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Minimizing Risks in Project Financing of Agriculture

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Abstract: The article presents the importance of project financing in agriculture, the composition of measures to minimize risks in this process, the mechanism of project financing and its positive impact in the agricultural sector.

Key words: project financing, agriculture, risk.

Introduction.

In conditions of increasing competition between producers of agricultural products, lending to subjects of the agricultural sector is becoming very difficult. For all subjects of the agricultural sector, in particular farms, the improvement of their financial condition largely depends on minimizing losses, on the costs and creditworthiness of the producer of agricultural products (in particular, cotton, grain). Creating conditions for financing project investment can serve as one of the possible options for improving their financial situation, reducing in the future the costs of producing socially important agricultural products, maintaining a stable system of financing costs in the broad sense of the word through advances against future harvest by procurement enterprises, enterprises for processing and selling agricultural products.

Although even now advance funds for the future harvest are provided to farms in the amount of up to 50% of the cost of raw cotton and grain supplied by them for state needs in accordance with contracts. Although the allocation of funds is carried out in stages, taking into account the deadlines, limits and standards established by technological maps for the production of each agricultural crop, it does not solve the problem of more efficient work of subjects of the agricultural sector, in particular farms. Lastly, other sources of financing are needed to ensure their competitiveness in the globalized economy; in our opinion, these are project financing of investments.

The project financing mechanism can become an important tool for stimulating the production of agricultural products and help support production in conditions of limited access to credit resources of commercial banks, and ensure the preservation of the production potential of entities serving the farm. Undoubtedly, a household, having gained access to monetary resources, may not incur interest costs on the funds received.

To be fair, it should be noted that most farms may be overloaded with various credit obligations or they do not require such capacity for their own products, which affects the degree of risk.

In the agricultural sector, such risks can be minimized. The initiators of the project or neighboring farms will either consume these products themselves (for example, a feed mill, meat processing plant, elevator), or supply them to retail chains. At the same time, farms are overloaded with credit obligations and do not have significant free cash resources.

Therefore, with project financing, project initiators must create an organization for the implementation of this particular project, the so-called project office (PB, which could act as legally and economically independent, having a separate balance sheet, free from any obligations of the project initiators). In this design bureau, in addition to the initiators of the project, representatives of the creditor bank, suppliers of equipment, raw materials, or buyers of future products should also take part (be the owners).

Consequently, the main risk will still fall on the creditor bank, and given the complexity of the project and to increase the profitability of such a loan transaction, the creditor bank is usually one of the founders of such a PB. Upon completion of the project and after repayment of the loan, banks should be able to exit the project, but at its new value, taking into account the increased capitalization of the object.

The share of the creditor bank should not exceed 30% of the authorized capital created by the design bureau plus lending to the project. When leaving the project, after its successful completion, the cost of this share can increase significantly and is no longer calculated using the cost method, as when investing in a project, but based on the volume of revenue and profitability. Thus, the lending bank can increase the profitability of the loan project. In addition to the profitability of the transaction, the creditor bank, having become one of the founders of the PB, will be able to introduce its representatives to the board of directors and executive bodies to ensure control over the use of the loan.

As noted above, project financing objects are more risky, the share of equity capital of project participants is also somewhat higher and can be up to 30%. This share of own funds can be determined from the amount of project costs. Only a few farms can collect such amounts by pooling their funds. This is very important for project financing.

Let us also illustrate this with the example of the Samarkand region, where it is planned to implement a project to build a plant for the production and processing of agricultural products. The Samarkand region annually exports tens of thousands of tons of tomato paste to Russia. In this regard, the Samarkand region is traditionally a “garden” of Russia. Climatic conditions and the presence of irrigation canals with cheap water make it possible to grow tomatoes in large volumes in the Samarkand region. However, it is impossible to quickly sell this perishable product, which is why its production volumes in the Samarkand region have fallen. Even individual branches of the tomato paste production plant were closed due to a lack of funds for the modernization and reconstruction of existing plants in order to produce higher quality products, in particular for export not only to the Russian Federation, but also to European countries and others.

In order to optimally use the region's land, develop profitable production and replace imports, the idea arose to build a modern plant for the production of tomato paste, costing more than 100 thousand tons per year. At the same time, compared to manufacturers from other countries, we have two main competitive advantages: low transportation costs in Russia.

Farms that are adapted to serve the necessary agricultural products of such factories are provided with tax incentives, which not only contributes to the equalization of high-quality products, but also creates a sustainable system for selling their own products in order to meet the needs of customers, i.e. potential clients producing finished products or processing them for subsequent sale through retail chains of fresh agricultural products.

Increasing the capacity of such plants largely depends on the state of the material and technical base of farms. To ensure the latter, it is necessary to finance investment projects by commercial banks that can ensure that farms achieve their goal - to be financially stable and profitable.

It should be noted that investment projects must be profitable. Payback of the project in a short period of time, i.e. 3-4 years and no more can be beneficial, both economically and socially for all interested potential participants.

The construction of factories in accordance with investment projects of this scale will increase the production of finished products and guarantee sales. However, as already mentioned, further implementation of the project requires significant investments. At the same time, it is impossible to rely on one's own resources; not only additional subsidies are needed to provide farms with the necessary equipment, but also to attract credit resources from commercial banks on preferential terms. At the same time, one should not lose sight of the use of historical foreign experience. With the support of the state, it is necessary to develop a program of measures to stimulate investment by agricultural entities and, moreover, farms.

The project is estimated at more than $10 million and can be financed in two stages: in the first year, investments will amount to $5 million and a year later – another $5 million. At the same time, a project plant can raise its own funds and invest 10-15% of its cost in the project, but these funds are not enough. For this reason, independent implementation of the project is impossible, and its implementation is postponed indefinitely until a circle of additional potential participants is formed.

Thus, the investment project agroarchitecture is a classic example of the possible use of a form of project financing in agriculture, in which producing farms, transport companies, trading and purchasing companies, banks and territorial development funds, investment funds can take part. , foreign participants.

So, project financing should be understood as a combination of the capital of the project initiators (equity capital) and borrowed funds, and the borrowed part significantly exceeds the first.

At the same time, a significant increase in the number of farms as the main link of small business in rural areas and an increase in the share of agricultural products supplied by them for state needs (about 31% of grain and 30% of raw cotton) necessitate not only increasing the efficiency of the current advance mechanism, but puts on the agenda the need for project financing at the expense of commercial banks for their financial support. The implementation of project financing of farms requires the creation of a legal basis for reforming agrarian relations in rural areas. In economic terms, not only the growth and stability of the financial state of farms depends on project financing of subjects of the agricultural sector and the efficiency of its development, but also the pace and efficiency of its development depends on the standard of living of the majority of the population living in rural areas, and the material well-being of the entire population of the republic.

It follows that project financing of subjects of the agricultural sector, in particular farms, can play an important role in the socio-economic development of the territory.

The full-scale introduction of more advanced project financing mechanisms will undoubtedly bring to the fore the provision of loans provided with minimal risk, as one of the main instruments for the repayment of allocated loans for projects. Of course, the number of farms with access to highly liquid forms of collateral is not large. In order to simplify the mechanism of project financing, it is very important to ensure access of farms to projects with low risks, which can be financed within the framework of the existing structure or taking into account the risk of the project not exceeding the capabilities of the project initiator.

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