

Section 6. Finance

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ACTIVATION DIRECTIONS OF BANKS INTERACTION WITH REAL SECTOR ENTERPRISES IN LENDING TO INNOVATIONS

Abstract: The content of the “interaction” concept has been studied. The definition of the statement “interaction of the banking and real sectors of economy” has been generalized. The features of financing, interconnections and interaction regularities depending on specificity of banking system functioning have been determined. The factors that restrain banks in active innovative lending have been indicated. The positive results and advantages of interaction between banks and customers have been determined.

Keywords: banking and real sectors, interaction, innovations, lending, benefits, restraining factors.

Problem statement

The current external challenges faced by most

growth, increased investment and innovation activity of economic entities can be possible only in con-

countries of the world have intensified the focus on the real sector as the basis of an independent and competitive economy, which, due to its inertia and the weakness of the perception of regulatory influence, needs the support of banking sector as one of the most advanced segment of the financial market. According to the results of recent research, in countries with a transitory economy meeting the needs of the real sector by means of banking resources is defined as a strategic direction for providing innovative economic development [1].

During the transition process of Ukraine from the command-administrative economy to the market economy, all areas of the economic system, especially the banking and real sector of the economy, have undergone changes [2; 3]. However, their development took place autonomously. The experience of the developed countries clearly shows that economic

conditions of effective interaction between banking and real sectors.

Analysis of recent research and publications

The issue of interaction between banking and real sector is rather new and partly reflected in the works of domestic and foreign economists.

Thus, the study of each sector has been carried out by the leading foreign economists A. Smith, D. Ricardo, K. Marx [4–6], etc., who have made a significant theoretical contribution to the formation and development of the economic system concept. The following scientists, such as T. Beck, A. Demirguc-Kunt, R. King, R. Levine, J. Shumpeter [7–11] and many others, have been involved in solving issues related to the evolution and development of sectors and interaction between them. The issue of interaction between banks and enterprises was of particular concern to Ukrainian scholars, economists

V. Alexandrova, Y. Bazhal, O. Baranovsky, M. Danko, O. Dzyublyuk, L. Kuznetsova, M. Rudenko, A. Semenov, O. Snizhko [12–18] and others. Recommendations in this area are of great importance as their implementation will allow to work out a set of measures aimed at financing innovative development of Ukrainian economy by banks.

Setting objectives

Banking and real sectors are the basic elements of the institutional structure of the economic mechanism of the national economy. The inadequate level of interaction between sectors leads to a reduction in business and investment activity, monetization, causes increased technological degradation and slower economic growth. In order to solve these problems within the framework of the general economic policy of Ukraine, it is necessary to create conditions for the development of lending to the innovative economy and to promote demand for loans from banks by enterprises in the real sector.

Available scientific and analytical developments have a theoretical and applied value, covering the actual aspects of financial interaction between banks and enterprises, peculiarities of monetary and credit relations, problems of effective banking activity in the conditions of market transformation.

However, there are issues that require further research, including identifying promising areas of

- to prove that the specifics of the functioning of banking systems predetermine the peculiarities of financing, interconnections and regularities of interaction with other sectors of economy;

- to form a system of factors restraining the participation of the banking sector in financing innovation in Ukraine;

- to identify positive results and advantages of the possibility of banks financing innovative development in the process of interaction with customers.

Materials and methods

To achieve the objectives we have used the following methods: the systematic, the theoretical generalization and the comparative comparison methods. The information base of the study consists of scientific works of Ukrainian and foreign scientists on the issue investigated.

Results

In the scientific world there is the idea that breakthrough in innovation development and ensuring long-term economic growth is impossible without the search for non-standard solutions in the field of organization and forms of interaction between the banking and real sectors of economy, whose development vector is in line with the goals and objectives of socio-economic development of the country and the specifics of the economic phases which are changing rapidly.

interaction between banking and real sectors, peculiarities of its manifestation in the formation of an innovative model of economic development of Ukraine.

