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## **ИНСТИТУЦИОНАЛЬНЫЕ И ОРГАНИЗАЦИОННЫЕ ОСНОВЫ КРЕДИТОВАНИЯ АГРАРНОГО СЕКТОРА В УКРАИНЕ**

**Анотация.** В данной статье рассмотрены институциональные и организационные основы кредитования аграрного сектора экономики. Проведен анализ функционирования институтов кредитования сельхозпроизводителей. Дано определение системы сельскохозяйственного кредитования в виде совокупности институциональных форм и методов предоставления кредитов на договорных условиях. Выявлено возрастание объемов кредитования экономики кредитными союзами по сравнению с банками.

**Ключевые слова:** кредитование, кредитные союзы, аграрный сектор, институциональные основы.

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## **ИНСТИТУЦІЙНІ ТА ОРГАНІЗАЦІЙНІ ОСНОВИ КРЕДИТУВАННЯ АГРАРНОГО СЕКТОРУ ЕКОНОМІКИ**

**Анотація.** У даній статті розглянуті інституційні та організаційні основи кредитування аграрного сектора економіки. Проведено аналіз функціонування інститутів кредитування сільгоспвиробників. Дано визначення системи сільськогосподарського кредитування у вигляді сукупності інституційних форм і методів надання кредитів на договірних умовах. Виявлено зростання обсягів кредитування економіки кредитними спілками в порівнянні з банками.

**Ключові слова:** кредитування, кредитні спілки, аграрний сектор, інституційні основи.

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## **INSTITUTIONAL AND ORGANIZATIONAL FRAMEWORK OF CREDIT GRANTING OF THE AGRICULTURAL SECTOR IN UKRAINE**

**Annotation.** In this article institutional and organizational framework for credit granting of the agricultural sector of the economy has been studied. The works of scientists is considered the essence of the mechanism of credit granting to small businesses, especially bank credit granting to the agricultural sector, analyze the features of the financial and credit policy, etc. The ways to organize specific credit relations in the agricultural sector as established institutional forms that determine the order of interaction of agricultural producers, lenders, and other state entities have been identified. The analysis of the functioning of credit institutions for farmers has been made. The analysis of the functioning of formal enshrined in law, and informal defined in the norms, the rules of behavior, and institutions of the banking system which ensure an orderly interaction of economic entities in the market of borrowed resources has been carried out. An increase in the volume of credit granting of the economy by credit unions, in comparison with banks has been revealed. Basing on the study of data of credit granting of the economy it has been established that the volume of credit granting by credit unions increased in comparison with banks. The definition of a system of agricultural credit in the form of a set of institutional forms and methods of credit granting on a contractual basis has been provided.

**Keywords:** credit granting, credit unions, agricultural sector, institutional framework.

**JEL Classification:** Q 14, E 51.

**Formulation of the problem.** Liberalization and deregulation of the economy in Ukraine is based on the creation of the legal basis for regulating economic relations, the

formation of an attractive investment climate that fosters the development of a variety of business forms. The increasing role of small and medium-sized enterprises in the agricultural sector contributes to the efficiency of production and creates incentives to expand business activities aimed at achieving sustainable economic growth of the state.

In conditions of insufficient equipment of the agricultural sector and lack of working capital the organization and functioning of the mechanism for crediting of agricultural producers relates to the important tasks. Ukraine has a unique natural potential for agricultural development. Despite the seasonal nature of agricultural production, the agricultural sector is seen as a potential source of economic growth of the economy. As a result of systemic change and the transition to private ownership of land in the village more than 8 thousand of agricultural enterprises of market type and more than 40 thousand farm enterprises were created. The use of bank credit is considered as an additional source of fund-raising, which allows achieve a multiple effect in the process of expanded reproduction.

