

## 2.6. FINANCIAL CREDIT SUPPORT OF THE UKRAINIAN AGRARIAN MARKET

The efficient functioning of any commodity or commodity market cannot be imagined without a well-developed and well-formed system of financial and credit servicing, as one of the most important components of the marketing infrastructure of the market. In general, the problems of financial support for the agricultural market are fairly homogeneous. However, by adapting them to a specific commodity market, we can note some differences that are caused by the diversity of production, distribution and consumption processes.

The agricultural market has its own characteristics, which primarily include the seasonality of production, where there is a seasonal gap between investment and cash flow, continuity of reproduction processes, the need for working capital and more. All this transforms agriculture into an area where credit resources play a crucial role in business, and credit - the main source of replenishment of financial resources of the enterprise.

However, despite the urgent need to create an effective financial and credit system, adequate to the current market conditions of financial and credit support of the main operators of the agrarian market - agricultural producers, which, in our opinion, this applies in the first place, is not yet properly formed, and the problems of financial support of agrarians, which still remain unsolved, necessitated the search for ways to solve them<sup>1</sup>.

The purpose of the article is to carry out a detailed analysis of the system of financial and credit support of the agrarian market and to offer recommendations for its further development.

Many scientific works are devoted to problems of financial and credit servicing of agricultural enterprises. Significant authors on this issue can be attributed to P. Sabluk, V. Alekseychuk, M. Demianenko, M. Malik et al. However, the current situation indicates that the financial and credit support of direct agricultural producers is rather low, so in our opinion this issue needs further analysis and improvement.

The financial-credit system consists of financial-credit infrastructure, mechanism of credit relations with commercial banks and mechanism of non-bank lending. Financial and credit infrastructure is a complex of united by the general purpose of financial and credit organizations, which includes commercial and cooperative banks, credit unions, agro-financial groups, insurance companies, etc., which directly serve the commercial activities of agricultural producers, intermediaries and retailers .

The predominant features of financial and credit servicing of the Ukrainian agrarian market are the financial support of producers not only for the implementation of simple or extended reproduction of production, but also for the manufacturer to be able to perform some of the functions of intermediaries, that is, to adjust the processes of storage of manufactured products, their transportation for sale directly to the end consumer - processing enterprise.

The imperfection of the existing financial and credit support is manifested in the fact that commercial banks, insurance and investment companies do not fully meet the needs of the agricultural business. For example, commercial banks that lend to agricultural producers in recent years have significantly increased the flow of credit in the grain sector, which was partly due to the mechanism of offsetting the loan rate, which amounted to 50% of the National Bank of Ukraine discount rate on the day of the loan agreement, but not less than 17 , 5% pa. However, despite this, commercial banks still cannot sufficiently lend to commodity producers due to the continuous intervention of central authorities in the commercial activities of agricultural enterprises, the absence of a defined legal procedure for compensation for losses, the absence of a mechanism for lending, taking into account industry specificities and controls. purposeful use and repayment of loans, etc<sup>2</sup>.

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<sup>1</sup> Artashov, V.; Uvarova, G. (1996): *Ekonomichnyy radnyk menedzhera* [Economic advisor to the manager]. *Finansy, uchet i audit - Finance, accounting and auditing*, 318 p.

<sup>2</sup> Malik, M. (2004): *Finansovo-kredytnyy mekhanizm u rozvytku ahrarnoho pidpryemnytstva* [Financial and credit mechanism in the development of agrarian entrepreneurship]. *Finansy Ukrainy - Finance of Ukraine*, no 5, pp. 47-53.

As a result, enterprises can not only expand but also lack the capacity to upgrade outdated technical resources and implement the latest production technologies.

Agro-industrial financial groups, financial funds, innovation funds, leasing organizations, insurance and factoring companies, etc. should also be considered as integral elements of the financial and credit infrastructure of the agricultural market. However, only some of these elements have become operational in the agrarian sector of Ukraine.

An attractive feature of financial support for agro-industrial financial groups is that it combines all forms of self-financing, lending, budget financing, as well as equity as the most mobile and rational form of concentration and redistribution of financial resources. In addition, temporary free financial resources of participants may be transferred within the agro-financial group. In our opinion, further development of agro-industrial financial groups will contribute to the revival of agricultural production on a qualitatively new basis.

Another important component of financial and credit infrastructure is insurance, which should provide reliable protection of property interests of agricultural producers and increase their solvency level before lending institutions. But here, too, there are obstacles. First, the state budget does not provide funds for the compulsory insurance program, so in fact, such compulsory insurance is not provided. Secondly, existing insurance rates are considered by insurance companies to be too low, but at the same time they are too high for agricultural producers who do not earn sufficient profits to have a negative impact on their financial position.

