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## CREDIT MECHANISM OF FINANCIAL SUPPORT OF AGRICULTURAL PRODUCTION IN UKRAINE

**Viktoriiia P. GMYRIA**

*Candidate of Science in Economics, Associate Professor of Banking Department of Cherkasy Institute of Banking of the University of Banking of the National Bank of Ukraine (Kyiv)*

*Summary. The article considers the scientific basis of credit mechanism of financial support of agricultural production in Ukraine. Financial resources of the agricultural sector of Ukraine are analyzed.*

**Key words:** *credit, investment, agriculture, finance, efficiency, banks budget.*

In today's Ukraine is paving its way to a new level of development through the modernization and strengthening of the agricultural sector. A new stage of development leads to the need to attract the necessary investment of resources. The economic situation has evolved; today in Ukraine is characterized, in addition to a general improvement in short-term processes in the domestic economy, the lack of necessary funds for investment in the agricultural sector and the implementation of progressive changes in the production structure, which determines the importance of long-term investment in today's economy.

Dependence of agriculture on climatic conditions makes this area quite risky kind of business that is not always an attractive area for investors. Seasonality of production, method of formation expenses and reserves affect the nature of the agricultural production of financial resources. Term production cycle in agriculture is a deterrent to attract financial resources for ongoing funding of agricultural production.

The global financial crisis has caused a significant increase in the cost of credit in connection with the increased payback period of business projects in agricultural production, and «slowed down» their implementation in adjacent agricultural areas worsened problems with timeliness and completeness payments for the supplied agricultural products.

Given the negative impact of the crisis and the urgent need to increase investments in agricultural production and reducing credit facilities of the banking sector to identify priority areas of modern credit policy of banks in terms of business entities agriculture.

First of all, you should consider long-term investment programs payback period 8–10 years. This requires a comprehensive technical and technological modernization of the production cycle of agricultural production and the development of investment projects with banks, which in the future may finance agricultural production.

Having developed financial and credit mechanism contributes to improvement in the economy played by the optimal formation of funds at various stages and the stages of production, exchange, distribution and consumption of agricultural products.

Improving the financial sustainability of agricultural production is impossible without state support based system aimed at mobilizing the use of existing productive capacity. Among the measures for its implementation in terms of instability arising from agricultural production, and the lack of equal mutually beneficial relations between producers of agricultural products and the industry in the first place include loans and subsidies.

Financial resources involved farmers for production, suggest a more consistent implementation of monetary policy, the development of measures to improve the credit system and credit mechanism. Monetary policy of Ukraine includes a set of tools and methods that prevent inflation and ensure the development of industries of the state. However, it is sufficient to note the contradiction of individual measures and instruments of monetary relations that may affect the financial security of agricultural production in the region. Credit policy of Ukraine related to the restriction system effects, including methods of interest rate policy, credit issue.

Ukraine's banking sector remains relatively small and, at present, does not play a significant role

in economic development. Aggregate Ukrainian banking system as of 01.01.2012, indicate a significant percentage of assets and loans in total aggregate GDP assets / GDP – 45–53 % capital/GDP – 6,5–7,5 %, granted to undertakings/GDP – 30–32 %. These figures indicate lack of credit in agricultural production in Ukraine.

Pricing mechanism for agricultural products and services provided to enterprises of this industry, enhance the competitiveness of agricultural production, equivalent exchange between town and country.

The need to improve price relations due to the fact that the market conditions, sales revenue is the main condition for financial support reproducible processes of agricultural enterprises and the implementation of investment opportunities. No parity exchange food farmers with agribusiness partners, asymmetry factor price for groceries in the territorial and temporal aspects inefficient ratio of prices for certain agricultural products production is largely caused high loss industry.

In the current state of Ukraine shaping national land mortgage is an innovative and important aspect of the credit policy.

The essence of the land mortgage is to obtain long-term bank loan on terms of repayment, urgency, ensuring commitments on loans received collateral of land intended use of borrowed resources. Feature a loan secured by land is the object of collateral – land. From the economic point of view, the earth has some exceptional features – specific quality (location, unrestricted use of the term), the cost of land, the role of capital for businesses.

