

FINANCIAL AND CREDIT SUPPORT OF SUSTAINABLE DEVELOPMENT OF AGRICULTURE IN UKRAINE: PROBLEMS AND WAYS TO SOLVE THEM

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Abstract

The paper studies financial and credit support mechanisms necessary for sustainable development of agriculture in Ukraine, with a focus on addressing the challenges faced by small and medium-sized agricultural producers. The study emphasizes the unique economic characteristics of agricultural sector, which make it highly dependent on external financing due to factors such as price volatility, climatic variability and the high cost of production inputs. Given these challenges, the aim of the article is to analyze the institutional and legal framework of financial and credit systems in Ukraine and to propose approaches for enhancing access to credit for small and medium-sized farms, drawing on successful experience of developed countries.

The authors hypothesize that the financial sustainability and growth of small and medium-sized agricultural producers in Ukraine can be significantly improved through the establishment of cooperative financial institutions and targeted state support programs.

The study uses a combination of methods, including monographic analysis to explore the role of state support of agriculture in both Ukraine and developed countries, comparative analysis to highlight differences in credit service structures between Ukraine and countries such as United States and European Union members and empirical methods to assess social and environmental benefits of establishing a specialized credit system for agriculture. The study also utilizes abstract-logical methods to synthesize findings and formulate recommendations for the development of Ukraine's financial and credit institutions.

The results of the study reveal significant gaps in Ukraine's current financial infrastructure of agriculture, particularly the lack of specialized financial institutions capable to meet the needs of small and medium-sized farms. An analysis of the practice of commercial bank lending in Ukraine shows that these institutions are interested in working only with those who use 500 or more hectares of agricultural land. The article identifies cooperative banking systems in countries like France, the United States and Poland as models that could be adapted for Ukraine.

The study concludes that the establishment of cooperative financial institutions, supported by legislative and regulatory reforms, is essential for fostering the sustainable development of agriculture in

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Ukraine. Additionally, state support is critical to ensure the financial viability of small and medium-sized farms, which contribute significantly to agricultural output but are often excluded from traditional credit markets. Authors recommend the introduction of targeted state programs, the restructuring of existing financial institutions and the creation of legal frameworks that would enable the formation of cooperative banks and credit unions tailored to the agricultural sector. Such measures would improve credit access, enhance the profitability of agricultural enterprises and promote rural economic development.

Keywords: agriculture, small and medium sized agribusiness, cooperative banks, institutional and legal support, state support.

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Introduction

Agriculture has different features from other industries, which cause the inability of the industry to self-accumulation and expanded reproduction without state support. In particular:

- in agriculture, for the same profit is needed the more amount of investment as for other industries. At the same time, world statistics confirm the historical difference between the current disparity in agricultural prices and related industries, which has a negative impact on the income of agricultural producers;
- crop yields and accordingly the supply of animal feed by 44 – 55% depend on changing climatic conditions, which causes instability of prices for agricultural products and income from its sale;
- price elasticity of demand for agricultural products is quite low and fluctuates, as a rule, up to 1% (in developed countries, the elasticity coefficient ranges from 0.20 to 0.25), which affects the decline in prices and, consequently, income (McConnell, 2001);
- agriculture is more dependent on lending compared to other industries due to the specific features of reproduction in agricultural production: dependence on natural and climatic factors makes big influence on current production, which requires significant amounts of loans with different maturities; the presence of a seasonal gap between the investment and their income from the sale of finished products necessitates extended repayment terms of short-term loans; the need to have a significant stock of raw materials in circulation slows down the rate of turnover and requires lending to working capital (Nepochatenko, 2007). This is a pattern for all countries, regardless of their level of economic development. In the structure of agricultural capital, the share of financing of agricultural producers through borrowed funds is, for example, in the UK, Germany, Sweden – 50%, in the US – 70% of the total cost of agricultural production.