World practice proves that the best way to meet the above needs of commodity producers can be to diversify forms of financial intermediation, which will be provided by a multi-channel credit scheme and which will provide commodities with financial resources from several interconnected sources<sup>1</sup>.

The realization of such a system is the creation of a system of specialized credit cooperatives, ie mutual lending on a cooperative basis. The advantages of this organization are the maximum approach to customers and relatively low credit service costs. The development of such lending implies the emergence of credit unions and cooperative banks, where the owners of those who use their services should be the owners, and financial policies will be based on the fundamental principles of cooperation and democratization of governance. Such organizations should be established on the principle of territoriality and be divided into three levels:

- local cooperative banks and credit unions, which are a link with agricultural producers and which form volumes of orders for credit resources from producers, determine the purposes of obtaining a loan and its efficiency, terms of granting and repayment of loans, etc. ;
- regional cooperative banks and credit unions, the main functions of which should include first-level support with ancillary services, ie development of new financial products, support for liquidity, provision of foreign exchange, investment and settlement operations, etc. ;
- central cooperative banks and credit unions, whose main function is the interconnection of the two lower levels.

However, at this stage, the creation of the proposed credit cooperative is hampered by some shortcomings in the legislation, which may include the size of the minimum statutory fund, the number of members of a cooperative bank or credit union, an entrepreneurial mechanism of distribution of funds, participants of such a cooperative, etc.<sup>2</sup>

Despite the rapid development of domestic lending, much of the problematic issues related to the financial support of the agricultural market operators, in particular, the grain market, remain unresolved. First of all, it concerns state support and improvement of the legal framework governing the legal and financial-credit relations in the agricultural sector and the further

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<sup>1</sup> Babko, N.M. (2012): Spetsial'ni rezul'taty diyal'nosti sil's'kohospodars'kykh pidpryyemstv u vsikh rynkovykh ekonomikakh [Special results of activities of agricultural enterprises in all market economies]. Zbirnyk naukovykh prats' Tavriyc'koho derzhavnoho ahrotekhnolohichnoho univertsytetu - The assistant of the naukovih pragis of the Tavritskogo conducting the scientific conference Univ, No 2 (18): 14-20.

<sup>2</sup> European Commission Costing Methods for Decision Making: Current Management Accounting Practices (1997): 60 p.

development of credit institutions<sup>1</sup>.

Also, one of the main reasons that impedes the development of crediting can be considered high cost of credit, excessive rates of obligatory reserve of funds for banks, lack of a reliable borrower, lack of guarantees of loan repayment, high level of expenses associated with providing financial and credit services, absence credit default insurance practices and more.

Summarizing the above, we can conclude that the system of financial and credit support to agricultural market operators is one of the most important mechanisms that sufficiently strongly influences the functioning of the Ukrainian agricultural market. However, to date, the presented financial and credit infrastructure has a number of disadvantages and problems, the further solution of which will contribute to the effective functioning of the main operators of the agrarian market - agricultural producers.

The main purpose of commercial activity of the enterprise is profit, and the main purpose of managing the formation of profit is to identify the main factors that determine its size and by influencing it to search for reserves to maximize its mass.

Profit management is connected with the basic, operational activity, therefore its analysis and control should be constantly engaged and it is necessary to start with the organization of information support of managers with interdependent analytical data about the processes of formation of profit. To date, businesses generally use separate metrics (sales revenue, sales, product sales prices, and profit or loss): but they do not even suspect the depth of the relationship between these metrics and the ability to use them for projections and making management decisions.

The problems of managing the financial resources of an agricultural enterprise are quite complex and multifaceted, since the enterprise needs to be provided with solvency and profitability. Therefore, the formation of financial resources of the enterprise must perform different tasks, taking into account the contradictions between solvency and profitability: on the one hand, to increase the amount of financial resources to ensure the constant solvency of the enterprise, and on the other - to ensure the efficiency of production and its competitiveness through the rational use of financial resources of the enterprise maximum profit. Thus, the financial condition of the enterprise, its profitability and position in the market environment depends on the efficiency of financial resources management.

Most scientists identify the financial resources of an enterprise with their sources of formation, including their profit. In our opinion, the analysis of the financial resources of the enterprise, ie, the analysis of factors and sources of formation of profits of the enterprise will create conditions for the prompt management of financial resources of enterprises and management of the formation of profits of agricultural enterprises. In the current conditions of functioning of the domestic agrarian market and taking into account the current state of production and commercial activity of domestic agricultural producers, the main direction of normalization of the functioning of domestic production is the way to use the existing sectoral potential, taking into account the market potential of agricultural products in the domestic market to increase profits.