#### **Analysis of the research and formulation of the problem**

The works of Russian and foreign scientists G. Azarenkova, A. Belomestny, L. Vdovenco, O. Vdovenco, I. Voloshin, V. Hmyrya, Yu Luzan, O. Lubitsch, D. Muraliidharan, P. Sabluk, V. Yurchishin study the essence of the mechanism of credit granting to small businesses, especially bank credit granting to the agricultural sector, analyze the features of the financial and credit policy, etc. [1, 2, 3, 4, 5, 6]. Most studies point out the effects of the financial and economic crisis 2008 - 2009 in Ukraine, which led to a banking crisis, expressed in the reduction of tax revenue and the outflow of funds from the banking system. International experts point out a tendency to reduce the use of loan capital in the banking system in the world, the displacement of the banks by shadow banking, falling of credit granting standards. As a result, the G 7 countries have the tendency of exceeding of the ratio of assets to GDP by 9%, which is accompanied by reduction in liquidity in the secondary market. One third of Ukrainian banks in 2014 have experienced Problems with the current liquidity. For the condition of April 1, 2014 Savings Bank (27 mil. UAH) Privat (12.8 billion UAH) and Delta Bank (9.3 billion UAH) had the biggest debts to the National Bank [7, p. 10]. Due to the reduction in the ability of banks to create financial instruments market after the crisis correction in the bond market was intensified, instability of the financial system has increased [6, p. 4]. The growth of currency devaluation is accompanied by increased costs of the banking sector. The increase in interest expense of banks forcing them to pursue a policy of prolonging and restructuring of loans, offering customers credit vacation, and in a number of banks the introduction of the temporary administration and the beginning of the liquidation process has been noted. This forces financial institutions to reserve more funds. Capital adequacy ratio (H2) in the entire banking system has reached 15.87% at the end of 2014, although at the beginning it was equal to 18.26% [7, p. 8]. Lowering of the regulatory capital adequacy index may violate norms of compulsory redundancy and reduce the reliability of the banking system in the fulfillment of obligations to clients. In particular, there was a decline of banks stock in the norm of "large loans", which was caused by the concentration of the loan portfolio in the financial institutions that service specific business - groups. The maximum size of credit issued to one person, was 22.92%, while the standard in 2014 was not more than 25%.

Under the influence of the factors of turbulence and unpredictability of the international financial system, the collapse in commodity prices and the deterioration of the macroeconomic situation in Ukraine the following trends have been noted: the decline of confidence in the banking system; the growth of debt to financial institutions; increase of the number of loan defaults; difficulties with paying for the previous loans, etc.

Analysis of data of bank credit granting to agricultural sector indicates a lack of trust between banks and potential borrowers in the process of crediting. The growth of bad loans, the share of which in the agricultural loan portfolio of domestic banks rose up to 10%, has been recorded in the agricultural sector. [1, p. 31.] Pointing to the decline in bank credit

granting, A. Lubich, I. Voloshin propose a strategy for improving the controllability of Ukrainian banks on the basis of the simulation of the operation and evaluation of potential risks [3, p. 98]. P.Sabluk, Y. Luzan consider that application of the system of coefficients of index-linking of the value of agricultural land is unreasonable, as it leads to the loss of significant funds from the budget [4, p. 10].

All of the above-mentioned leads to the relevance of the study of institutional and organizational bases of credit granting in agricultural sector. Finding ways and forms for enhancing agricultural activity is associated with an increased share of the agricultural sector in the consolidated budget of Ukraine, which, according to experts, constitutes 9-10%. Reduction in banks' liquidity was accompanied by rising prices of banking loans. Restrictions in the provision of loans and tightening the conditions for assessing the creditworthiness of borrowers led to a reduction of loans to farmers.

### **The results of the study**

The need for reformation of the agricultural sector is due to its importance for the development of the national economy. The specificity of the organization of activities in agricultural sector is related to the lack of floating assets, which stipulates the use of the loan. Decentralization of crediting operations, the establishment of credit cooperatives, activity of vertically and horizontally integrated credit intermediaries, fundraising of funds by the state is the basis for the mechanism of self-development of the agricultural sector. The functioning of the variety of subjects of credit relations includes state or para-banking intermediaries. Long-term strategy of economic development of Ukraine provides the solving of two tasks: to ensure of saturation of the domestic market in agricultural products and to create conditions for its exports abroad. Food supply security is determined by socio-economic development of the country, characterizes both qualitatively and quantitatively the condition of agriculture. Food security indicators are used to assess the level of profitableness of conditions for its provision, as well as to define the low level of food losses. In 2014, Ukraine ranked 52 (out of 109 countries) in the global index of food security, having received 56.4 points [9].