Under such conditions, the accumulation of equity for the purchase of such an expensive means of production as agricultural land is problematic, especially for small and medium-sized farms, which requires the use of significant amounts of borrowed capital. At the same time, access to commercial banks is limited for them due to

high interest rates and unbearable conditions of access to them. In addition, commercial banks have little interest in lending of agricultural producers, especially small and medium-sized ones, due to the high level of production risk and low liquidity of mortgage. Solving the problem requires the state support.

State policy to support the financial capacity of agricultural producers is carried out in two directions: the first is to create favorable conditions for the acquisition of agricultural producers, especially small and medium, which make up the vast majority of world agriculture, necessary and affordable loans; the second connected with state support for stable profitable activities of these farms at a level that ensures timely repayment of loans and protection of farmers from loss of mortgaged land and other assets, the recovery of which requires a long period and significant funds and financing their further production activities.

Theoretical basis

These problems are not out of the attention of Ukrainian scientists. The theoretical foundations of the formation of cooperative financial and credit institutions, specializing in servicing agricultural goods and workers, associated with works of Panteleimonenko (Panteleymonenko, 2006), Khodachevich (Khodachevich, 2016).

Foreign experience of credit cooperation in agricultural sector is covered in their research Nedilska (Nedilska, 2018), Pozhar (Pozhar, 2013), Sember (Sember, 2017). Financial support for the profitability of agriculture as an objectively determined method is covered in works of Onegina (Onegina, 2007), Mogilny (Mogilny, 2002) and others.

In recognizing the contributions of Ukrainian scientists, it is essential to undertake a more constructive analysis of the role and significance of specialized financial and credit institutions in the development of agricultural sector, as well as the factors impeding their progress in Ukraine.

Research material and methodology

The purpose of this study is to propose solutions to the challenges hindering the establishment of specialized financial institutions in Ukraine's agricultural sector by conducting a comparative analysis of both Ukrainian and international experiences in the creation and operation of such institutions aimed at supporting the sustainable development of agriculture.

The following methods were used in the research process: monographic (analysis of the directions and approaches of state support in Ukraine and in developed countries); comparative analysis (features of financial and credit services for agricultural producers in Ukraine and foreign practice: USA and EU countries are determined); empirical (on a comprehensive assessment of social and environmental advantages of the creation of system of financial and credit services for agricultural producers);

abstract-logical (generalization and formulation of the main conclusions and proposals based on the results of the study).

Results

Financial and credit services of agricultural producers in foreign practice are characterized by institutional features compared to other industries. These functions in agriculture are performed by specialized institutions, which include both banking and non-banking institutions.

In EU countries, lending is usually provided through a system of cooperative banks. In France it is the network of Credit Agricole cooperative banks, in Netherlands it is Rabobank, in Romania it is Creditcoopbank, in Spain it is Cooperative de Credito and in Germany it is Deutsche Genossenschaftsbank. Poland's rural cooperative credit system includes 596 cooperative banks with 3,300 local branches, which provide 80% of the needs of their member farmers for loans. The co-operative system of long-term lending of India, whose members are 67% of farmers (880 thousand farms), includes 20 cooperative banks of the states and 2841 district cooperative bank. The Farm Credit System USA of Cooperative Bank system represents as the main lender of American farmers.

Credit unions are unique financial institutions with a public orientation. They represent a form of mutual financing, or collective self-financing, that emerged in response to the difficulties small and medium-sized businesses face in accessing loans from commercial banks. The advantages of credit cooperatives compared to commercial banks are:

- lower interest rates than all other banking structures;
- the possibility of minimal investment;
- the possibility of obtaining both small and large amounts of loans for the purchase of land on collateral, or on the terms of guarantees of members of the co-operative (loan circle);
- simpler procedure for obtaining a loan and its smooth receipt at any time;
- the opportunity to get a loan for savings;
- higher level of credit service security in own financial institution;
- less rigidity in case of late repayment of loans;
- the perception of the owner of a banking institution and participation in the life of its members.

