.9	11.1	11.4	11.7	12.0	11.9	11.4	10.3	10.0	9.8	9.2	9.0
Loans to all sectors	33.4	32.9	32.5	31.7	30.8	29.3	27.7	25.8	24.6	23.7	22.4	22.3
Loans by Belagroprombank	21.9	21.6	21.3	21.2	20.5	18.8	17.9	16.6	15.8	15.7	15.6	15.7
Loans by Priorbank	43.6	42.7	43.6	42.7	41.8	39.3	39.1	37.2	33.9	31.8	30.2	29.2
Loans by Belagazprombank	55.0	51.7	49.9	48.6	47.3	43.3	40.0	39.1	38.0	34.4	33.1	32.6
Loans by all banks	27.9	27.5	27.1	26.5	25.8	24.8	23.8	22.2	21.4	20.8	20.0	19.9

Source: National Bank.

Besides lower interest rates, the repayment of loans provided via the schemes outlined above is often not enforced; hence many agricultural enterprises treat their loans not as such, but rather as subsidies. According to official statistics, problem loans do not account for a major share of loans to agriculture. During 2002-2003 problem loans amounted to 7.3% of all outstanding loans on average (24.9% on short-term loans and 0.9% on loan-term loans). The absolute value of problem loans was rather stable throughout the period (it fluctuated between BYR 20,0 bn and 37,0 bn), while the stock of outstanding loans increased substantially (from BYR 259,0 bn on January 1st, 2002 to BYR 629,7 bn on January 1st, 2004). Thus the share of problem loans was falling through the period (8,0% on January 1st, 2002) and amounted to 4.9% on January 1st, 2004 (18.3% and 0.6% for short and long-term loans respectively). However, these statistics are distorted by the fact that loans are often forgiven (or repaid by the government, see for instance Appendix 1, items 4 and 7) and terms of repayment are often changed to the benefit of agricultural enterprises.

Hence, an important outcome of the current system is that agricultural managers are provided with soft budget constraints⁸ and have few incentives to maintain financial discipline. The most important behavioural effect of this on the enterprises is the reduced managerial effort to maximize profits. The incentives to innovate and develop new technologies and products are also reduced. Rather than wooing customers, sellers concentrate on winning the favour of potential supporting organizations (government). There is less need to attend to relative prices on the output or input side if the difference between revenue and expenditure is no longer critical. The ability to buy inputs without footing the bill, knowing that the government will eventually look after it, inflates the demand for these inputs. This system also engenders poor

⁷ According to reasonable estimates, the average interest rate of 10.7% for loans to agriculture in 2003 was about 1/3 of the interest rate that would allow a bank's to cover all of the expenses associated with extending a loan with zero profit.

⁸ See Kornai, Maskin, Roland (2002) "Understanding Soft Budget Constraint", Princeton Institute for Advanced Study, Economic Working Paper N° 19.

repayment morale on the part of agricultural managers; they are 'spoiled' and thus become less attractive customers for commercial lenders⁹

5. Certain Measures That Would Make Commercial Credit More Affordable for Agricultural Enterprises

Hardening budget constraints (i.e. eliminating subsidized loans) would ensure that the scarce capital and investment flows to agricultural enterprises would be put to the best possible uses. The current system of soft budget constraints crowds out market capital and leads to a considerable waste of capital. Any plan of attracting banking capital into agriculture is unrealistic as long as state subsidies destroy the motivation for banks and agricultural enterprises to come to terms and to develop an agricultural lending system based on market incentives. Eliminating this distortion should be a clear long-term policy priority in Belarus. Measures should be taken to alleviate the main weaknesses in the Belarusian banking sector¹⁰. *Among them, the reduction of the state's ownership in the banking system, attracting foreign capital¹¹ to the sector, and the elimination of preferences for state banks should be priority measures. This would enhance competition and hence increase the efficiency of the banking sector, contributing to lower interest rate spreads and more affordable loans for agriculture.*

However, such fundamental reforms require time, and a sudden 'shock' hardening of budget constraints would likely have severely disruptive impacts on agriculture in Belarus¹². Hence, while especially distorting and inefficient measures such as the state-directed provision of subsidized loans by Belagroprombank should be phased out as quickly as possible, more efficient forms of support that are compatible with market incentives for both banks and agricultural enterprises could be emphasized and expanded at least for an interim period.