The main factors that hinder the development of land mortgage can be considered:

- Lack of a land market. At present time, the Law of Ukraine «On Land Market» is still pending and, therefore, the development of mortgage of land in Ukraine is impossible. The draft Act provides the legal and economic principles of organization and functioning of the land market, and also for the land sales. In addition, the law regulates the State Land (Mortgage) Bank of proper infrastructure. Specialized mortgage state bank shall have one hundred percent of the share capital, which is owned by the state and not subject to privatization, and created by the decision of the Cabinet of Ministers of Ukraine. State Land (Mortgage) Bank has the right to operate in the agricultural land market in accordance with this Law and the Law of Ukraine «On Banks and Banking»;

- Inadequate land legislation. The lack of a clear system of legal regulation of the land market,

which ignores the interests of all participants in the mortgage process and allows you to fully implement the security features of the earth. The uncertainty in the separation of state ownership of land is an obstacle for banks to use land as collateral. For a long time the legal issues mortgage land governed by the Law of Ukraine «On Pledge» and Art. 6 of the Land Code of Ukraine, with the following amendments. According to these regulations, provided the citizen ownership of land could be subject to a mortgage only for obligations involving the credit institution (targeted mortgage). Today the land can not be mortgaged as the Land Code of Ukraine stipulates that the order of the collateral of land defined by the Law «On Land Market», but given that the law has not yet passed, so the land can not be mortgaged;

- Lack of objective value of the land. Valuation of land – it's a long process, because land is dependent on a number of individual characteristics and factors that affect its value, and the probability of finding strongly bringeth down object-analogue. Land valuation in accordance with the Law of Ukraine «On the evaluation of» Order of the State Committee of Ukraine for Land Resources «On the order of the normative value non-agricultural land (excluding land within settlements)», Law of Ukraine «On the assessment of property, property rights and professional valuation activities in Ukraine»;

- Lack of long-term financial resources of the banking system, which has increased due to the global financial crisis.

Land and mortgage lending in Ukraine is highly risky in nature due to low liquidity of agricultural land, unstable interest rates, lack of highly liquid bank assets, the insolvency of farming.

In focus deserve such instruments of financial and credit mechanism as forward transactions related to the purchase of grain.

All the «grain» states today are special market institutions (ie stock exchange), has long worked out methods of financing, commercial lending, insurance risks, mechanisms to promote the export of grain, are not developed in Ukraine. Thus one of the main tools to stabilize grain production and the domestic market as a whole, are forward and futures transactions. Their essence is that most of the farmers harvest every year are sold well before harvest, and therefore to a considerable extent protected from the elements of the market. Despite all the obvious benefits exchange trading agricultural products in general (and particularly grain) in Ukraine is developing very slowly, which hinders the creation of civilized food market.

In 2012, the government resumed the practice of public procurement under forward contracts and allocated 5 billion. for Ukrainian producers during the upcoming harvest. This program is primarily designed for those producers of agricultural products, which have problems with running costs, because the mechanism of their production is quite convenient. Given the practice of previous years, when the late approval of the budget did not allow the purchase of grain Agrarian Fund of Ukraine will buy from farmers produce, the government provided an opportunity to implement appropriate procurement of «Bread Investbud» – part of the State Food and Grain Corporation of Ukraine (SFGCU).

Features of the program is to forward purchase «Bread Investbud» grain at minimum intervention prices – 1,61–1,79 UAH/T of wheat (depending on class) and 1,44–1,58 UAH/Ton of rye.

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Instead, the company will provide farmers ammonium nitrate, crop protection and fuel at prices below the market price. Cereals will be directed to the formation of the state intervention fund, through which interventions take place in the domestic market of Ukraine. Forward program is designed to fund three tranches: the first 50 % of the forward contract manufacturer will soon sign it before sowing, 20 % – before the harvest, and the last tranche of 30 % – after the harvest and its delivery.

Conditions for application of forward purchases of grain are attractive to small producers of agricultural products, as they are unable to provide the manufacturing process necessary financial resources. If we take into account the activities of large producers, for them, this program is not acceptable. Therefore, the use of forward purchases of grain program will not ensure effective development of agricultural production in Ukraine.

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