

Proceedings of
the 37th International Business Information Management Association Conference
(IBIMA)

30-31 May 2021, Cordoba, Spain

ISBN: 978-0-9998551-6-4

ISSN: 2767-9640

Innovation Management and information Technology impact on Global Economy
in the Era of Pandemic

Editor

Khalid S. Soliman

International Business Information Management Association (IBIMA)

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Development of Bank Lending as A Factor of Economic Stabilization of The Agricultural Sector in The Economy

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Abstract

The situation on the market of bank lending in the agricultural sector is analyzed. The main factors of demand for credit resources from agricultural enterprises are identified. There are current problems of lack of financial resources for the development of agro-industrial enterprises, the solution of which may be preferential lending programs, providing loans on acceptable terms to rural producers. The key reasons for the low efficiency of the current mechanism of lending by banks to the agro-industrial sector have been identified. The current mechanisms of financing of agricultural producers are assessed. The key shortcomings in the system of financing the enterprises of the agro-industrial complex are revealed. The main obstacles to lending by financial and credit institutions of agriculture of Ukraine are considered and options for their elimination are proposed. It has been proven that an effectively established credit system allows banks to consider the provision of loans secured by agricultural land as one of the most reliable and safe ways to invest in agriculture. The problems that become the main obstacles to obtaining a loan by the borrower are identified and ways to solve them are proposed.

Keywords: bank lending, financial resources, agricultural enterprises, agricultural sector, land.

JEL classification: O 11; O 13; D 24; Q 18

УДК 338.2:631.152.3

Cite this Article as: KOLOTUKHA Serge, GVOZDEJ Nataliia, CHVERTKO Liudmyla, KORNIENKO Tetiana, VINNYTSKA Oksana and OSADCHUK Nataliia “ Development of Bank Lending as A Factor of Economic Stabilization of The Agricultural Sector in The Economy” Proceedings of the 37th International Business Information Management Association (IBIMA), 30-31 May 2021, Cordoba, Spain, ISBN: 978-0-9998551-6-4, ISSN: 2767-9640

Introduction

Under conditions of import substitution, agricultural loans are increasingly in demand by farmers. But the stronger the demand for credit, the more cautious banks are: the agricultural sector is a risky market, so most commercial banks are reluctant to lend to its representatives. Many banks are willing to provide credit for agricultural development only to their or trusted customers with a positive credit history. It is almost impossible for newly established agricultural enterprises to get a loan from a commercial bank for the development of agribusiness.

Analysis of recent research and publications

Problems of improving the mechanism of lending and state regulation in the field of agriculture were covered in the works of domestic scientists and practitioners: Demyanenko M.Ya., Sabluk P.T., Korniychuk G.V., Lupenko Y.O., Nepochatenko O.O., Khalatur S.M. [1-5].

Despite the high level of importance of the results obtained by many scientists, a comprehensive study covering the current problems of financing the agricultural sector, the availability of loans for farmers, small and medium farmers, improving lending to commercial banks and support programs for the agricultural sector was insufficient.

The purpose of the article is to assess the state of bank lending to the agricultural sector in Ukraine and to identify approaches to revitalize the existing agribusiness lending system.

The research methodology is based on a systematic approach using the method of cognition from abstract to concrete and special methods of economic and statistical research (comparison, grouping, detailing of final indicators, generalizations), which helped to ensure the reliability of research results and validity of conclusions.

Results of the research

Domestic practice and foreign experience show that the finances of agricultural enterprises have certain specifics and require constant borrowing. Due to the length of the production cycle, seasonality of production and the related nature of the formation of costs and stocks in agricultural enterprises there are no own sources for continuous financing. The use of borrowed capital allows to significantly expand the scope of economic activity of the enterprise, to ensure more efficient use of own funds, to accelerate the renewal of fixed assets. In this regard, the attraction and use of borrowed financial resources is the most important aspect of the financial activities of the enterprise aimed at achieving high end results. Consider the state of lending to agricultural enterprises from 2015-2019 (Table 1).

