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SAVLUK Serhii,
Doctor of Science (Economics), Associate Professor of the Department of Banking
State University of Trade and Economics
19 Kyoto St., Kyiv, 02156, Ukraine

ORCID: 0000-0002-4709-6607
s.savluk@knute.edu.ua

DUBAS Andriy,
PhD candidate of the Kyiv National Economic University named after Vadym Hetman
54/1 Beresteyskyi Avenue, Kyiv, 03057, Ukraine

ORCID: 0009-0000-0815-036X
first@aub.org.ua

SOCIAL BANKING IN POST-WAR RECONSTRUCTION

Deep economic crises caused by wars, epidemics, earthquakes and other cataclysms require the creation of an effective financial mechanism for the recovery of the economy as a whole, as well as private households and individual businesses in particular. Today, a scientific search for the formation of such financial recovery systems is being carried out. This also applies to the effective mechanism for restoring the property of citizens and their private enterprises. For Ukraine, it is necessary to form a mechanism for the reconstruction of private property as soon as possible. Therefore, the purpose of the article is to determine the main problems and trends of modern micro-financing of households and private businesses, as well as to build an understanding of the architecture of social banking as a tool for financing their recovery after the war and other socio-natural disasters. To achieve it, general scientific methods of cognition are applied: analysis and synthesis, induction,

САВЛУК Сергій,
д. е. н., доцент кафедри банківської справи
Державного торговельно-економічного університету
вул. Кіото, 19, м. Київ, 02156, Україна

ORCID: 0000-0002-4709-6607
s.savluk@knute.edu.ua

ДУБАС Андрій,
аспірант Київського національного економічного університету імені Вадима Гетьмана
просп. Берестейський, 54/1, м. Київ, 03057, Україна

ORCID: 0009-0000-0815-036X
first@aub.org.ua

СОЦІАЛЬНИЙ БАНКІНГ У ПОВОЄННОМУ ВІДНОВЛЕННІ

Глибокі економічні кризи, зумовлені війнами, епідеміями, землетрусами та іншими катаклізмами, вимагають створення ефективного фінансового механізму як відновлення економіки загалом, так і приватного домогосподарства та індивідуального бізнесу зокрема. На сьогодні здійснюється науковий пошук формування таких фінансових систем відновлення. Це стосується й ефективного механізму відновлення майна громадян та їхніх приватних підприємств. Для України механізм відбудови приватної власності необхідно сформувати якнайшвидше. Отже, метою статті є визначення основних проблем і тенденцій сучасного мікрофінансування домогосподарств та приватного бізнесу, а також формування уявлення про архітектуру соціального банкінгу як інструменту фінансування їхнього відновлення після війни та інших соціоприродних катастроф. Для її досягнення застосовано загальнонаукові методи пізнання: аналізу та синтезу, індукції, дедукції, порівняння, історичний, системного підходу та *deduction, comparison, historical, systemic approach and generalization. The war in Ukraine, epidemics, earthquakes and other cataclysms require the creation of a special mechanism for restoring households. This mechanism should both take into account the financial capabilities of the recipients of funds for at least partial return, and create guarantees for investors regarding the targeted and rational use of their donations. Banks and non-bank financial institutions can become such a "financial bridge" based on a modified model of microfinancing, which can be called a model of "social banking of recovery". It has been established that the model of "social banking for recovery" can be implemented on the basis of block chain: investors (social stakeholders) – banks (managers of recovery funds) – recipients (households, volunteer organizations, etc.) – controllers. An important role is assigned to banks, which calibrate the recipients of funds depending on their financial potential, both for making decisions on granting grants or quasi-loans with partial repayment, and for issuing standard loans with a low interest rate.*

Keywords: Social banking, microfinance, microcredit, banks, recovery financing.