The aim of the study

The aim of the work is to develop recommendations for enhancing interaction of banks and enterprises of the real sector of the economy in financing innovative projects. The following objectives are supposed to contribute to the aim achieving:

- to study the concept “interaction” as a basis for the formation of conceptual approaches to the development of interaction between banking and real sectors of economy;

The analysis of literary sources allowed us to conclude that the unity of representations on key issues of interaction between banks and enterprises of the real sector of economy has not occurred, and that requires the disclosure of this concept.

In the Great Encyclopedia Dictionary the interaction is defined as a “philosophical category that reflects the processes of objects’ influence on each other, their mutual conditionality, the most general and universal form of development and change of their state, as well as the creating one object by another” [19]. Interpretation of the term under broader application in the field of relations has created a number of definitions, such as “interconnection of

phenomena, mutual support” [20]; “participation of objects in joint work, activities, cooperation, joint implementation of operations, transactions” [21];

of the banking sector in the financial system is very big. In addition, a significant part of the external financing of enterprises in the real sector is also car-

“the influence of various subjects, phenomena on each other, which determine the changes in them, the consistency of provisions, conclusions, results of human activities in various spheres” [22]; “the process of indirect influence of objects (subjects) on each other, which generates their mutual conditionality and connection” [23], etc.

The generalization of the authors’ different opinions in the scientific literature suggests that the definitions of interaction between banking and real sectors are limited to the following: *the participants and the priority in initiating the interaction* (enterprises of the real (industrial) sector, the government, the central bank, where the initiative belongs to the banks; *scale of interaction* (interaction on micro, meso and macroeconomic levels, taking into account endogenous and exogenous factors) and *forms of interaction* (lending, integration, partnership).

Thus, the term “interaction between banking and real sectors of economy” involves a process of mutual influence on each other of the parties with regard to their conditioning and orientation to achieve the final results as at the micro level (maximizing profits, business expansion), and so the effects on the meso and macro levels (positive changes in the structure of regions, industries of economy).

Further on, in accordance with the objectives of our study, we note that the interconnections and pat-

ried out through banks. Such a mechanism is used in the banking sector of the Ukrainian economy.

Classic examples of such a financial system are Japan and Germany. The banking system of Japan is called “the main bank system”. The basic principle of the effective interaction of most Japanese banks with the real sector is to establish lasting relationships with their clients (companies) based on mutual trust and impeccable reputation, which provides the basis for financing innovative projects.

The German banking system is called “the *hausbank* system”. Its principle of effective interaction between banks and customers is that the population puts their shares deposited in banks that are eligible to vote at shareholders’ meetings. As a result, banks accumulate fairly large stake that enables them to influence the activities of German companies, many of which are their regular customers. Taking into account that banks become significant owners of corporate companies, both they and their clients get interested in the successful development of their business. The above mentioned, in our opinion, creates opportunities for banks to provide innovation loans.

The aforementioned possibility of banks’ funding of innovative economic development is based on positive results of banks and clients cooperation. The main of them are as following:

- obtaining a broad access to information on the activities of borrowing companies (minimizing

terms of the interaction of the banking sector with other sectors of economy depend on the specific functioning of banking systems and the features of their financing mechanism. As you know, in the world practice there are conventionally named banking and market financial systems.

In the article, we investigate the peculiarities of banking financing of the economy, which is carried out by the banking system (bank-based financial system). With this method of financing, the share

losses from possible credit risks);

- possibility of influencing the corporate policy of enterprises along with managers and shareholders (creating conditions for the formation of long-term credit resources for the banks to finance the client's innovative programs);

- ownership of a shareholder's capital stake of a borrowing company (introduction of innovations by companies-borrowers as an incentive to maximize their value);

- possibility of economizing on the scope of investing depositors' funds (a significant reduction in transaction costs of investment);

- flexibility in dealing [24] with setting the interest rate on the loan, assessing the needs of the enterprise in the credit facilities, its ability to repay the loan and the interest (taking into account both

- lack of motivation in lending innovative projects due to their higher credit risk and long payback period (compared to lending to replenish working capital);

- lack of banks' proper experience in managing the risks of implementing innovative projects;

- insufficient development of investment technologies by banks, including expert examination and

the current financial condition of the client and the long-term ability to make payments);

- advantages over private investors in obtaining the necessary information on borrowers (reducing the negative impact of asymmetry of information);
- effective functioning in terms of a lack of a strong legislation and judicial system in the country necessary for drawing up reliable credit agreements and forcing them to be properly executed (self-regulation of all problems arising in the process of cooperation, mutual trust and preservation of the reputation of each of the parties to the agreement).