Profit management mechanism is built taking into account the close correlation of profit with the volume of sales of products, income and expenses of the enterprise. Such a system is widely used in economically developed countries - the "Relationship between costs, output and profit" ("CVP")<sup>2</sup>. The CVP mechanism is based on the incremental generation of various types of operating income: margin profit, which is the difference between the sum of sales and the amount of variable operating expenses, and operating profit, which is calculated on the basis of marginal profit minus fixed costs. The tactics of managing various types of operating profit using the "CVP" system is based on its dependence on sales volume in value or in kind, from the amount of fixed in

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<sup>1</sup> Blank, I. (1999): Finansovyy menedzhment [Financial management], 528 p.

<sup>2</sup> Babko, N.M. (2012): Retrospektyvnyy analiz inflyatsiynykh protsesiv [Retrospective analysis of inflationary processes]. Visnyk KHNTUSG : ekonomichni nauky - Bulletin of KHNTUSG. Economic science, no 125, pp. 67-73.

fixed costs. The tactics of managing various types of operating profit using the "CVP" system are based on its dependence on sales in value or in kind, on the amount of fixed costs, on the amount of variable costs. It should be noted that when choosing management priorities it is necessary to choose among the above factors the most controllable ones, which change requires less effort.

Increasing profits is achieved by both increasing sales and reducing costs. Increasing sales requires additional financing for production, and cost-effective implementation and cost management are sufficient to reduce costs. From the above it can be noted that the ability of the company to influence the formation of cost of production is more possible.

The present state of enterprises is characterized by high dynamicity of all factors of cost formation: prices for resources, wages, production volumes, conditions of sales, so there is an objective need for constant, comprehensive and adaptive planning of the level of production costs and forecasting the possible level of cost per unit of production at stages production where these costs are generated.

The enterprise should know as accurately as possible its possible profits from the sale of products at different levels of cost and prices, which are formed in the regional and national commodity and commodity markets. These areas of economic analysis require the processing of large arrays of technical and economic information over time, but they do not exhaust the entire volume of calculations related to production costs and cost.

The full range of variant calculations of the formation of costs and cost of production, the estimated justification of price offers and possible profits of the agricultural enterprise as a whole is based on the cost-price management mechanism, which has two aspects. The external aspect should answer the question: at what prices should the enterprise sell its products in order to provide the required level of profitability at an explicit level of costs per unit; what profitability is provided by real market prices at this level of unit cost. An internal aspect, the task of which is to ensure that the agricultural enterprise makes full use of its capabilities to reduce the unit cost of production [6].

Therefore, in order to be able to evaluate the cost effectiveness of the investment using cost-based analysis, it is necessary to address a number of important issues in the methodology of costing, planning and cost accounting. The most important of these are the following:

- organize the costing, planning and control of costs for each product by stages of its production and markets (currently used average indicators will not have an effect);
- the classification of variable costs should achieve such a degree of detail that would allow to determine the mathematical dependence of each element of costs with a certain factor of production, thereby to be able to predict the level of value of a certain type of cost when changing the relevant factor (the main role is given to the normalization of costs);
- organization of management of fixed costs (they are the real reserve for reducing the cost of production, but they are still receiving the least attention).

The analysis focused on analysis and decision-making based on direct costing and cost-based analysis of the following indicators: variable and fixed costs, marginal and operating profit, but the structure of variable costs cannot be left unanswered, the unit price of the resources used, the sales volume in terms of quantity and value, the price of sales, ie the impact of both internal technological (cost structure) and external (costs of acquiring resources and sales prices, sales) factors. These factors are less manageable, but they must be kept under control when managing profits. All these factors are closely interdependent and can be combined into a single multifactor model of analysis and estimation of profit generation by the types of resources used in production.

In order to build this model at the enterprise, the organization of the information system must be performed more fully. Comparisons can be made with the previous period, with cost standards or planned costs. An in-depth analysis of changes in financial results for each cost item takes into account that each change is the result of a number of factors.

This method of cost calculation by the method of "direct-costing" and presented cost-price and multifactor analysis using a number of financial indicators allow, in our opinion, to timely identify changes and negative trends in the cost structure, control costs and profit for each product, evaluate activity of the enterprise in terms of efficiency of use of financial resources.

Summarizing the above, we can conclude that the system of financial and credit support to agricultural market operators is one of the most important mechanisms that sufficiently strongly influences the functioning of the Ukrainian agricultural market. However, to date, the presented financial and credit infrastructure has a number of disadvantages and problems, the further solution of which will contribute to the effective functioning of the main operators of the agrarian market - agricultural producers. Despite the rapid development of domestic lending, much of the problematic issues related to the financial support of the agricultural market operators, in particular, the grain market, remain unresolved. First of all, it concerns the state support and improvement of the legal framework governing the legal and financial-credit relations in the agricultural sector and the further development of credit institutions. Also, one of the main reasons that impedes the development of crediting can be considered high cost of credit, excessive rates of obligatory reserve of funds for banks, lack of a reliable borrower, lack of guarantees of loan repayment, high level of expenses associated with providing financial and credit services, absence credit default insurance practices and more.

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