узагальнення. Війна в Україні, епідемії, землетруси та інші катаклізми вимагають створення особливого механізму відновлення домогосподарств. Цей механізм повинен як враховувати фінансові можливості отримувачів коштів щодо хоча б часткового їхнього повернення, так і створювати гарантії для інвесторів щодо цільового та раціонального використання їх донатів. Таким "фінансовим містком" можуть стати банки й небанківські фінансові установи на основі модифікованої моделі мікрофінансування, тобто моделі "соціального банкінгу відновлення". Встановлено, що модель "соціального банкінгу відновлення" може бути реалізована на основі блокчейну: інвестори (соціальні стейкхолдери) – банки (управителі фондів відновлення) – реципієнти (домогосподарства, волонтерські організації тощо) – контролери. Важлива роль відводиться банкам, що калібрують отримувачів коштів залежно від їхнього фінансового потенціалу як для прийняття рішень щодо надання грантів або квазікредитів з частковим поверненням, так і для видачі стандартних кредитів з низькою відсотковою ставкою.

Ключові слова: соціальний банкінг, мікрофінансування, мікрокредити, банки, фінансування відновлення.

JEL Classification: G21, G23, G28.

Introduction

In October 2006, the New York Times published the article about the unusual achievement of the Bangladesh Bank: The 2006 Nobel Peace Prize was awarded today to the Grameen Bank of Bangladesh and its founder, Muhammad Yunus, for pioneering microcredit – using loans of tiny amounts to transform destitute women into entrepreneurs. The Norwegian Nobel Committee praised Dr. Yunus and Grameen for their "efforts to create economic and social development from below" [1]. He began this activity in 1974, and since then, microfinance has developed dynamically throughout the world, driven by both banks and non- bank microfinance institutions. In 2021, there were more than 10 thousand of them. About 140 million borrowers had USD 124 billion of such loans.

In Ukraine, microfinancing has resulted in issuing loans to the population for current consumer needs at high interest rates. In the conditions of the war, this mechanism slowed down; instead, there was an acute need for financing the restoration of property and health of citizens, small businesses destroyed by the war. The economy and the citizens in particular, affected by the war, need significant funding. However, the architecture of its organization has not yet been finalized. The households and small private businesses need a separate financing scheme. However, investors, including the state, must be sure that the money is used rationally and proper way.

At the same time, banks, having experience, technologies and qualified – personnel, due to high lending risks and lack of long-term resources, to some extent found themselves on the sidelines of modern investment processes.

Scientific studies of the theory and practice of microcredit, which in a broader sense is called *microfinancing*, covered different continents [2–10] with a focus on financial support for private agriculture, women's employment, and the development of small-scale production. A number of works by foreign and domestic scientists are devoted to consideration of theoretical and practical aspects of social banking [11–13]. In Great Britain, there is even a corresponding scientific institute [14]. However, definitions of the essence of social banking (SB) in literature are still different, and its synergy with the concept of "microfinancing" needs research.

The aim of the article defines the main problems and trends of modern micro crediting of households and private businesses and the formation of proposals for the architecture of financing their reconstruction after the war and other socio-natural disasters with the participation of banks and other financial institutions.

In the research general scientific methods of knowledge were used: analysis and synthesis, induction, deduction, comparison, historical, systemic approach to formulating the concept of social banking restoration. The method of generalization was used to formulate the conclusions.

1. Social banking background

In 1974, while traveling around his country, the Bangladeshi economist Muhammed Yunus concluded that poor people need little finance to start their business. Then, as an experiment, he issued several loans in the amount of USD 27 for the manufacture of bamboo furniture [15]. The experiment was successful, and in 1976 he created his bank. The bank issued loans to the poor in the amount of USD 20 to USD 200 for the development of agriculture and domestic production, which turned out to be a significant contribution to the development of the economy, the growth of population employment, and poverty alleviation. From 1983 to 2005, the bank issued more than USD 5.7 billion such loans and almost all of them were returned.