It should be noted that financial systems dominated by banks operate in a vast majority of countries with a transitory economy, including Ukraine. Therefore, in the context of a shortage of budget resources, the issue of attracting the banks economy into the support system of innovative sector becomes relevant. However, there are a number of factors restraining the involvement of the banking segment in financing innovative projects.

Unfortunately, the potential of bank lending as a source of funding for investment and innovation activities of Ukrainian enterprises has not been used in the period prior to the financial and economic crisis of 2008–2009, which should be considered rather favorable for the development of economy, when

selection of investment projects;

- lack of corrective influence of the state on the formation of the banks' credit policy.

These reasons did not allow domestic banks to develop innovative-investment lending to the real economy even in the availability of economic growth and the banking system in particular, whose growth was achieved through the injection of large volumes of foreign capital.

While implementing the objectives of activating and enhancing the key role of Ukrainian banks in the investment and innovation process, it must be taken into account that in addition to banking financial potential, to which is mostly drawn the attention of economists and practitioners, there are other advantages of banks in comparison with other participants of the financial market. These are, in particular, as follows:

- ability of banks to implement an individual approach to clients based on identifying and monitoring their needs;
- possibility of accepting the increased risks accompanying lending to investment projects due to diversification of the loan portfolio and a large number of risk management tools;
- project analysis skills, flexible investment and credit technologies;
- experience of interaction with international and foreign financial organizations, state authorities, trust funds and practice of interbank cooperation,

Ukraine created the preconditions for financing innovation projects by banks. At that time the following reasons did not allow to reorient banks for active innovative lending:

- targeting high profitability of credit operations;

which is important for the development of the market of syndicated loans.

Only banks can accompany lending projects with complex analysis and, if necessary, their refinement to that stage at which the project will attract investors and creditors resources, that is, banks while lending

to the project can improve its structure and design appropriate financing scheme [25].

Only banks that are interested in the loans repayment can fairly evaluate the investment results, overcoming the information asymmetry associated with the assessment of the prospects of innovation, and identifying well-prepared and effective innovation projects.

In addition, only banks have the possibility of massive, large-scale lending projects. The cluster system of financing innovation seems the most appropriate one under current conditions for Ukraine's economy.

Banks should offer their customers loan products tailored to their needs, i.e. taking into account risk management functions, fundraising for the project, consulting, and supporting projects. These loan products of banks should be viewed as an investment in innovation, that is in business development of their corporate customers and the economy as a whole on the basis of scientific and technological achievements, or as innovative banking loan products.

Conclusions

The results of the study of theoretical and ap-

The key players in the innovation process within this model are diverse and independent market agents: small innovative firms, large companies, research institutes, universities, united around certain sectoral and territorial clusters. In addition, it is envisaged that there is a strong vocational technical and special technical education focused on the specific needs of corporations.

To implement the strategic objectives of the establishment and development of innovative business in Ukraine banks need rapid development of advanced methods of innovative banking management, which consist of: quality monitoring the implementation of innovative programs; syndicated lending;; creating preconditions for the development of customers' business by predicting and stimulating customer needs in modernization and providing them with loan products, introduction of new technologies to produce competitive products.

plied issues related to the financing innovations by Ukrainian banks prove the lack of an integrated and comprehensive approach to the analysis of the current situation. We believe that certain activities of domestic banks require new methodological approaches, such as a need for additional in-depth studies of relationships and interaction between banks and innovative economy; identifying the place and role of banks in financing innovative development of economy in the conditions of external influence of financial globalization and internal impact of crisis phenomena in Ukraine.

Solving these problems will promote more effective interaction of banks with the real sector of economy, intensifying their influence on innovation development, strengthening the competitive positions of banks in the financial market of Ukraine, that is increasing the role of banks in financing innovative development processes of the economy.

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