The state of lending to Agro-Industrial Enterprises of Ukraine in 2015-2019. [6]

Indexes	Years				
	2015	2016	2017	2018	2019
Volumes of attracted loans: total, UAH billion, including:	48425	55374	59706	67675	61600
short-term	22059	24486	18008	24570	26689
medium-term	20357	19781	22972	30242	31247
long-term	6008	11107	18726	12863	3664
Interest rate on loans,%:	20,2	18,4	16,3	17,7	16,4
in the national currency	23,0	20,4	17,7	20,5	19,7
in foreign currency	10,7	10,7	7,3	6,9	6,5

Due to its natural, climatic and economic features, agriculture should become a priority sector. It is necessary to revise the agricultural policy of the state, expand and effectively implement comprehensive national projects for the development of agro-industrial production, aimed at ensuring expanded reproduction in all areas of the village and the development of rural areas.

The condition for the effective functioning of the processes of expanded reproduction in the economy is the availability of financial resources. The lack of a financial base creates problems not only for simple but also for expanded reproduction. Search for sources of funding is the basis of the mechanism of expanded reproduction, the structure of the mechanism, features of its functioning and efficiency largely depend on their properties.

In most developed countries there is a specialized system of agricultural credit, related to the specifics of the industry. The duration of the reproduction cycle is one of the main features of agricultural credit. Due to the long process of reproduction, agricultural enterprises need loans for a period of at least six months. Commercial banks prefer to provide

loans to enterprises in more profitable sectors of the economy, ideal with the so-called "short" money. Therefore, most agricultural producers, in fact, remain without credit. Currently, loans have the opportunity to attract only those agricultural enterprises whose solvency allows them to do so, that is, to pay the loan and pay interest and they will have enough of their own funds. At the same time, those borrowers whose financial condition is problematic and they really need financial assistance are ignored. It is worth noting that about 30% of such clients are denied a loan due to low creditworthiness. This means that a third of agricultural borrowers who need external financing cannot actually get it.

In determining the potential volume of lending to agricultural enterprises, it is advisable to study the financial market entities that may participate in this process (Table 2).

1. Capacity of the credit services market formed by banks and non-bank financial institutions, UAH million [7]

Indexes	2018	2019	Growth rate 2019/2018	
			absolute, UAH million	relative, %
Banking institutions (loans to customers)	1118860,0	1033539,0	-85321	-7,65
Financial companies (lending, including on the terms of a financial loan)	51909,1	79176,2	27267,1	52,5
Financial companies (factoring services)	48105,0	56469,4	8364,4	17,4
Financial leasing (services provided by financial companies and legal entities - lessors without the status of a financial company)	22193,1	27645,6	5452,5	24,57

The data in Table 2 show that bank lending tends to decrease, which leads to the development of non-bank forms of lending.

In this aspect, it should be recalled that the main purpose of public financial support through the mechanism of cheaper loans is to increase lending to enterprises in the field of agriculture. And first of all, this can be achieved by facilitating their access to credit resources. As banks are interested in agricultural clients today, the main obstacle to their cooperation is the low solvency of borrowers. At the same time, it is obvious that when the price of credit resources decreases, the possibility of attracting them increases. This is the essence of the mechanism of partial compensation - cheaper credit.

Nemkovich OB offers an alternative mechanism for reducing the cost of loans, which is that the compensation is taken into account at the stage of borrowing, ie banks when assessing the possibility of repaying the loan and interest payments in the calculations reduce interest rates to the level of compensation [8, p. 271].

The practical implementation of this proposal is possible under the scheme of attracting loans on the terms of partial compensation of the interest rate (alternative mechanism) shown in Fig. 1.