The current average size of a microcredit *in* the world is about USD 1.000 as of 2021, 60 % of microcredit accounts are in the Asian region, and 80 % of first applications are made by women. The average interest rate on such loans is 37 % with a default rate of only 2 %. Half of all microloan applications is not satisfied. 65 % of microcredits are in rural regions [16]. Although the *COVID pandemic* has slowed the growth of microcredit, it continues to grow.

The issue of the identity of the concepts of "microcredit" and "microfinancing" is important. The recognized electronic financial dictionary Investopedia equates these concepts: "Microfinance, also called microcredit, is a type of banking service provided to low-income individuals or groups who otherwise wouldn't have access to financial services. While institutions participating in microfinance most often provide lending, microloans can range from as small as USD 50 to under USD 50.000. But many banks offer additional services such as checking and savings accounts as well as micro-insurance products, and some even offer financial and business education" [17]. In our opinion, these concepts are different: if *microcredit* is the provision of credit purely by financial institutions, primarily banks, with all *its* principles (including payment and repayment), then *microfinancing* can also be carried out by state, private institutions, foundations, and even individuals without obligation mandatory compliance with all credit principles. We will dwell on this in more detail below.

The purpose of microfinancing according to Investopedia is "The goal of microfinance is to ultimately give impoverished people an opportunity to become self-sufficient" [17]. Ukrainian banking and non-banking financial systems have accumulated some experience in microcredit. In Ukraine, the concept of "microloan" appeared in 2011. In 2015, the financial industry's turnover increased by a third times. Given the strict requirements of banks activity and the instability of the exchange rate, this service quickly began to gain popularity. In 2015, microfinance organizations surpassed banks in the volume of such loans, issuing them for a total amount of UAH 10 billion. We also give a definition of microcredit by Wikipedia, which consider it as a part of microfinance: "Microcredit is one of the main types of microfinancing, which consists in issuing small loans to people who do not have access to traditional banking for various reasons" [18].

At the beginning of 2021, there were 1.020 non-bank financial institutions in Ukraine, 100 of which provided microloans [19]. On the web portal Minfin, the rates for loans of a number of microfinance institutions in Ukraine are listed, ranging from 182 to 1095 percent per annum. In the first half of 2022, the indebtedness of microfinance institutions (MFI) microloans decreesed by UAH 2.4 billion (by 18 %): from UAH 13 billion at the beginning of the year to UAH 10.7 billion at the beginning of July 2022 [20].

At the same time, not only microfinance organizations provide micro loans, but also banks. As of January 1, 2023, microloans provided by banks to businesses alone, according to our calculations, amounted to UAH 160.1 billion, and this is without taking into account the category "other loans" in the amount of UAH 111.7 billion. The share of microloans in the total volume of business loans is 20 %, despite the fact that 2022 was extremely unfavorable for lending. The largest volumes of business microcredits was granted in the field of retail trade (*Table 1*).

Table 1

The largest amounts of indebtedness of banks for microloans granted to businesses, dated 01.01.2023

Activity	Amount, billion UAH	Share,%
Total microcredits	160.1	100
Retail	38.8	24.2
Wholesale	34.1	21.3
Agriculture	26.0	16.2
Real estate transactions	14.3	8.9

Source: compiled by the authors based on [21].

Banks have accumulated some experience in consumer lending. As of January 1, 2023, the debt owed on banks' loans to individuals amounted to UAH 209.9 billion. Although it is lower than the level of the beginning of 2022, it is higher than the level of the beginning of 2021, while the growth of the exchange rate had a slight effect on the change in the volume of debt due to a small share of the currency component. The legal basis of implementation of micro lending for population in Ukraine is the Law of Ukraine "On Consumer Credit" [22], which both banks and non-bank financial institutions must comply with.

In view of the above, it is possible to determine the differences of domestic and global microfinancing:

- in the world it is aimed at the development of small entrepreneurship, employment, overcoming poverty, in Ukraine it is implemented in the form of a short- term consumer loan;
- the cost of domestic microloans is hundreds of times higher than in foreign institutions, also the terms and their volumes are not comparable;
- for some reason, methodologically, microloans in our country are associated with MFIs, although banks also give microloans, and this is confirmed by world theory and practice.

