

MADE IN BRAZIL, ADOPTED IN UKRAINE: INNOVATIVE PRE-SEASON FINANCING FOR FARMERS

Ukraine Crop Receipts – Pre-Conditions For Success

IS IT POSSIBLE TO REPLICATE SUCCESS?



WORLD BANK GROUP

IFC International Finance Corporation

In partnership with:
 Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra
Swiss Confederation

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UKRAINE CROP RECEIPTS PROJECT

UKRAINE CROP RECEIPTS PROJECT is implemented by IFC, World Bank Group, in partnership with the **State Secretariat for Economic Affairs of Switzerland SECO**

 Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra
Swiss Confederation



AIM: improving access to working capital finance for MSME farmers based on the pledge of the future crop

TARGET: \$520 million financing facilitated



TIMELINE: 5 years (2015-2020)

BUDGET: \$5 million advisory project

RESULTS

4,571

CROP RECEIPTS ISSUED

\$1,111,000,000

FINANCING FACILITATED BY FARMERS

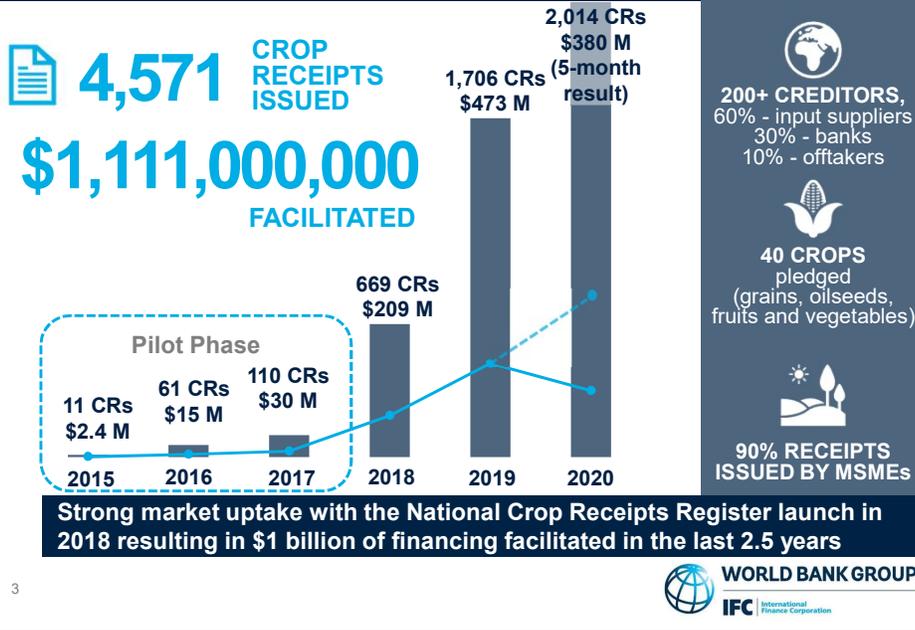
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EXPONENTIAL MARKET GROWTH FROM ZERO TO BILLION



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A FINANCING INNOVATION FOR AGRICULTURE

CROP RECEIPTS CONCEPT AND KEY FEATURES:

- Farmer's unconditional obligation either to supply commodity or pay
- secured by future crop collateral, linked to land plots (own or lease rights)
- Public register - transparency
- Out of court enforcement - protection
- Notarized - guarantee
- Flexible format - versatility
- Formally registered land titles reduce risk of fraud

Crop Receipts enable access to finance for farmers through the provision of inputs on credit terms or financing against a future crop pledge

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WHAT TO BE CAUTIOUS ABOUT?



Land ownership or lease rights must be confirmed ensuring pledged future crops are linked to the borrower's land plot and reduce fraud



Farmers honor their obligation which is unconditional, quick "out of court" enforcement, open access Crop Receipts Register – **reduce side selling**



Can/need to use price and FX-indexed obligation to **hedge risks**



Crop insurance is not obligatory but works well if bundled with a credit product. Less risk leads to cheaper finance



Crop Receipt is not a silver bullet but an efficient pre-season finance instrument. Farmers need many diverse instruments to increase **access to finance throughout the supply chain**

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CROP RECEIPT EVOLUTION IN BRAZIL

1994 - 2004

- Commodity Crop Receipts launched
- Cash settlement option added



2004 - 2012

- Legislative reform, introducing capital market instruments
- First securitization



2012 - 2017

- All major input suppliers issue crop receipts in capital markets



2018-2020

- Updated Rules for agricultural securitization
- Updates to Crop Receipts Law



In Brazil crop receipts annually facilitate around \$17 billion of financing in agriculture

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MODEL COMPARISON: UKRAINE & BRAZIL

