

20-year history of agricultural policy in the development of farming in Ukraine

20 lat historii polityki rolnej na tle rozwoju rolnictwa na Ukrainie

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Abstract. The study discusses the tendencies in the development of agriculture in Ukraine over the past twenty years, describes the position and function of small and medium enterprises in the agricultural structure of the country, and presents the policy aimed at providing public financial support from the state budget. Since the 1980s, farms have become an essential part of the Ukrainian economy, however, their further development requires substantial government support and a well-founded government's agricultural policy. At present, farms constitute a growing form of business in agriculture. The increase in the number of farms and their development contribute to creating jobs in rural areas, preserving the traditions and culture of the Ukrainian people, and solving the social problems of the countryside. Both the state government and local governments allocate funds for farm support when creating annual budgets. The state support for small and medium enterprises includes also financial, information and consulting support; promotion of innovation, science and industrial production; support for export activities; and support for training, retraining and improving qualifications of the managerial staff and personnel. The key to the effectiveness of the state support for farms in Ukraine and their development is to provide an efficient agricultural policy and ensure its implementation by state authorities. The essential factor for the further development of small and medium enterprises in rural areas is the government's decision to support them through cooperation and integration.

Key words: farming • small and medium enterprises • agricultural businesses • financial support • government support • government agricultural policy

Streszczenie. W pracy przedstawiono tendencje rozwoju rolnictwa na Ukrainie w ciągu ostatnich dwudziestu lat, miejsce i rolę małych i średnich przedsiębiorstw w strukturze rolnej kraju, a także politykę mającą na celu zapewnienie publicznego wsparcia finansowego z budżetu państwa. Od lat 80. XX wieku gospodarstwa rolne stały się nieodłączną częścią gospodarki Ukrainy, jednak ich dalszy rozwój wymaga poważnego wsparcia i odpowiedniej polityki rolnej rządu. Obecnie stanowią one rozwijającą się formę działalności gospodarczej w rolnictwie. Wzrost liczby gospodarstw rolnych i ich rozwój przyczynia się do tworzenia nowych miejsc pracy na obszarach wiejskich, zachowywania tradycji i kultury narodu ukraińskiego, jak również rozwiązywania problemów społecznych na wsi. Rząd Ukrainy oraz samorządy lokalne w corocznych budżetach uwzględniają środki na wsparcie rolników. Wsparcie państwa dla małych i średnich przedsiębiorstw obejmuje pomoc finansową, informacyjną i doradczą, promocję innowacji, nauki i produkcji przemysłowej, wspieranie działalności eksportowej, a także pomoc w zakresie szkolenia, przekwalifikowywania i podnoszenia kwalifikacji kadry menedżerskiej oraz personelu. Kluczem do skutecznego wspierania przez państwo gospodarstw rolnych na Ukrainie i zagwarantowania ich rozwoju jest zapewnienie właściwej polityki rolnej i jej wdrażanie przez władze państwowe. Czynnikiem istotnym dla dalszego rozwoju małych i średnich gospodarstw na obszarach wiejskich jest decyzja rządu w kwestii wsparcia w ramach współpracy i integracji.

Słowa kluczowe: rolnictwo • małe i średnie przedsiębiorstwa • przedsiębiorstwa rolne • wsparcie finansowe • wsparcie rządowe • polityka rolna rządu

Introduction

The purpose of this study is to investigate the 20-year history of farming in Ukraine, identifying the main problems in ensuring its financial support and shaping the state agricultural policy aimed at the development of small forms of businesses, including farms.

The process of setting the development of farms in Ukraine and increasing the efficiency of their functioning has been so far studied by many authors, among them the co-author of the present paper (Gorovyi 2007, 2012). This issue, however, requires a further thorough research considering the fact that farms form an important component of the present agricultural economy of Ukraine, and a policy for their support from public funds is necessary. The development of the agricultural sector contributes to the material well-being of the population, the strengthening of economic and food security, and an increase in the export potential of the country.

In the early 1980s, collective forms of farming (on state-owned land) prevailed in Ukraine, with the cultivation of household plots as a form of private family farming being also popular. Over twenty years later, as a result of market reforms, private farms have become an integral part of the agrarian economy. However, their further development requires substantial government support and a well-founded government's agricultural policy.

Material and methods

The economic and statistical analysis presented in the study covered the territory of Ukraine in the period 1990–2010 and used source materials coming from state reports and documents prepared by the State Statistics Service of Ukraine. The legal framework for the analysis was set by the Acts of the Verkhovna Rada of Ukraine, published in the official bulletin of that organ (BVRU). The materials describing qualitative issues originated mainly from the available literature on the subject.

The analysis was conducted employing a descriptive method and an induction-deduction method. The results were presented with the use of graphs, tables and descriptive techniques.

Results

According to the estimates by the State Statistics Committee, in the year 2011, the share of agriculture (including hunting and forestry) in the total gross value added of all industries in Ukraine was 9.6% (8.7% in 2010).

In the market conditions, attracting investment and innovation resources constitutes one of the main factors determining the development of production for the enterprises of the agrarian sector of Ukraine. In 2011, business entities operating in agriculture, hunting and forestry invested 2.3 million USD from all funding sources. Their investment in fixed capital was 32.0% higher than in 2010, and accounted for 7.7% of the total national investment in fixed capital (7.2% in 2010). The state budget used 39.6 million USD, which is 1.7% of the fixed investment in these activities. It should be noted that a significant proportion of the investment in agriculture, hunting and forestry (71.0%) was made in crop production.