2. Concepts of social banking

At the same time, in the world banking theory there is a separate concept named "*social banking*"(SB). Professor of Hamburg University Udo Rifner was one of the first to single out this concept: "Social banking is banking that fights poverty" [11]. By its essence, it is identified with microfinancing. Over time, SB got additional features: environmental banking, social development, and not only poverty alleviation, ensuring equality in business. Experts identify three key pillars of modern social banking:

Responsibility. Banks engaged in SB know their clients personally and strive to obtain from the issued loans not just the satisfaction of client needs, but also some social benefit. Some experts call this principle the principle of "soft money" or "slow money".

Transparency. Banks that carry out social banking always know what is happening with the issued money. In addition, they provide full information to their investors about the projects for which the money was issued and the results obtained from their implementation.

Sustainable development. Social banking is aimed at the development of society, environment and individuals, based on small projects that ultimately lead to a positive social effect [12; 13].

In Western financial practice, the term "*social banking*" appeared in the early 1950s and was used to refer to investments in sustainable development without harming the external environment (*sustainable investing*). Today, SB is focusing on taking into account environmental, social and managerial factors along with profit and risks through the selection of investment projects. In Great Britain, the Institute of Social Banking [14] was established in 2006, which includes 17 organizations throughout Europe. It defines SB as "banking and related financial services whose main objective is to contribute to the development of people and planet, today and in the future. First and foremost, this means simultaneously taking into account the social, environmental, governance and economic impacts of activities on all levels, with the aim of reducing their negative and increasing their positive effects on the common good". That is, we are not talking exclusively about microfinancing and poverty alleviation here. In addition, synonyms of this concept are given: alternative banking, ethical banking, green banking, constant banking, banking based on values, just banking.

Direct non-bank lending, or rather call it investment, from any creditor to any borrower, person / business, is also sometimes referred to SB. It is carried out through IT platforms or directly without the participation of banks or other financial institutions [23]. However, a more common and more accurate name for this form of money movement is *crowdfunding*. In the conditions of the war in Ukraine, its special form – *charitable crowdfunding*, when donors' funds are directed to charitable funds for the implementation of social and military projects, became the most widespread. The principles of charitable crowdfunding are defined in the study by A. Mazaraki and S. Volosovych [24, p.7–8]. Charity crowdfunding solves the problem of quick accumulation of funds to solve urgent tasks. This is its main advantage. Banks in this process exercise only the payment function. When the projects are long-term and it is necessary to determine their effectiveness and the optimal implementation option, taking into account the financial condition of the recipient of funds, then the experience of lending and the control function of banks can be useful.

So, we can conclude, that a wide range of definitions of the essence of the concept of "social banking" can be systematized as follows:

microfinancing – provision by banks and other financial or non-financial institutions of small amounts of money in credit or other form for consumer or other purposes of people for any term at any interest rate or for free. Microfinancing in credit form is carried out only by banks and MFIs, and this is microcrediting;

social microfinancing – provision by banks and other financial organizations of small sums of money in credit or other form for the purposes of economic and/or social development for any term (or without term) at a small interest (or free of charge). Social microfinance is part of social banking;

social banking is the simultaneous consideration by financial institutions of the social, environmental, managerial and economic consequences of their activities and the activities of their clients. It has several pillars: social microfinancing, green banking, ethical banking, value-based banking, sustainable banking [1].

[1] The authors do not exclude the necessity of diluting the concepts of "social banking" and "sustainable banking", for which additional research and discussions are needed.