Lower interest rates than commercial banks are provided by the non-profit status of cooperative banks. The purpose of their activities is to provide their members with services at rates that do not involve bank profits, as is the case in commercial banks. Cooperative banks engage in a comprehensive range of mortgage-related operations, including lending, issuing land mortgage securities, securing necessary financial resources, and refinancing newly issued loans.

The main sources of finance for cooperative banks are:

- state budget funds;
- proceeds from the placement of mortgage bonds secured by agricultural land;
- funds of agricultural producers – members of cooperative banks, which are transferred to cooperative banks;
- loans raised under government guarantees in international markets.

The preferential long-term cooperative credit system for agricultural land acquisition by farmers is augmented by state non-bank credit institutions. In the United States, this “tandem” with the cooperative Farm Credit System is represented by the Farm Service Agency (FSA).

The FSA provides financial support to farmers and ranch owners who are unable to obtain a loan in case of force majeure to expand their farm or establish a farm from other sources. The agency also lends to young and other farmers and ranch owners who are starting their own businesses. Credit support programs for women and minority farmers have been singled out. The FSA provides loans to these categories of farmers for the purchase of land or farms in general, as well as to cover the costs of farms for the period of their formation.

Loans for owning a farm or land account for 100% of their value. The maximum loan amount is \$ 600,000. The agency handles loans through its local credit managers and farm managers. Funding is provided from the US Department of Agriculture budget. The FSA also acts as a guarantor of loan repayment if the farmer takes half of the loan amount from another borrower. The maximum loan repayment period for the purchase of a farm, as well as a joint loan with another financial institution, is 40 years (FSA).

In Canada, the agricultural credit cooperative system is complemented by the state-owned Farm Credit Canada (FCC). The Corporation is accountable to the Government of Canada and operates under the Canadian Agricultural Credit Laws and the Financial Management Act. The purpose of the corporation is to promote the development of agriculture and rural areas of Canada by providing specialized and personalized business and financial services for the organization of agricultural activities by farms, including family farms.

For Canada, as for almost all developed countries, the issue of “rejuvenation” of farmers is important. To solve this problem, the FCC offers a soft loan to young farmers, which promotes the settlement of young people in rural areas and facilitates the transmission of business from generation to generation. The FCC also has a strategy to support women entrepreneurs in agriculture by providing them with personalized loans, financial, advisory and other services.

The FCC cooperates with the system of credit cooperatives and other financial institutions in matters of common interest in credit services to agricultural producers (FCC).

To support the income of small and medium-sized producers and ensure their profitability, enabling them to effectively conduct business at the level of expanded reproduction, a range of government measures is employed to mitigate the negative effects of the aforementioned factors on the economy and to protect them from losses associated with mortgaged land. The mechanisms for enhancing farmers' financial capabilities are beyond the scope of this study. For illustrative purposes, it is noted that in Germany, direct budget support for farm profitability amounts to 346 euros per hectare, with additional support related to agricultural land development totaling 82 euros per hectare, bringing the total support to 428 euros per hectare. In comparison, the total state support for farmers is 357 euros per hectare in France and 317 euros per hectare in Poland (Zbarsky, 2015). In the United States, state subsidies account for 20% of the cost of farm products, while in England, this share exceeds 25%. In the European Union, state subsidies constitute 28% of farm product costs. In Sweden, Norway, and Japan, the share of state subsidies is significantly higher, reaching 60% (Suprun, 2019). All types of state support are provided through the above institutions.

In Ukraine, there are no specialized financial institutions for servicing agricultural producers, in particular, small and medium-sized ones. An analysis of the practice of commercial bank lending shows that these institutions are interested in working only with those who use 500 or more hectares of agricultural land. Credit Agricole Bank in Ukraine issues loans to farmers with land use of 200 hectares. Thus, banks are not interested in personal peasant economies and a significant part of farms, which produce up to half of all agricultural products.

