

## GOVERNMENT SUPPORT OF UKRAINE'S CORPORATE SECTOR INTERNATIONAL LENDING

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**Summary.** *The purpose of this article is to evaluate government support mechanism of Ukraine's corporate sector international lending. The article is devoted to researching the main directions of government support of cooperation between Ukrainian enterprises and international financial institutes. Methodology of research.* The objectives of the article implemented by using the following general and specific research methods: analysis and synthesis, systematization and generalization, comparison, scientific abstraction. **Findings.** Funding of Ukraine's corporate sector, necessity of attracting international loans, government support mechanism of corporate sector international lending and its main problems are researched and analyzed. **Practical value.** The article substantiates the necessity of government support to attracting international credit resources by Ukrainian enterprises.

**Keywords:** international lending, international financial institutes, corporate sector, government guarantees, realized guarantees.

**Introduction.** The successful functioning of the corporate sector is related to presence of an effective mechanism to raise necessary financial resources. Economic transformation processes in Ukraine require significant investment to various branches of economy, upgrading and reconstruction of infrastructure or certain key enterprises. However, Ukrainian enterprises often have not sufficient financial resources for investing in new capital assets. Furthermore, domestic bank loans are deficient or expensive [2, p.15]. In such circumstances, the question of attracting foreign investment to Ukraine is really important. One of the most promising solutions to problems, related with the corporate sector financing, is cooperation with international financial institutions (IFI). But, for the most of Ukrainian enterprises, even preferential loans of IFI are inaccessible. In such situation, government should develop effective support mechanism of mobilization IFI credit resources to corporate sector.

**The analysis of recent research and publications.** Most Ukrainian scientist, such as, Zavalna [1], Kolosova [2], associate government support mechanism of international lending with government guarantees system. However, they research

effectiveness of this mechanism in general, without distribution by economic sectors - corporate, public, and financial. But, the specificity of giving guarantees to the corporate sector and ways to improve its effectiveness is still scarcely explored.

**Purpose.** The purpose of this article is to evaluate government support mechanism of international lending and reveal the main problems of it functioning. It is necessary to solve such tasks to achieve these goals: to evaluate corporate sector funding system, to analyze main ways of government support of international lending in Ukraine.

**Result.** Researching of economic dynamics of processes allow to make a conclusion that Ukraine's economy is in a deep crisis now. Significant deterioration of economic situation in 2014 was caused by the conduct of military operations in the East, which generated chain reaction of imbalance of all macroeconomic indicators.

In conditions of chronic economic crisis, galloping inflation, losing a considerable part of markets, Ukraine's corporate sector is in a deep decline. To overcome the crisis and further development, Ukrainian enterprises need significant financial resources. But their equity and domestic loans are limited (table 1).

From table 1 it can be seen that financial results of Ukraine's corporate sector declined steadily in 2011–2015. In 2011 net profit of corporate sector was a 67 797,9 m. UAH., in 2012 – 35 067,3 m. UAH. In 2013–2015 economic activity of Ukrainian enterprises was unprofitable. Thus, we cannot research net profit as a funding resource of corporate sector.

The table 1 also shows that total equity of Ukrainian enterprises increased gradually in 2011–2015. In 2015 total equity of Ukrainian enterprises was a 2 288 741 m. UAH, that was on 17,3 % more than in 2013. In the sector of bank loans we can see the same situation. Loans to corporate sector in 2011–2015 grew gradually. However, considering inflation, real lending of corporate sector dropped sharply.

Table 1

**Dynamic of Ukraine's corporate sector financial resources in 2011–2015**  
[compiled by the authors based on [6]]

Funding source	2011	2012	2013	2014	2015
Net income, m. UAH	67 797,9	35 067,3	–22 839,7	–583 785,9	–373 516,0
Equity, m. UAH	1 586 284,7	1 904 940,2	1 950 374,8	1 480 658,0	2 288 741,4
Loans, m. UAH	575 545,0	605 425,0	691 903,0	778 841,0	787 795,0
Foreign direct investment, m. USD	43 836,0	48 991,4	53 679,3	57 056,4	43 371,4

Foreign direct investment in Ukraine's economy increased in 2011–2014. But in the 2015 foreign investment fell sharply – from 57 056,4 m. USD. to 43 371,4 m. USD.