3. The model of Social Banking of Recovery

In our opinion, taking into account the significant social and natural collapses that have recently affected more than one country – the Covid pandemic, Russia's war against Ukraine, the earthquake in Turkey and Syria – a separate type should be distinguished in the field of SB: "*Social recovery*". First of all, it is advisable to divide it into two subspecies: "Social banking of recovery" and "Financing of economic recovery". The first is one of the types of social microfinancing, the second focuses on the construction of the architecture of financing the restoration of infrastructure, large and medium-sized enterprises. So let's consider the Social Banking of Recovery (further also SBR) in more details.

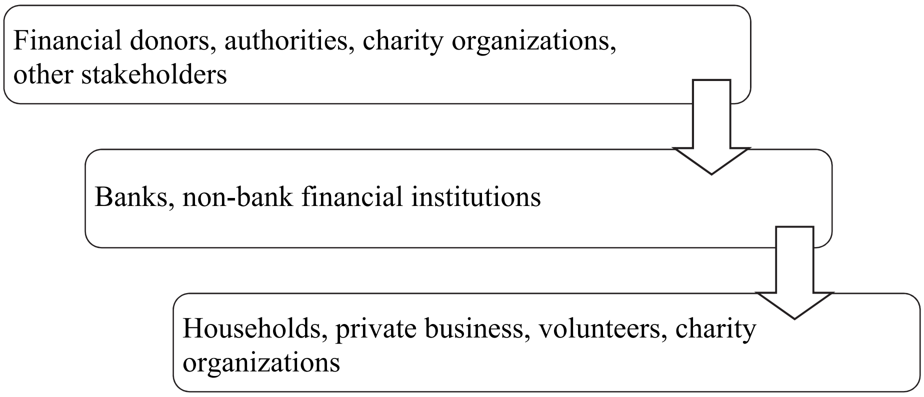
In order to restore the war-damaged economy and social sphere, it is important to form effective channels of targeted financing of well-prepared social projects. One of the urgent directions is the restoration of the property of small businesses and citizens and their health. Among the spectrum of possible forms of financing such projects, we will consider the model of "Social banking of recovery ". Its focused direction is financial support for the recovery of small private enterprises; individual agriculture; housing of citizens; vital movable property; health of affected citizens; other household losses caused by war and natural disasters.

Even before the war, the banking system of Ukraine gained some experience in financing small business enterprises, especially within the framework of the "5-7-9" state program. In recent years, household lending projects have developed less actively. The "social housing" program and others did not receive scaling due to the lack of banks' stable long-term financing of low cost and state funding. In our opinion, the main factors that hindered the development of financing of private households and their business are:

- credit risk of insufficient solvency of such borrowers against the background of increased requirements for determining the level of credit risk and formation of reserves;
- insufficient amounts of collateral against the volatility of the property market;
- the risk of fraud due to the complication of legal procedures for returning loans and significant margin of collection companies;
- lack of long-term resources of banks of moderate value to avoid liquidity gap and interest rate risks;
- currency risk;
- the high cost of carry such small loans.

Thanks to the practice of banks servicing funds for construction financing, non-state pension funds, it can be argued that banks have accumulated some experience and created an infrastructure for microfinancing the needs of the population and small businesses. Banks have the appropriate personnel and technological potential for this, a team of reliable clients has been formed, which are important organizational prerequisites for banks to become a "financial bridge" between donors and recipients of funds, based on social banking for recovery concept. Non-bank financial institutions can be involved in such projects if they can perform the function of their banker, but rather they can realize the function of fund managers for financing reconstruction projects together with banks.

The generalized model of social banking participants is presented in the *Figure*.



Conceptual structure of social banking participants

Source: compiled by the authors.

It should be noted that there are two legal ways of SBR building:

with the creation of a legal entity – it can be a Social banking fund like a non-state pension fund with an asset management company, for the management of its activities. Such company will cover all decision-making functions regarding allocation of funding, and bank will realize only the technical function of provider and controller. The significant disadvantages of such scheme are the lack of specialists for assessing the creditworthiness of recipients and absent de jure rights to provide consumer loans, significant costs for the activity of asset Management Company and the Social banking fund itself. But, non-bank financial institutions can perform the function of asset Management Company;

without the creation of a legal entity, when relations between participants (stakeholders and banks) are regulated by a principled, let's call it basic, agreement, and all functions regarding the financing of social projects are entrusted to banks. Let's focuses attention on the consideration of this model.