BRAZIL	UKRAINE
<p>Crop receipts</p> <ul style="list-style-type: none"> • Notaries register crop receipts in personal paper ledgers • Simplified pre-trial settlement with farmer in case of default • Started from commodity crop receipts (settled by commodity), financial crop receipts (settled by money) introduced later • Crop receipts are issued by farmers, cooperatives, processors... • Crop receipt exist in the form of tradable security • No opportunities for international financing 	<p>Crop receipts</p> <ul style="list-style-type: none"> • Notaries register crop receipts in single electronic Register • Specially designed out-of-court enforcement in case of default • Commodity and financial crop receipts introduced simultaneously • Crop receipts can be issued by the farmers only • Crop receipt is a document of title • Cross-border financing via crop receipts
<p>Ukraine adopted and improved the Brazilian model for crop receipts</p>	

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UKRAINE CROP RECEIPTS DEVELOPMENT MODEL



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BRING IN LIQUIDITY FROM INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL CROP RECEIPTS

Non-residents directly provide cross-border financing for farmers

NEW CREDITORS ➤ **EXTRA LIQUIDITY** ➤ **MARKET GROWTH**

27 CROP RECEIPTS ISSUED

\$9,000,000 FACILITATED

CREDITORS FROM 5 COUNTRIES

Traders from Estonia, Switzerland, Netherlands, UAE, Cyprus

Local farmers benefited from easy access to cheaper credit resources from abroad

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DEFAULTS AS A PROOF OF EFFICIENCY

Slow, costly, corrupt court system makes enforcement unpalatable, but...

OUT-OF-COURT ACCELERATED TRANSPARENT ➤ **CROP RECEIPTS ENFORCEMENT PROCEDURE**

0.95% **HANDLED VIA OUT OF COURT ENFORCEMENT**

NON-PERFORMING LOANS ➤ *50% - fully resolved
25% - partial settlement
25% - handled to court*

- *Proved in practice, is used by creditors*
- *Protects creditors' rights*
- *Stimulates creditors to monitor collateral for better credit risk management*

Ensuring efficient enforcement in case of default increase the sustainability and uptake of crop receipts in the market

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MAKING CROP RECEIPTS BETTER, FASTER, CHEAPER

**NEW FORM OF
CROP RECEIPTS &
EXPANDING CURRENT
OPPORTUNITIES**



SECURITY
existing in a form of
**ELECTRONIC
DOCUMENT**



options of standard
or flexible format

**DRAFT LAW ON
AMENDING CROP RECEIPTS LEGISLATION**
 Tabled in Parliament in January 2020
 First reading scheduled for June 2020

EASIER AND CHEAPER TRANSACTIONS

DIVERSIFIED AGRICULTURE VALUE CHAINS

REFINANCING OPPORTUNITIES

MORE SECURED ENFORCEMENT


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MAKING CROP RECEIPTS BETTER, FASTER, CHEAPER

	CURRENT LAW	NEW LAW
WHO CAN ISSUE	 crop farmer	 crop, livestock farmers, food industry, cooperatives
HOW TO ISSUE	 via notary (land rights validation and recording in the Crop Receipt Register)	 via a notary or signed with e- signature (land rights are validated automatically within register integration)
HOW MUCH DOES IT COST	 6\$ per each land plot + state registries costs	 state registries costs
WHAT DOES IT GIVE	 access to finance  one season finance	 better access to finance (international + capital markets)  multi year finance


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RECIPE OF SUCCESSFUL IMPLEMENTATION FOR CROP RECEIPTS



Proactive government



Out of court enforcement



Public register



Innovative partners



Input suppliers familiar with the instrument



Developed and diversified supply chains (competition of traders, processors)

Combination of factors ensuring successful implementation of the new instrument in the agriculture

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WHAT TO LOOK AT TO CONSIDER CROP RECEIPTS

GOVERNMENT REQUIREMENTS

- ✓ **POSITIVE AND PROACTIVE RELATIONSHIP** with the Government
- ✓ **GOVERNMENT SEE THE VALUE OF THE INSTRUMENT** to increase access to finance to farmers
- ✓ **GOVERNMENT CAPACITY AND WILLINGNESS TO:**
 - support/update laws/regulations to enable crop receipts (**1 year**)
 - operationalize a centralized registry (**1 year**) or make the required adaptations to existing registers (**4 months**)
 - commit resources to maintain the register, update information and amend complementary regulations as required
 - improve enforcement to increase creditor confidence to use the instrument (**1 year**)



Proactive Government establishes a strong enabling environment

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WHAT TO LOOK AT TO CONSIDER CROP RECEIPTS

ECONOMIC REQUIREMENTS

-  Agriculture is an important part of the economy, with developed market organization
-  Agricultural **POTENTIAL IS HIGHER** than existing production, agriculture can grow
-  **COLLATERAL IS REQUIRED** to access working capital finance
-  **CROP CAN BE TURNED IN COLLATERAL** for working capital financing
-  **DEVELOPED AND DIVERSIFIED VALUE CHAINS** reduce the risk of investing in inputs, which increase productivity and profitability

Positive economic environment of the country increases likelihood of the successful implementation of crop receipts in the market

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WHAT TO LOOK AT TO CONSIDER CROP RECEIPTS