In such situation Ukrainian enterprises have to search alternative funding resources. IFI loans are the kind of such resources.

IFI loans have a lot of advantages:

1. Grace period of loans.
2. Low interest rates. An example, EBRD provides loans to small and middle-size enterprises at the rate  $\text{Libor} + 8\%$  (8,6 % in the end of 2015) [7]. The average rate of lending in Ukraine at the same period was 9,1 % [8].
3. Availability of the required amount of credit.

Today in Ukraine, an active work in sphere of financial assistance and lending is provided by several IFI. Among them such structures of World Bank as EBRD, IFC. Besides, NEFCO and RCI implement their projects in Ukraine's corporate sector [4].

Despite all the advantages of IFI loans, they are not popular among Ukrainian enterprises. Often, small and middle-sized enterprises have not enough information about IFI funding projects. Large enterprises cannot take all advantages of IFI loans, because they do not meet stringent requirements for borrowers.

The procedure of international lending is also

complex. An example, EBRD requires its borrowers to represent credit project in the form of a business plan. The project must be justified from a technical and commercial point of view. Project should have positive net value at discount rate equal to the cost of credit [7].

After the approval of the business plan by IFI, it must be sent to the NBU for consideration and approval by group project management of international credit lines, according to provision of the National Bank «On the procedure for obtaining credit, loans in foreign currency from nonresidents and residents to provide loans in foreign currency to non-residents» [3]. Only then, an enterprise and IFI make a loan agreement.

In such situation, the government should promote cooperation between Ukrainian enterprises and IFI. It may be a direct support (government guarantees) or indirect support (simplifying procedures to attract international loans).

Today, government support mechanism of corporate sector international lending consists of 2 elements:

1. Attracting loans to the special fund of the state budget and their direction in the corporate sector.
2. System of government guarantees.

Analysis of the effectiveness of the first element presents in table 2.

Table 2

**Loans involved in special fund of state budget for investing to corporate sector in 2011–2015 [compiled by the authors based on [5]**

(m. UAH)

International financial institute	2011		2012		2013		2014		2015	
	Plan	In fact	Plan	In fact	Plan	In fact	Plan	In fact	Plan	In fact
International Bank for Reconstruction and Development	161,6	98,6	152,0	146,0	285,6	193,9	227,8	202,5	317,7	221,7
European Bank for Reconstruction and Development	0,0	0,0	22,0	21,2	200,5	0,0	310,0	50,2	500,0	58,2
European Investment Bank	0,0	0,0	6,0	0,0	64,8	0,0	252,6	0,0	567,6	0,0
Reconstruction Credit Institute	0,0	0,0	22,0	21,2	33,0	0,0	33,0	0,0	81,6	0,0
Japan Bank for International Cooperation	249,0	858,6	180,0	40,7	0,0	0,0	0,0	0,0	0,0	0,0
Total	410,6	957,2	385,0	229,1	583,9	193,9	823,4	252,7	1 466,9	279,9

The table 2 shows that in 2011–2015 Ukrainian government attracted IFI loans to special fund of state budget for direction these resources to corporate sector. However, it should be noted, that in 2012–2015 IFI projects have not been implemented by 100 %. Actually received funds were lower than planned volumes. From table 2 it can be seen that the level of implementation of lending projects decreased slightly in 2012–2015.

In 2011–2015 special fund of state budget received the largest amount of funds from IBRD and EBRD. In 2013–2015 was planned to receive loans from EIB and RCI, but in fact this

loans were not been got.

Analysis of loans in terms of investment programs shows, that loans of IBRD, EBRD and EIB were received for reconstruction of Ukrhydroenerho. Credits of EIB and RCI were planned for implementing project “Financial support for small and middle-sized enterprises”. Loan of Japan Bank for International Cooperation was received for development of Boryspil International Airport.

Another element, that government used for supporting of corporate sector international lending, is system of loan guarantees (table 3).