The group of SB stakeholders includes legal entities, individuals, organizations, including international ones, any institutions that want to take financial and organizational participation in the relevant project. The initiative to create a social recovery fund can be taken both by stakeholders with the subsequent search for a suitable bank for implementation, and by banks. The latter can create such fund by internal decision, register it with the National Bank of Ukraine (also NBU), after which it will become public. The stage of bank fund registration with the NBU is very important. The NBU will check the readiness and competence of the bank in carrying out such activities. A participant of the fund can be one person, with subsequent addition to the basic agreement of other participants, in particular in electronic form. The fund participant can be the bank itself, which it manages other banks and financial institutions.

In this study, we do not offer the content of the basic agreement due to the fact that it should be universal for all funds and developed by lawyers, in particular of the National Bank of Ukraine. However, stakeholders should form a Supervisory Board that would develop a strategy, monitor the bank's fund management activities, resolve conflict issues, etc. The key documents of the fund's activity can be the charter or regulations and the agreement with the bank, which is signed by the chairman of the Supervisory Board. The fund is a non-profit structure, therefore it is appropriate to allow investors' contributions to it to be included in their gross expenses.

The bank is responsible for calibrating the applications of recipients of social banking recovery funds. They can be divided into several groups:

grants, when recipients due to their financial condition cannot return the funds in a certain perspective. First of all, these are pensioners, volunteer organizations;

quasi-loans, when recipients can return all or part of the funds, but will not be able to pay interest. The bank needs to determine what amount and in what perspective the borrower can return;

loans, when the borrower can pay a certain percentage due to his financial condition. Obviously, these are small business enterprises and entrepreneurs.

These three tools of social banking for recovery can be combined with the concept of *social credit for recovery*, which can be refundable, partially refundable or non-refundable, paid or free. This significantly distinguishes it from a microcredit, which based on mandatory repayment and payment of interest, often at a high rate.

The creditworthiness of the recipients of funds is assessed according to the risk assessment methodology adopted by the bank, and the decision is made by the credit (small credit) committee. The application form for receiving such funds must be unified for all banks and determined by the relevant regulatory document. It is important that the recipient of the funds has proof of damage to property/business/ health and assessment of the amount of damage is done by the independent expert, which the bank must check.

An unbiased assessment by the bank of both the amount of the required amount and the form and conditions of grant/loan is important. For this purpose, it is necessary to determine the limits regarding the amount of the grant/loan, which can be fixed in the Fund's documentation and/or the agreement with the bank, as well as other limits of fund management activities, for example, the restoration of housing at the rate of no more than 30 m^2 per person.

In order not to have a negative impact on banks' liquidity indicators, it is advisable to place all money of the fund on the bank's correspondent account with the NBU, which will not affect the bank's fulfillment of the LCR standard. It is also advisable not to charge reserves on them, and give permission to banks invest fund's money in NBU overnight deposits with appropriate rate (as of May 2023, it is 20% [25]). The bank receives a margin from this amount (we recommend up to 3 percentage points), and the rest is paid to the fund:

$$IIF= (\%\ ONN - \text{up to } 3\ \text{p.p.}) \cdot AVF,$$

where IIF – interest income of the fund from placement of resources;
% ONR – the overnight rate on bank funds in the NBU;
AVF – average volume of funds.

This margin should be enough to cover the bank's expenses for servicing the fund, and the bank should not charge an additional fee, but these aspects are determined by the agreement between the stakeholders and the bank.