On the part of small farms, credit rates are a stop factor for appealing to banks – for individuals they are significantly higher than for corporate loans. Credit rates are also higher for small and medium-sized farms, who are legal entities. According to National Bank of Ukraine, in 2020 the weighted average rate for use of loans in agriculture was 13.9% per annum, and for small and medium-sized agribusinesses is an average of 20 – 22%.

Since 2000, Ukraine has had a mechanism for partial compensation of interest rates on loans from private banks. However, farmers hardly use this program due to the high upper limit of the repayable loan rate, high mortgage (up to 300% of the loan amount), advance payment requirements of up to 30%, credit terms in which farmers cannot invest. Only large agro-industrial and commercial enterprises have a chance to get loans, which can provide acceptable mortgage for banks.

In Ukraine, there is a non-bank specialized financial institution the Ukrainian State Fund for Farm Support (Ukrderzhfond). However, its functions are, first, limited to small amounts of short-term credit resources, which are mostly used to replenish fixed assets. A quarter of loans are used for the purchase of machinery and equipment, and a fifth of them are used for production activities. We are not talking about

targeted long-term loans through the Ukrderzhfond. Secondly, the functions of the Fund do not apply to the maintenance of personal peasant economies.

Restructuring and extension of the functions of this non-bank financial institution to preferential, including long-term lending to farmers and private farms, as well as granting the Ukrderzhfond the status of a guarantor of repayment of loans issued by others, including banking financial institutions, considering foreign experience important and urgent task of the government.

Regarding the second main component of lending to small and medium-sized farms, it should be noted that the legal regulation of the establishment and operation of cooperative banks in Ukraine is significantly limited and does not define their essence as cooperative's non-profit credit institutions.

The reference of Article 8 of the Law of Ukraine "About Banks and Banking Activity" №2121-III of 07.12.2000 (About Banks, 2000) to the current cooperative legislation is insignificant, as in the Laws of Ukraine "About Cooperation" №1087-IV of 10.07.2003 (About Cooperation, 2003) and "About Agricultural cooperation" № 819-IX dated 21.07.2020 (About Agricultural, 2020) does not mention cooperative credit formations. Therefore, agricultural cooperative banks cannot be registered as service cooperatives with non-profit status.

The standardization of minimum capital for a cooperative bank cannot stand any criticism. As in Poland it is much smaller and amounts to 1 million euros. In Ukraine, on the other hand, the amount of standardization of the minimum capital for a cooperative bank is about 200 million UAH, which is within 7 million euros. This makes it practically impossible for agricultural producers to create such structures.

This proves the necessity to make significant changes and additions to current banking legislation, or to adopt a separate framework Law of Ukraine "About Agricultural Cooperative Credit" with a focus on the formation of cooperative banks of European single-level credit system for agricultural producers with a closed cycle of mortgage transactions.

Legislation of credit unions also contains significant gaps. First of all, the cooperative legislation does not regulate them in the status of a non-profit service cooperative. According to the Law of Ukraine "About Credit Unions" № 2908-III of 20.12.2001 (About Credit, 2001) these formations are non-profit organizations. However, the Law of Ukraine "About Financial Services and State Regulation of Financial Services Markets" № 2664-III of 12.07.2001 (About Financial, 2001) legalizes credit unions by financial institutions along with banks and other institutions that provide services for profit.

Contradictions of legislation on the economic (non-profit) nature of credit unions radically change the natural essence of these credit institutions, which makes them unprofitable.

The organization of the system of cooperative credit institutions, as a rule, is carried out on the initiative and financial support of the state. In the United States, for example, the Farm Credit System was formed by a decision of the US Congress in accordance with the Federal Agricultural Credit Act (1916). Initial government subsidies amounted to \$125 million, which was a significant support at the time. With the participation of the state, a cooperative system was formed in Japan, India, and European countries.