PROJECT MANAGEMENT

-  Use **STUDY-TOURS** to help stakeholders visualize and be courageous/motivated to try the instrument
-  Blend with **OTHER INSTRUMENTS**, ie. forward contracts, insurance, value chain, contract farming (not necessary but help build success in less developed and more risky sub-sectors)
-  Start on **EXPORT-ORIENTED** value chains to increase use of instrument (leadership, innovation, build the ecosystem of knowledge) then move to smaller farmers in unique crops
-  Sector-wide **WORKING GROUPS** early-on help to engage key stakeholders to be proactive in the implementation
-  Diversify **CREDITORS** beyond financial sector to stimulate competition: crop receipts enable input suppliers, traders to provide financing, and even strengthens peer to peer lending
-  **TRAIN** users to ensure adoption and building market capacity for more complex functions
-  Never stop **INNOVATING** adaptation

Managerial secrets for replicating Ukraine Crop Receipts Project's success

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OTP BANK SUCCESS STORY



Three easy steps to get financing via crop receipts



Day 1
Preliminary decision



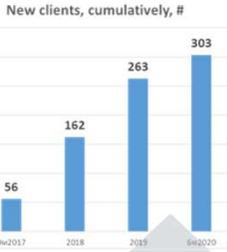
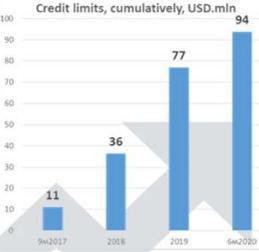
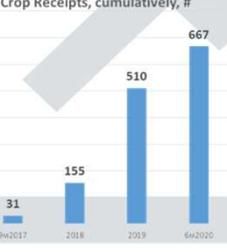
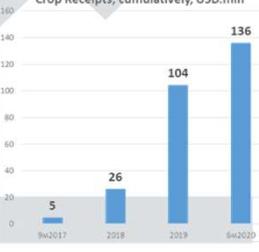
Day 4
Final decision



Day 4
Loan agreement signing

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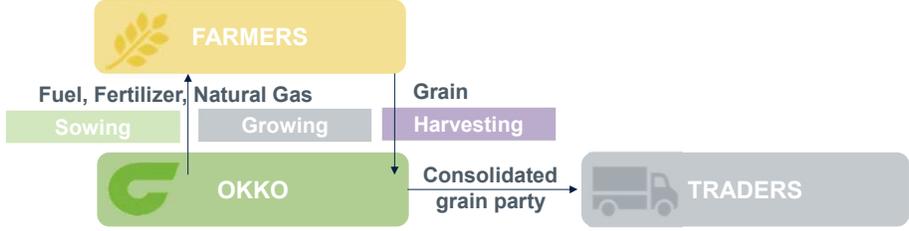


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GALNAFTOGAZ SUCCESS STORY

GNG developed and introduced the **Farmer Supply Program** – trade finance for agricultural producers (GNG provides fuel, fertilizers, or financing with future grain delivery, covering interest, exchange rate differences)



In the **Farmer Supply Program** GNG signed **285** contracts valued \$65 M, including **237** valued \$38 M secured by crop receipts. GNG increased use of crop receipts from **1** in 2017, 33 in 2018 and 132 in 2019 to **106 in 2020 (5 months)**.



GNG sees the main risk in using crop receipts in farmer's fraud. The farmer gets financing then changes the land lease agreement to another legal entity, creating a crop receipt that cannot be enforced when a farmer does not fulfill. However, this can be mitigated with more land ownership, pledging other collaterals.



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PANEL DISCUSSION

Q&A SESSION

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POINTS TO KEEP IN MIND

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COLLATERAL: Crop receipts provide pre-season financing based on the pledge of future crop, an efficient instrument for agricultural loans
- 

ADMINISTRATIVE PROCEDURES: Crop receipts are easy to use for creditors and farmers, with a centralized register
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EVALUATING CREDITWORTHINESS: Creditors use CLARA or historical performance analysis to provide cash-flow based lending
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RISK MANAGEMENT: mitigating weather risks with crop insurance, managing price risks with hedging and re-financing options
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FLEXIBILITY: in comparison to contract farming crop receipts provide farmers with more choices and freedom to develop

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SUMMARY: WIN-WIN TOOL FOR CREDITORS AND FARMERS

CREDITOR	FARMER
UNCONDITIONAL OBLIGATION: Performance secured	FAST AND CHEAP: Easy to issue
CROP RECEIPTS REGISTER: Flexibility and transparency	SOURCE OF CREDIT HISTORY: Able to build credit history
OUT-OF-COURT ENFORCEMENT: Simple and clear legal process	\$400 TO \$20 MILLION: Accessible and understandable
FLEXIBLE TO MEET VARIOUS BUSINESS MODELS: Opportunity to generate new business	FIXED OR INDEXED OBLIGATION: Able to manage commodity price and FX risk
<p>Balance of benefits of both parties ensure wide adoption of the instrument and dynamic market growth</p>	

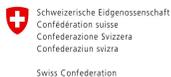
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ANY QUESTIONS?

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