The purpose of this article is to analyze the existing approaches of credit granting, studying of institutional and organizational bases of the relationship between the lender and the borrower in the agricultural sector.

Using of evolutionary theory extends the study and understanding of economic phenomena. V. Volchik points to the complexity of the analysis of the evolution of the system, "considering the dynamics of the economic orders, institutionalists pay special attention to the change of quality (institutional) characteristics of economic systems. The complexity of the study of the evolution of institutions in the discussions led to the blaming of mostly old (traditional) institutionalists in non-theoretical, or even antitheoretical analysis of institutional dynamics "[10, p. 155]. Under the Institute we will consider rules, regulations, customs, traditions, the functioning of which provides the optimal organization, coordination behavior of economic agents. Institutions act as limiters of behavior of economic agents, forms of economic cooperation by their organizing and simplifying. Reducing of transaction costs is the most important function of institutions.

Banking system shall be represented as a set of macro-level institutions, including formal, enshrined in law, and informal defined in the rules, norms of behavior aimed to ensure an orderly interaction of economic entities in the market of borrowed resources. The specifics of the banking system are reflected in the approach O. Lavrushina, and include the following main institutions: the need for a set of banks, non-bank credit institutions and banking infrastructure to ensure its sustainable development [11, p. 155]. Credit institutions (banks and non-bank credit organizations), as well as representative offices of foreign banks represent the basic institutions, that carry out credit granting to agricultural sector. Functioning of credit institutions accumulates temporarily free funds and produces their redistribution in accordance with the needs of agricultural producers in the formation of funds at various stages and phases of the process of reproduction. The nature of the relationship and

interactions between the lender and the borrower determine the direction of collective and individual actions of economic subjects of credit granting. Institutional forms represent established ways of organizing of specific credit relations in the agricultural sector, which show the order of interaction of agricultural producers, lenders, the state, and other entities. Credit relations imply acceptance of a number of obligations, including the provision of credit in accordance with the loan agreement by the lender and the borrower, which defines the obligations of the bank and the borrower's release and return of borrowed funds in specified amounts and terms agreed by the parties. At decision-making on a loan provision, credit institutions are analyzing the loan amount, creditworthiness, financial monitoring of the borrower, the level of security of the loan.

Investment attractiveness of the borrower can be considered as the fundamental features of the credit relationships, and is a prerequisite for the functioning of the entire credit system. Turnover of funds of the participants of reproduction process serves as the economic basis of investment attractiveness. During the choice of potential borrower equity lender is interested in placing funds at the contractor's with positive credit and commercial reputation. In order to analyze the financial condition of the borrower, the bank evaluates the investment attractiveness of a particular borrower. To conduct a comprehensive evaluation of investment attractiveness of the borrower a rating system in which each component has its own rating depending on its relevance analysis is used. The analysis of the liquidity ratio, own funds index and other indicators allow us to estimate the solvency and financial soundness of the borrower. Result indicator in the ranking in the class of investment attractiveness in the amount of points received determines the degree of investment attractiveness of the borrower [12, p. 81-82]. The proposed methodology is applied in the assessment of the financial condition of the borrower.

When credit granting to a particular borrower, the determination of individual limits, which sets the maximum amount of credit that can be received by the borrower during the term of validity of the credit agreement relates to the most important issue. In its definition different calculation methods are applied; these methods include indicators that evaluate the property of the borrower, its financial position, as well as various other factors. G. Myskiv has conducted a study of the effectiveness of credit granting activities of commercial banks in Ukraine in conditions of constant increase of interest costs and decrease in net interest income during the period from 2009 to 2014. Our results show a decrease in credit activity of commercial banks in Ukraine, which is confirmed by the dynamics of the calculated profitability ratios and profitability of credit operations at the beginning of 2014 [13, p. 81].