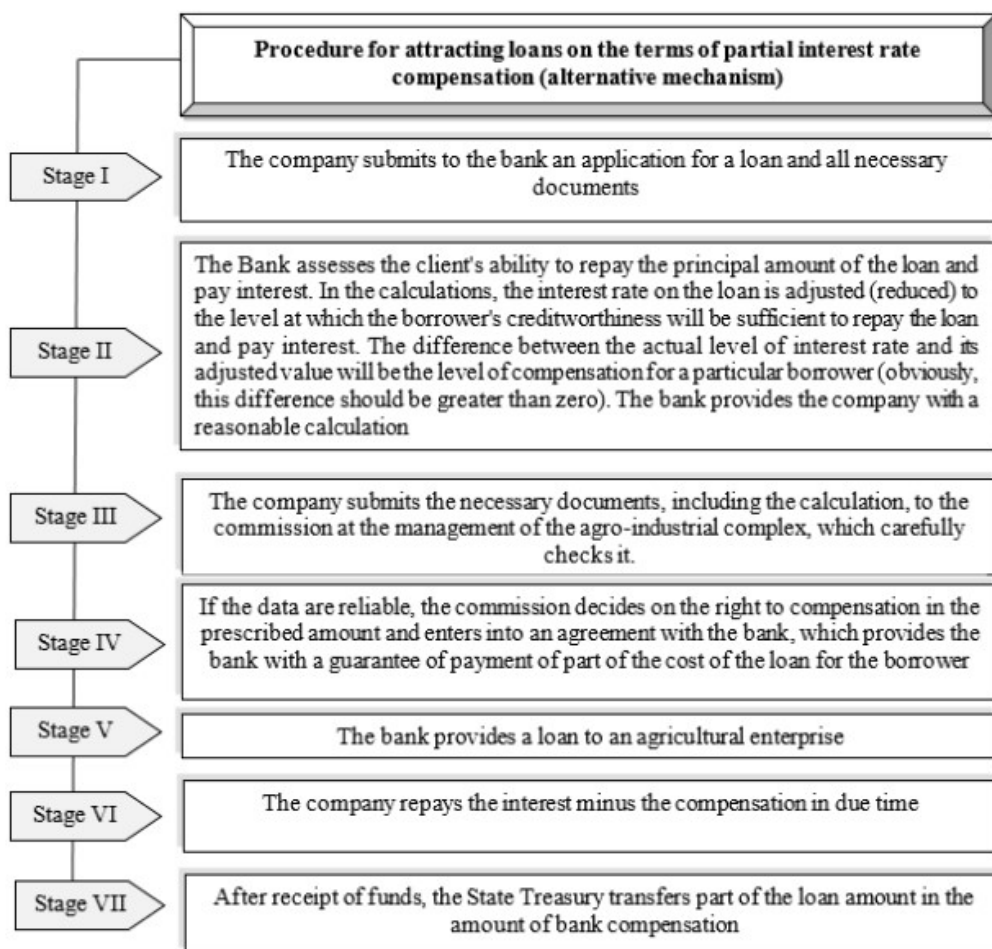


Fig.1. Scheme of borrowing on the terms of partial interest rate compensation (alternative mechanism) [8, c. 272]

This scheme of reducing the cost of credit will not only reimburse part of the financial costs, but will allow to obtain loans to those agricultural enterprises that without state support, today do not have access to credit resources. which exists in the following forms:

- 1) advance deliveries of materials or performance of works at the expense of the future harvest. Payment for delivery is made by finished products, or cash;
- 2) advance payment for future deliveries of products. This form is used by processors of agricultural products, or trade intermediaries;
- 3) deferred payment when paying for the supply of products and works.

The main disadvantage of a commodity loan is its inflated cost compared to a bank loan - interest rates on commodity loans are 30-40% per annum. However, the rigid linking of technological cycles in the agro-industrial complex to the calendar schedule, the seasonality of cash flow, the lack of real competition among supplier's force farmers to accept the difficult conditions imposed by suppliers.

It is necessary to note also some advantages of the commodity credit, registration consisting in simplicity, in comparison with the bank credit, lack of security in the form of a pledge. In our opinion, it is time to develop the national system of agricultural lending (Fig. 2).

In the country it is expedient to prepare the project of the special law "About rural credit system" in which it is necessary to stipulate the basic directions of its development:

- creation of an agricultural credit system with appropriate infrastructure;
- granting state loans from local budgets to agricultural enterprises;
- creation of the State Land (Mortgage) Bank with relevant functions.

As a result, the main directions of credit policy may be the provision of loans for:

- modernization and innovation in agriculture;
- long-term investment lending to agricultural producers;
- lending to small and medium-sized agribusiness entities, with the involvement of credit unions in this process.

In addition, it requires an immediate solution to legal land issues. As the current judicial system cannot competently and in the optimal time to resolve issues of land ownership, land boundaries, indicators of their evaluation, land payment rates, distribution of land participants, it is necessary to organize in the structure of courts - Land Commercial Court of Ukraine with relevant regional courts.