Table 3

**Dynamic of government guarantees granted for IFI loans in 2011-2015 [compiled by the authors based on [5]**

(m. UAH)

Guarantee type	2011	2012	2013	2014	2015
Guarantees granted for IFI loans	8 266,10	58 150,70	3 996,50	16 479,70	7 158,00
Total guarantees	12 842,17	75 349,70	21 897,00	17 378,00	7 429,90
Part of Guarantees granted for IFI loans in total guarantees, %	64,40	77,20	18,30	94,80	96,30

Table 3 shows, that in 2011–2015 dynamic of guarantees, granted for IFI loans, were unstable. But, analysis the structure of guarantees shows that part of guarantees granted for IFI loans in total guarantees increased in 2011–2015 (18,3 % in 2013, 94,8 % in 2014, 96,3 % in 2015).

We should analyze dynamic of realized guar-

antees to evaluate the effectiveness of government guarantees. It'll show the frequency of insolvency of recipients of government guarantees (table 4).

From table 4 it can be seen that in 2011–2013 Ukrainian enterprises, that became a recipient of government guarantees, fulfilled their commitments on IFI loans in time.

Table 4

**Dynamic of realized government guarantees for IFI loans in 2011–2015**  
[compiled by the authors based on [5]

(m. UAH)

Guarantee type	2011	2012	2013	2014	2015
Realized guarantees for IFI loans	0,0	0,0	0,0	611,5	485,6
Total realized guarantees	0,0	208,1	240,8	1 882,1	1 808,9
Part of realized guarantees for IFI loans in total realized guarantees, %	0,0	0,0	0,0	32,5	26,8

In 2014–2015, part of companies could not pay off their debts to IFI and these debts were paid off by government. However, part of realized guarantees for IFI loans in total realized guarantees was only 32,5 % in 2014 and 26,8 % in 2015.

This situation is natural, because loans, received from IFI, are investment loans. Investment project, which implemented by an IFI loans, is thoroughly checked by an enterprise, IFI, NBU and government, if the last one provides loan guarantees [1, p.102]. That is the failure of such project is minimized.

**Conclusions and further research.** Thus, the analysis showed that Ukrainian government created an effective support system of corporate sector international lending. Government attracts international loans to special fund of state budget and uses these resources for investment projects in corporate sector and providing Ukrainian enterprises with loan guarantees. However, significant obstacles in way to obtaining the necessary financial resources are bureaucratic procedures. In such situation, the main task of government is to liberalizing and simplifying these procedures.

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**Анотація.** Мета статті полягає в оцінці ефективності механізму державної підтримки міжнародного кредитування корпоративного сектора економіки України. Стаття присвячена дослідженню основних напрямів державної підтримки співпраці українських підприємств із міжнародними фінансовими інститутами. **Методика дослідження.** Вирішення поставлених у статті завдань здійснено за допомогою таких загальнонаукових і спеціальних методів дослідження: аналізу та синтезу, узагальнення та систематизації, порівняння, наукової абстракції. **Результати.** Проаналізовано стан фінансування корпоративного сектора економіки, обґрунтовано необхідність залучення міжнародних кредитів. Досліджено механізм державної підтримки міжнародного кредитування корпоративного сектора економіки та виявлено його основні проблеми. **Практична значущість результатів дослідження.** У статті обґрунтовано необхідність державної підтримки підприємств у залученні міжнародних кредитних ресурсів та проаналізовано механізм такої підтримки.

**Ключові слова:** міжнародні фінансові інститути, корпоративний сектор економіки, державні гарантії, міжнародне кредитування, реалізовані гарантії.

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**Аннотация.** Цель статьи заключается в оценке эффективности механизма государственной поддержки международного кредитования корпоративного сектора экономики Украины. Статья посвящена исследованию основных направлений государственной поддержки сотрудничества украинских предприятий с международными финансовыми институтами. **Методика исследования.** Решение поставленных в статье задач осуществлено с помощью таких общенаучных и специальных методов исследования: анализа и синтеза, обобщения и систематизации, сравнения, научной абстракции. **Результаты.** Проанализировано состояние финансирования корпоративного сектора экономики, обоснована необходимость привлечения международных кредитов. Исследован механизм государственной поддержки международного кредитования корпоративного сектора и обнаружены его основные проблемы. **Практическая значимость результатов исследования.** В статье обоснована необходимость государственной поддержки предприятий в привлечении международных кредитных ресурсов и проанализирован механизм такой поддержки.

**Ключевые слова:** международные финансовые институты, корпоративный сектор экономики, государственные гарантии, международное кредитование, реализованные гарантии.

Надійшло до редакції 27 серпня 2016 року.