Taking into consideration the common foreign practice, one of the following three options for public financial support for the development of a cooperative credit system in Ukraine can be used:

According to the first option, for the formation of the capital of local (regional) cooperative banks (institutions of the 2nd level) the state allocates funds from the budget for the formation of capital of cooperative banks under the condition that grassroots cooperative credit organizations undertake to repurchase from the state the relevant shares in the share capital of cooperative banks within a certain period (to 30 – 40 years).

The government provides credit unions with the required amount of credit, subordinated for any agreed period (for example, 10, 15 or 20 years or more) at low interest rates.

According to the second option, the state finances members of the cooperative banking system. This option can be used if part or all of the funds received as compensation for interest rates on bank loans (and possibly from other trust funds) will be used to create regional cooperative banks to create a cooperative banking system.

Thus, joint and coordinated actions of the state, producers, their cooperatives will allow to form in Ukraine an effective system of financial and credit support of small and medium-sized businesses with financial resources for the purchase of land.

Under the third option, the cooperative banking system is financed by all participants. This option assumes that the capital formation of cooperative banks is at the expense of lower-level members, the system of funds used as compensation of interest rates and budget funds.

In order to support the assets of cooperative credit institutions, distribution of state subsidies and soft loans should be provided through them to agricultural producers and their associations.

It is important to note that the territorial principle of creating cooperative credit structures binds them to a specific territory and community where their members live and work. Thus, the formation of a system of rural credit unions and local cooperative banks is a form of financial “decentralization” of funds, which plays an important role in ensuring the effective development of rural areas “from the bottom up” (Svereda, 2018).

Discussion

The comparative analysis of financial and credit services for agricultural producers reveals significant disparities between the practices observed in developed countries and those in Ukraine. Specialized financial institutions such as cooperative banks and credit unions play a crucial role in supporting agriculture in various international contexts. Their success is largely attributed to their ability to offer lower interest rates, more flexible loan terms and tailored financial services that cater to the unique needs of small and medium-sized farms.

In the European Union, cooperative banks such as Credit Agricole in France and Rabobank in Netherlands exemplify effective models of agricultural financing. These institutions leverage their non-profit status to provide affordable credit, thereby facilitating the acquisition and development of agricultural land. Similarly, the Farm Credit System in the United States and Farm Credit Canada demonstrate the importance of state involvement in sustaining agricultural finance. The U.S. Farm Service Agency's role in providing loans to underserved farmers, particularly those facing force majeure, highlights the necessity of safety nets in agricultural finance.

However, the situation in Ukraine underscores several critical challenges. The absence of specialized financial institutions for small and medium-sized agricultural producers, coupled with the high interest rates and restrictive lending conditions imposed by commercial banks, creates a significant barrier to accessing necessary financial resources. The limitations of the Ukrainian State Fund for Farm Support and the regulatory inconsistencies regarding cooperative banks and credit unions further exacerbate these challenges.

Addressing these issues necessitates a comprehensive reform strategy. Drawing on international best practices, Ukraine should consider implementing a framework that supports the development of cooperative credit institutions with a non-profit orientation. This includes revising the legal and regulatory environment to enable the establishment of agricultural cooperative banks and credit unions, as well as exploring options for public financial support to seed capital for these institutions. Furthermore, adopting a decentralized approach to financial services, as seen in successful models abroad, could enhance the accessibility and effectiveness of credit services for Ukraine's rural communities. By fostering collaboration between state institutions, financial organizations and agricultural producers, Ukraine can build a more resilient and inclusive financial system that supports sustainable agricultural development.

Summary

The development of specialized financial and credit systems for agricultural services in global practice indicates that such systems are indispensable, particularly for small and medium-sized agribusinesses.

Elimination of the problems in Ukraine highlighted in the article requires consolidation of efforts of professional agricultural organizations, scientists, agricultural authorities and legislators in order to implement the experience of Western European and other countries in organizing agricultural cooperative credit and state non-banking structures to maintenance agriculture in national law and practical activities.

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