The creation and operation of the land credit system is also impossible without the relevant Land Inspectorate, which will carry out inspection activities in compliance with land legislation and agreements.

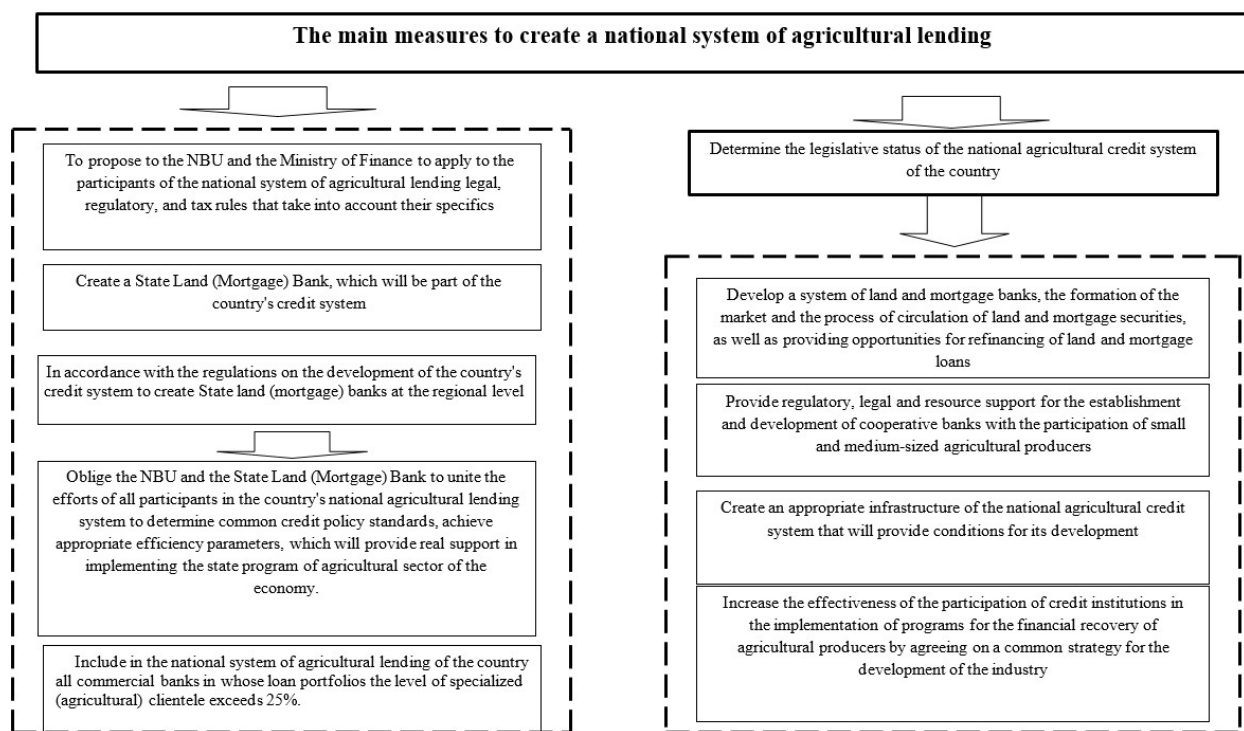


Fig. 2: The main measures for the creation and development of a national system of agricultural lending

To solve the above problems, the following measures should be taken:

- to develop and adopt normative documents on expert assessment of land plots for mortgage operations and to provide training of relevant experts;
- to form a transparent system of cadastral numbering of land plots;
- to develop a package of normative-methodical documents on mortgage lending, regulation of the land market, state regional land funds and the securities market;
- creation of a system of consulting services by participants in mortgage transactions;
- to develop and adopt a package of normative documents on the creation and operation of the systems of the State Joint-Stock Land (Mortgage) Bank and the Ukrainian State Land Exchange.

An important tool to ensure the legitimacy of mortgage transactions is the creation of the Ukrainian State Land Exchange, which should become a permanent land market and commercial intermediary that will facilitate the conclusion of agreements, land transactions, as well as unite and control the activities of regional land exchanges.