In conditions of the lack of own funds, economic and technological backwardness of agriculture an important task is to increase investments to stimulate economic growth. Agriculture is the only sector in Ukraine, which provides a continuous growth. According to the IFC (International Finance Corporation), in 2010 prices, gross product of domestic tillers for four years, including in 2014, has grown from 64.9 billion to 101.3 billion. UAH, which amounted to more than 10% per year [14 p. 4]. Institutional elements of agricultural credit granting form the structure, the functioning of which is implemented by means of specific institutional forms that manifest themselves in the established rules governing the behavior of agricultural producers, lenders, states, and other entities. The effectiveness and the degree of compliance with the rules and the rights of creditors and borrowers are achieved through the mechanism of credit granting. Along with the commercial banks, credit cooperatives and other financial institutions, the basic institutions of the credit system in agriculture include bank, cooperative, mortgage and other forms of credit. Formal and informal norms regulate, restrict and regulate the interaction between banks with borrowers, cooperatives and their members in order to implement their economic interests.

Agricultural credit system is a set of institutional forms and methods of credit on a contractual basis. It includes agricultural producers as an object of investment funds (the borrower), a potential lender willing to invest in its development funds, and control of credit

relations - the state. The integrity of the credit system is achieved by allocating and implementing a unified objective function, optimizing the cash flow. The mechanism of functioning of the credit system is directly dependent on the organizational structure, organizational and legal forms of implementation of credit operations, forms and methods of credit granting and credit and settlement relations.

Analysis of the data of the National Bank of Ukraine shows that in the first half of 2014 Ukreximbank, Credit Agricole Bank, First Ukrainian International Bank, Ukgazbank, Fidobank were the leaders in raising funds to legal entities and natural persons and held a stable position among the banks of Ukraine (Table. 1, 2) [17].

*Table 1*

*Banks - the leaders on the inflow of funds in the first half of 2014 (legal entities)*

No.	Name of the bank	Legal entities, million UAH
1	Ukreksimbank	6478
2	Credit Agricole Bank	3135
3	PUMB	2806
4	UGB	1794
5	VAB Bank	1416
6	Prominvestbank	1294
7	Finances and Credit Bank	1212
8	Privatbank	1107
9	Fidobank	890
10	Pivdennyi	797

*Table 2*

*Banks - the leaders on the inflow of funds in the first half of 2014 (natural persons)*

No.	Name of the bank	Natural persons, mil. UAH
1	Ukreksimbank	2115
2	OTP Bank	1494
3	Finances and Credit Bank	1436
4	Alpha Bank	835
5	UGB	758
6	Fidobank	635
7	PUMB	551
8	Pivdenkombank	476
9	Credit Agricole Bank	468
10	ProCredit Bank	452

Due to the reduced liquidity of a number of Ukrainian banks forced to implement policies aimed at preserving and maintaining of assets with a decrease in the volume of credit granting. Problems with the current liquidity led to insufficient refinancing of the National Bank of Ukraine, financial institutions have not had securities. The largest value of debt on April 1, 2014 was at the following banks: Savings bank - 27 billion. UAH.; PrivatBank - 12.8 billion UAH. and Delta Bank - 9.3 billion. UAH [15, p. 10] Reducing the cost of certain types of refinancing by the National Bank of Ukraine, accompanied by a decrease in the discount rate to 19%, should be aimed at facilitating of the repayment of debts by banks and reducing the pressure on the capital of financial institutions.

With the increased macroeconomic instability deterioration of solvency and fulfillment of contractual obligations of borrowers, accompanied by rising credit risk, lower quality of the loan portfolio has been marked. Moreover, it should be noted that Privatbank,

Savings Bank, VTB Bank, Savings Bank of Russia, Nadra were among the leading banks in terms of outflow in the first half of 2014 in Ukraine (Table. 3, 4) [17].

Table 3

*Leading banks for outflow in the first half of 2014 (legal entities)*

No.	Name of the bank	Legal entities, mil UAH
1	Ukrsotsbank	2119
2	DV Bank	2055
3	ING Bank Ukraine	1715
4	Deutsche Bank	1424
5	Savings Bank of Russia	1305
6	Raiffeisen Bank Aval	954
7	VTB Bank	787
8	Bank The First	770
9	Classicbank	557
10	Bank3/4	549

Table 4

*Leading banks for outflow in the first half of 2014 (natural persons)*

No.	Name of the bank	Natural persons, mil UAH
1	Privat	1 2806
2	Savings Bank	2536
3	VTB Bank	2127
4	Savings Bank of Russia	1754
5	Nadra	920
6	Ukrbusinessbank	863
7	Aktabank	761
8	Bank of Cyprus	605
9	Russian Standard Bank	559
10	BTA Bank	420