Interest rate compensation is such a form of support and should be employed as the main tool for subsidizing capital inputs to agriculture. Any agricultural enterprise should be able to apply for interest rate compensation for loans from any commercial bank that it might choose to borrow from. This would enable the government to increase the supply of capital to agriculture while at the same time encouraging competition between banks and ensuring that money is only provided to enterprises that can convince a commercial lender that they are likely to make an efficient use of it.

What might be the main characteristics of such a scheme? First, the lower bound of interest rates to be paid by agricultural enterprises needs to be defined. For example, it could be announced that interest rates on commercial loans to agricultural enterprises will be subsidized to the level of the ½ of the NBB refinancing rate and no lower, without exceptions. Second, the government should announce how much public money is available for interest rate compensation. This amount could be based on the experience of previous years. We suggest that the volume of funds that have been provided to Belagroprombank for subsidized loans in past years be reallocated to the more efficient interest rate compensation scheme.

The procedure of lending itself could look like this: Initially an enterprise applies for a loan to a commercial bank. After all conditions have been agreed to, the enterprise would apply to the local authority, suggesting an interest rate compensation ratio (not more than ½ of the NBB refinancing rate) that should be as low as possible. The local authorities would then rank and approve the applications that they have received based only on the value of the interest rate to be paid, as bid by the agricultural enterprises. The higher the interest rate that the enterprise proposes to pay itself (i.e. the lower the compensation it requests), the more likely that its request will be approved. The total amount of compensation must be within the total sum transferred to the local authority in question, and cannot be increased even if the sum of all requests is greater. As a result, those enterprises that are ready to pay higher interest rates themselves will be 'rewarded' with compensation, which will push all enterprises to compete for capital and hence strive for higher profitability.

⁹ Other sources of soft budget constraints for agricultural enterprises are discussed in GET-IPM PP/4/03 "Subsidizing agriculture in Belarus: declared objective and actual outcomes" (section 3).

¹⁰ For relevant information see GET-IPM PP/1/03 "Belarus' accession to the WTO: The banking services dimension" (section 2).

¹¹ See GET-IPM PP/1/04 "Should branches of foreign banks be allowed to operate in Belarus".

¹² For relevant information see Che (2000) "Soft budget constraints, pecuniary externality, and the dual track system", William Davidson Institute at the University of Michigan Business School, WP No 261.

The last aspect that defines the basis of the system of interest compensation is the beneficiary of the compensation. The current legislation allows a transfer to the agricultural enterprise or to the bank as being equally acceptable. We suggest that banks should be the recipients. First, if the total amount of the subsidy is received before the end of the loan period then there is greater scope for abuse. An enterprise that has already received the compensation could direct it to other purposes than interest repayments to the bank. Second, if the bank receives the compensation right away and directly from the state, the risk of providing loans that it perceives could be somewhat reduced, which may stimulate the bank to grant further loans. *Thus, in our opinion the interest rate compensation should be transferred entirely to the banks, not to enterprises.*

In closing, we repeat that these recommendations focus only on the supply side of the agricultural finance equation. This focus should not detract from the fact that the demand side – i.e. making agricultural enterprises more profitable and putting them in positions to secure and service loans - poses equally important policy priorities. Agricultural policy can contribute to improving the demand side by, among other things, privatising land so that farms will be able to provide collateral for loans, creating a credit registry so that lenders will have access to fair and impartial information on a potential customer's credit history, and establishing bankruptcy procedures so that borrowers have an incentive to generate profits and repay loans. Liberalizing agricultural markets, relieving agricultural enterprises from the burden of the social sphere, and giving farm managers the freedom to restructure their enterprises and determine their own patterns and methods of production would all enhance the ability of agricultural enterprises to generate profits and thus attract and service loans.