In the system of state support of the economy of agricultural producers it is necessary to form an adequate credit mechanism to the current conditions, in which it is advisable to coordinate all levels of support with various instruments of legal and economic nature. The main directions of development of state support for agricultural producers can be:

- system of interaction of credit organizations of all levels on the basis of the complex and system approach to the decision of problems of the general development of agriculture;
- monitoring of credit relations in rural areas, ensuring the financial security of credit institutions and protection of economic interests of agricultural producers;
- methodical and informational support of credit relations;
- state support of rural producers in the organization of purchases of agricultural products by the commodity-credit corporation;
- support of innovative projects in agriculture by the state.

World experience shows that agribusiness entities face the problem of difficult access to credit and other sources of borrowed funds. The main reason why credit institutions refuse to provide financial resources to agricultural enterprises is the inability of the agricultural business entity to properly ensure the repayment of the loan. Where does the lack of interest of credit institutions to lend to high-risk agricultural projects?

Throughout the civilized world, land is collateral for long-term, cheap loans for the agricultural sector. The land fund of Ukraine has 33 million hectares of arable land, and its value, according to scientists, is 140-300 billion hryvnias. Thus, in the agricultural sector of the economy can be attracted long-term loans for land mortgages 100-200 billion. Thus, Ukraine has all the prerequisites for the creation and effective development of land banks.

According to a number of scientists and practitioners, this obstacle can be eliminated with the help of liquid collateral provided by a third party. In this regard, the most relevant is the use of state and municipal guarantees, as well as the guarantee of funds to support agricultural entrepreneurship in order to develop and improve the efficiency of loans granted to agricultural enterprises to create and develop a system of guaranteeing agricultural loans. The economic literature contains various views on the organization and operation of such funds, as well as the possibility of using instruments of state and municipal guarantees to cover credit obligations.

Given the great importance of the agricultural sector in the country's economy, its role in ensuring food security, almost all developed countries use a preferential regime for both financing and lending to agriculture, where collateral is agricultural products.

In our opinion, it is worth noting the introduction of a regressive scale mechanism for determining the discount rate of a commercial bank for the use of credit, taking into account the growth of profits. Its essence is that each subsequent increase in profits lowered the lending rate, which will help increase the efficiency of agricultural production.

The data in Table 3 show, however, that the efficiency indicators are not related to the level of interest rates on loans and this does not encourage agricultural producers to increase their profitability.

This is not what D. Ricardo once drew attention to, when he argued that applying to the bank for loans depends on the ratio of the rate of return that can be obtained with this money, and the interest rate at which the bank borrows its money [9].

However, a number of authors believe that when a situation is reached when all agricultural enterprises become profitable and their level of profitability exceeds the level of real lending rates, preferential lending will lose its economic meaning [10, 11]. But this situation is not real, that is, even with the profitability of all agricultural enterprises will always be part of those whose level of profitability will be lower than the cost of loans. It is for such farms and the State budget should provide funds to reduce the cost of loans [12, 13]. As their numbers decrease, so will the amount of such budget support.

3. The ratio of levels of profitability and average annual interest rates on loans to agricultural enterprises for 2010, 2015-2019, % [14]

<i>Indexes</i>	2010	2015	2016	2017	2018	2019
Level of profitability of agricultural enterprises (all types of activity)	17,5	9,3	30,4	25,6	16,5	13,5
Average annual level of interest rates on loans	14,9	20,1	20,2	18,4	16,3	17,7
Levels of interest rates on loans, +; -, to levels of profitability	-2,6	10,8	-10,2	-7,2	-0,2	4,2

In the practice of credit institutions, lending conditions are determined during negotiations between the bank and the borrower on the basis of monitoring the borrower's activities. Variable, fixed and fixed interest rate variables are applied to credit resources. Interest is regulated and adjusted depending on the conditions prevailing in the financial market.

At a fixed interest rate, interest is paid based on inflation. Variable interest rates with a fixed term are applied to long-term lending (each stage of lending is characterized by its own interest rate). Interest rates vary greatly from country to country because they depend on the economic situation in one country.

With the development of market relations, with the provision of greater independence to business entities in resolving production issues, the development of commercial lending is relevant both in its traditional forms and in new ones, taking into account modern conditions. Thus, the features of commercial lending are present in the calculations using payment orders. It is advisable to increase the period of deferral of the transfer of funds by the payer to 3 months with the consent of the parties (now this period is 20 days). This will allow to work out the strategy of debt repayment by the payer and to prevent the emergence of "suspended" debt.