Ukraine has not fully implemented the existing potential in the development of agriculture. Low labor productivity, competitiveness of small and medium-sized farms, the existence of serious financial constraints and poorly developed market infrastructure of the sector prevent the transformation of the industry in the locomotive of economic growth. Conditions of radical market reforms in the agricultural sector of Ukraine is the change of the institutional framework of land tenure and land use, the development of market institutions, primarily in the resource sector, which is the basis for successful economic reform. According to experts, the general need of the agricultural sector in financing constitutes from 90 to 250 billion UAH. And from this amount the annual need for working capital reaches 7.8 billion UAH. And the rest is up funds for the replacement of fixed assets. The main banks providing loans to the agricultural sector are "Raiffeisen Bank Aval", "Credit Agricole", "Prominvestbank", "Savings Bank" Ukrsibbank, including the functioning of a developed network of branches in Ukraine.

Bank credit granting to the agricultural sector is difficult due to the existence of high risks associated with the instability of the financial situation of borrowers, the instability of budget execution, the seasonal nature of agricultural production and the dependence on climatic conditions. Absence of liquid loan security is expressed in the fact that capital assets cover more than 70% of the total value of their property. A major part of them are fixed assets that are illiquid due to the high level (80%) of depreciation and obsolete. It should be noted

potential problems associated with the implementation of agricultural production and delays in revenue from its sale. The growth of indebtedness in the payment of loans by agricultural organizations complicates the relationship between the banking system and the enterprises of the agricultural sector.

Despite the decline in credit granting to the agricultural sector by banks, credit unions continue to provide actively their services. The portfolio of credit unions is dominated by consumer loans. According to the Ukrainian association of credit unions in the first quarter of 2014 consumer loans constituted about 530 million UAH, for the construction and repair of housing - more than 160 million UAH. Agricultural sector has received less than 70 million UAH [15, p. 10]. It seems reasonable to conduct credit unions policy support credit granting to small and medium-sized farmers in Ukraine.

Within the frameworks of the partnership program of United States Agency for International Development (USAID) five credit unions in Ukraine will receive 6 million USD for the development of the agricultural sector in Lviv, Kherson and Kharkiv regions for 8 years. The increase in credit granting to agricultural producers through the mechanism of risk allocation will meet the financial needs of farmers, expand the sources of financing for stimulation of economic development. It seems appropriate to extend the powers of credit unions to provide them with the right to credit not only individuals, but also small and medium-sized businesses that will contribute to increase in the loan portfolio and address the problem of financing their development.

The share of trade credits in total sales remained stable and high enough up to an average of 50% in Ukraine. Increased use of trade credits by suppliers to distributors, by distributors to farmers and end consumers occurs due to the lack of funds and state support from farmers. Commercial loans are provided to customers with a good reputation and can be issued without a mortgage. Factor of trade credit is the amount of consignment, evaluation of mortgage, insurance risks.

Criteria for participation of agricultural producers (borrowers) in the agricultural credit granting is achieving the parameters of credit and investment attractiveness, which is determined by high production and financial performance, rational policy in the markets and the use of advanced technologies. Land reform and calling off the moratorium on transactions on purchase and sale of land will allow major agricultural organizations to attract necessary long-term loans to finance investment projects. The main result of production and business activities of any organization is the agricultural crop and animal production, which can serve as a mortgage security for short-term credit granting. Creation of credit cooperatives in rural areas, the introduction of the practice of granting loans to the organizers of farms under special conditions will be aimed at creating a competitive agricultural sector.

### **Conclusions:**

The ways to organize specific credit relations in the agricultural sector as established institutional forms that determine the order of interaction of agricultural producers, lenders, and other state entities have been identified. The analysis of the functioning of formal enshrined in law, and informal defined in the norms, the rules of behavior, and institutions of the banking system which ensure an orderly interaction of economic entities in the market of borrowed resources has been carried out. Basing on the study of data of credit granting of the economy it has been established that the volume of credit granting by credit unions increased in comparison with banks. The definition of a system of agricultural credit in the form of a set of institutional forms and methods of credit granting on a contractual basis has been provided.

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