Recommendations

- 1. Establishing hard budget constraints within the Belarusian agricultural sector should be defined as a long-term agricultural policy priority.**
- 2. Thorough reforms in the agricultural and banking sectors should be initiated to enhance competition and efficiency on both the demand and the supply sides of the agricultural finance market.**
- 3. Quasi-fiscal financing of the agricultural sector should be reduced. The steady replenishment of the authorized capital of Belagroprombank through the state should be ended.**
- 4. Interest rate compensation should become the main tool of the state's system of agricultural financing over the short-term. This system should be redefined to increase competition between enterprises and between banks and should allow enterprises to choose their lending institutions freely.**
- 5. Interest rate compensation should be paid to the banks and not to agricultural enterprises. This would slightly reduce the risks banks carry and thus give them a slight extra incentive to provide loans to agricultural enterprises.**

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Lector: Irina Tochitskaya

Minsk, June 2004

Appendix 1. Basic Legal Acts concerning the Provision of Funds for Agriculture in 2002-2003

№	Type of legal act	Number and date	Short description
1	Regulation by the Council of Ministers	№1563 of 13.11.2002	Belagroprombank is ordered to grant loans to solvent agricultural enterprises for the acquisition of tractors and machinery. The loans should be granted at 4% for seven years. The Ministry of Finance is ordered to budget for funds to replenish Belagroprombank's authorized capital over the next years.
2	Edict by President	№608 of 16.12.2002	Changes to the structure of expenditures of the Fund of Agricultural Producers Support. Replenishment of the authorized capital of Belagroprombank by BYR 92.0 bn (BYR 88.0 bn from NBB loans, BYR 4.0 bn at the expense of the Agricultural Fund).
3	Regulation by the Council of Ministers	№1817 of 27.12.2002	Implementation of the presidential edict №608. BYR 20.0 bn are granted to Belagroprombank by the NBB for acquisition of agricultural production. Previously granted state loans of BYR 4.0 bn are considered to be the government's share in the authorized fund.
4	Regulation by the Council of Ministers	№1838 of 30.12.2002	Authorization of state loans for a list of enterprises to repay loans granted by Belarusian banks to these enterprises under government guarantees. In total USD 4.1 m plus BYR 2.1 bn were granted. The state loans are to be repaid by 01.01.2005 at an interest rate equal to ¼ of the NBB refinancing rate.
5	Regulation by the Council of Ministers	№638 of 14.05.2003	Granting BYR 78.4 bn to Belagroprombank. These funds are intended for agricultural enterprises to acquire agricultural machinery. During the second half of 2003 the authorized capital of Belagroprombank should be replenished with these funds.
6	Regulation by the Council of Ministers	№689 of 26.05.2003	Recommendation to the authorized banks to grant loans to poultry-farms at the NBB refinancing rate for 5 years.
7	Edict by President	№341 of 31.07.2003	Granting BYR 52.9 bn (not anticipated in the annual budget) of state loans to agricultural enterprises, which are to be used for the repayment of loans previously made to these enterprises by the banks. The budget deficit is to be financed through new government bonds, which are to be sold directly to the authorized banks. Order to the authorized banks to grant BYR 117.7 bn loans (during the second half of 2003) to agricultural enterprises at ½ of the NBB refinancing rate, granting state guarantees on these loans and compensation of ½ of the refinancing rate.
8	Regulation by the Council of Ministers	№1477/26 of 31.07.2003	Granting BYR 12.2 bn of state loans to Belagroprombank (not anticipated in the annual budget). The bank is to grant loans for this sum for acquiring agricultural machinery at 4% over seven years. The funds should be used to replenish the authorized capital of Belagroprombank. The budget deficit is to be financed via new government bonds, sold directly to the authorized banks.
9	Edict by President	№601 of 30.12.2003	Replenishment of Belagroprombank's authorized capital by BYR 65.0 bn.
10	Edict by President	№602 of 30.12.2003	Change in the structure of expenditures of the Agricultural Fund. Order to replenish the authorized fund of Belagroprombank according to Regulation №638 of 14.05.2003.
11	Edict by President	№607 of 31.12.2003	Change in the plan of the consolidated state expenditures. Order to the NBB to allow the government to emit new loans. The funds should be redirected to replenish the authorised funds of Belagroprombank and Belarusbank at BYR 131.1 bn and BYR 13.5 respectively.
12	Regulation by the Council of Ministers	№1726 of 31.12.2003	Implementation of presidential edicts № 601, 602 and 607. Transfer of BYR 274.4 bn to the authorized capital of Belagroprombank.