The second level of the fund's interest income is interest paid by borrowers of social loans or state fund, if it compensates them for interest. At the same time, the interest rate on such loans should be limited, for example 3-5%. Since the fund is a non-profit structure, all interest received should be tax-free and is used to provide new grants and loans.

The bank will not be interested in providing social loans, but will give preference to grants, if this will affect credit risk standards and risk-weighted assets. It is possible to offer two options: either to record loans on a special sub-account of credit or receivables and not include them in the calculation of standards, or to keep them off-balance sheet and also not include them in standards. Off-balance sheet accounting looks more appropriate, as grants will also be accounted there. At the same time, it is necessary to interest the bank in the return of problem loans, for example, by determining its share of the amount of returned problem loans.

It is advisable for an independent organization to control the fund management activities of the bank. It can also be an auditing company, but usually its services are paid. Therefore, it is expedient for the experts of the National Bank of Ukraine to carry out the control, and to submit their conclusions to the Fund's Supervisory Board. In case of detection of significant violations, the bank is obliged to pay a fine to the fund, which must be stipulated in the agreement with the bank.

The Bank prepares a monthly report on the fund's activities and submits it to the Fund's Supervisory Board and the National Bank of Ukraine. This information is also included in the bank's quarterly and annual reports on corporate governance. The monthly report can look like this (*Table 2*).

Table 2

Report on the activities of the Fund_______(name)
bank_____________(name)
for May 2023 (as example)

Types	Number issued , unit		Amount, thousand UAH		The average amount of one, thousand UAH		Note
	in month	From the beginning of the year	in month	From the beginning of the year	in month	From the beginning of the year	
Grants	50	200	750	2600	15	13	
Quasi-loans	20	70	500	1400	25	20	
Credits	30	100	900	3000	30	30	
For reference: problem- tic loans	3	10	60	220	20	22	Restructure d for 3 months
Total	100	370	2150	7000	21.5	18.9	

Source: compiled by the authors based on their own research.

In addition, it is advisable to form and maintain a centralized database of recipients of funds, so that one person cannot receive funds for the same project from different banks. At the same time, it is possible to receive funds for various projects in different banks, for example, housing restoration in one fund, and for the development of private business in another. Volunteer organizations can receive funds from different funds, but the directions of their use must be clearly defined and checked by the bank to avoid duplication. In the case of detection of violations, non-payment of interest, such recipients of funds are entered into the database as violators and issuance of new loans or grants to them is stopped.

Therefore, there is an objective need for effective management of the financial resources of the state, private, foreign donors, aimed at the restoration of war-affected households and private businesses. This function can be realised by banks, which will calibrate the recipients of funds depending on their financial condition, directions of use of funds and control their cash flows. For this, it is necessary to form a legal and regulatory framework, so banks can create recovery funds, use them effectively and report to investors.

Conclusions

We consider it expedient to single out a separate branch of social banking – *social banking of recovery*, which envisages not only financial, but also administrative participation of banks in effective and targeted use of funds directed to the post-war reconstruction of private households.

The main determinants of social banking recovery are:

- *the objects* are: property, people’s health, private business assets that have suffered from social and natural disasters;
- *the subjects* are: investors (state structures, business, foreign organizations, private individuals and others); banks and non-banking financial organizations as

sales channels; recipients of funds: households, private businesses, volunteer organizations, other structures; controllers: NBU or other controlling body;

- *to finance social projects,* investors create social recovery funds on a non-commercial basis, the managers of which are banks, accountable to investors and the NBU;
- investors create a Supervisory Board for fund management, and the state creates an incentive system for funds;
- banks calibrate recovery projects from grants to loans and are responsible for bias and lack of objectivity when making decisions on the use of funds;
- the activity of social banking recovery should be regulated by the state.

For the practical implementation of the concept of social banking of restoration, it is expedient to develop a corresponding regulation by the National Bank of Ukraine. The direction of industrial recovery with banking participation requires a separate study, which involves the active role of banks in the project financing of recovery of destroyed enterprises and creation of new productions.

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