The current state of development of credit relations is characterized by the process of finding new forms of credit security of the agricultural sector of the economy in relation to new economic conditions. Changing the conditions of the economic environment causes a change in credit relations in the agricultural sector of the economy.

One of the methods of improving the credit mechanism of the agricultural sector is the introduction of agricultural receipts, which also contain elements of commercial lending.

Agrarian receipt is a commodity document that records the unconditional obligation of the debtor, which is secured by collateral, to supply agricultural products or to pay money on the terms specified therein. According to the type of obligation, agricultural receipts are divided into commodity agricultural receipts and financial agricultural receipts.

A commodity agricultural receipt is an agrarian receipt that establishes an unconditional obligation of the debtor under the agrarian receipt to deliver the agreed agricultural products, quality, quantity, place and term of delivery, which are determined by the commodity receipt.

A financial agricultural receipt is an agricultural receipt that establishes an unconditional obligation of the debtor to pay a sum of money, the amount of which is determined by a formula agreed by the debtor and the creditor, taking into account prices for agricultural products in a certain quantity and quality.

In the absence of a land mortgage, warehouse certificates and other commodity documents for agricultural products may be used as credit collateral.

With the help of warehouse certificates, it is possible to ensure access of agricultural producers to short-term bank loans and minimize the risks of agricultural market participants. The domestic system of warehouse documents for grain is based on the use of both simple and double warehouse certificates. These are different types of inventory documents issued by certified grain warehouses to grain owners who have placed it for storage in these warehouses.

A simple warehouse certificate is a bearer document that allows the holder of such a certificate to dispose of the grain during its storage period - to sell, exchange or pledge. In this case, the owner of a simple warehouse certificate in the prescribed manner must notify the grain warehouse where the grain is stored, for which this certificate was issued, the transfer of the certificate and grain as collateral.

It should be noted that a double warehouse certificate is better suited for lending operations. It is a commodity document consisting of two parts: part A - warehouse certificate and part B - mortgage certificate. The double warehouse certificate confirms the ownership of the grain delivered for storage, describes the quantity and quality of the delivered grain, the term and method of storage, the storage fee and the warehouse's obligation to return the grain to the person holding the certificate in exchange for both parts of the certificate. presented together or in exchange for a warehouse certificate (Part A) and the amount of the loan and interest thereon obtained on the mortgage certificate (Part B). The double warehouse certificate allows the owner of grain to dispose of grain during its storage period, as well as to use all the grain belonging to him, stored in the warehouse, or any part of it, as collateral for a loan [15, p. 120].

Unfortunately, the above system of grain storage certificates in Ukraine has not worked in full. This is due to several circumstances. First of all, the use of warehouse certificates was constrained by the complicated procedure of certification of grain warehouses, which must issue these documents. Finally, a serious obstacle to the use of warehouse certificates as a tool for financing the agricultural sector was the lack of state guarantees to protect the interests of warehouse certificate holders in the event of unfair behavior of grain warehouse owners. A special fund was supposed to be set up for this

purpose, but so far it has not appeared.

Conclusions

Thus, the main condition for conducting expanded agricultural production is to improve the process of state regulation of lending to farmers. Measures of state assistance to agriculture should be aimed at creating conditions under which the bulk of agricultural producers will be able to reproduce on an expanded basis at their own expense, as well as, if necessary, attract and service borrowed funds to develop production. State support for farmers should be concentrated in the following areas:

- development of a strategy for the development of the agricultural sector for the long term and the adoption of appropriate regulations;
- organization of equal operating conditions for all economic entities of the industry by establishing uniform legislative rules for their operation and budget support;
- highly efficient strict targeted use of budget and investment resources of the region;
- improvement of legislative, scientific, methodical, informational, personnel, material and financial support of agriculture;
- conducting a holistic technological policy through the establishment of common state industry standards in agriculture, as well as monitoring their compliance;
- implementation of a single lending policy in the industry, which will provide conditions for expanded reproduction with extensive use of soft loans and subsidies;
- increasing the investment attractiveness of agriculture by developing regional and local programs to attract private investment, providing special tax regimes and other benefits for the successful implementation of projects in agriculture.

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