As of 31 December 2011, the level of foreign direct investment in agriculture, hunting and forestry enterprises has reached 813.4 million USD (cumulative from the beginning of the investment), constituting 1.6% of the total foreign direct investment in Ukraine.

In 2011, a total of 56 thousand agricultural enterprises representing various organisational forms of management (of which 73.9% farms, 13.8% partnerships, 7.4% private enterprises, 1.6% cooperatives, 0.6% state-owned enterprises, 2.7% other forms) operated on the territory of Ukraine. These companies concentrated 21.6 million hectares of agricultural land (SSSU 2012a).

According to the Economic Code of Ukraine (BVRU 2003a), “small businesses” are individuals or legal entities, defined as follows:

- “Individuals” are registered entrepreneurs with the average number of employees during the reporting period (calendar year) not exceeding 50 persons and the annual income from any activity not exceeding the equivalent of 10 million EUR defined by the average annual exchange rate set by the National Bank of Ukraine;
- “Legal entities” are entities of any organisational form and ownership with the average number of employees during the reporting period (calendar year) not ex-

ceeding 50 persons and the annual income from any activity not exceeding the equivalent of 10 million EUR defined by the average annual exchange rate set by the National Bank of Ukraine (BVRU 2003a).

As of 1 January 2012, farms are the most common organisational form of agricultural activity in Ukraine and take up 20.1% of the country's agricultural land.

The legal, economic and social rules governing the establishment and operation of farms as a growing form of business enterprise in the agriculture of Ukraine are specified in the Law of Ukraine "On Farming" (BVRU 2003b). Under this law, a "farm" is a form of business created by a legal person who wanted to carry out agricultural commodity production and processing to sell it for profit, on the land granted to them for farming.

The dynamics of the development of farms and the changes in the area of agricultural land in their use are shown in Figures 1 and 2. It can be seen that both the number of farms and the area of agricultural land in their use have sharply increased over the years 1990–1995 or 1995–2004, respectively, and tended to slightly decrease in recent years.

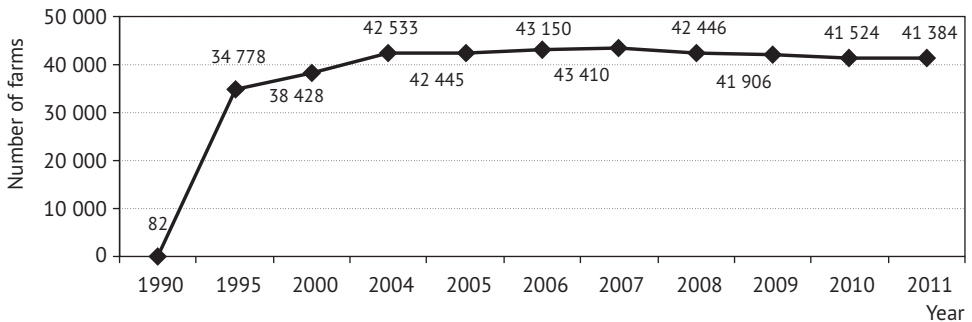


Fig. 1. Dynamics of the development of farms in Ukraine

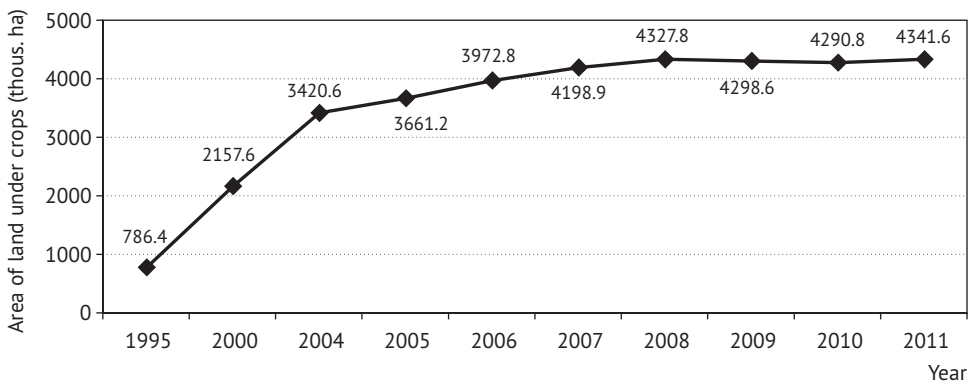


Fig. 2. Dynamics of changes in the agricultural land-use of farms

As of 1 January 2012, an area of 4.3 million hectares of farmland (of which 4.2 million hectares of arable land) was in the ownership and use of almost 41 thousand farms. The average size of a farm holding in 2011 was 106.1 hectares (of which 103.1 hectares of arable land), i.e. 2.8 hectares more than in 2010. This increase was due to the merging of farms and the lease of land. As of November 2011, the leased land accounted for 80.8% of the total area of land used by the farms (SSSU 2012a, b).

As of 1 January 2011, there were 4304 farms (9.6%) with no agricultural land, 1779 farms with more than 500 hectares, and 58 farms with over 4000 hectares in Ukraine (SSSU 2011). The structure of farms by area of agricultural land that they utilise is shown in Figure 3. Most farms are small and have up to 50 hectares of agricultural land in their use. Along with this, there are farms that use more than 1000 hectares of agricultural land.

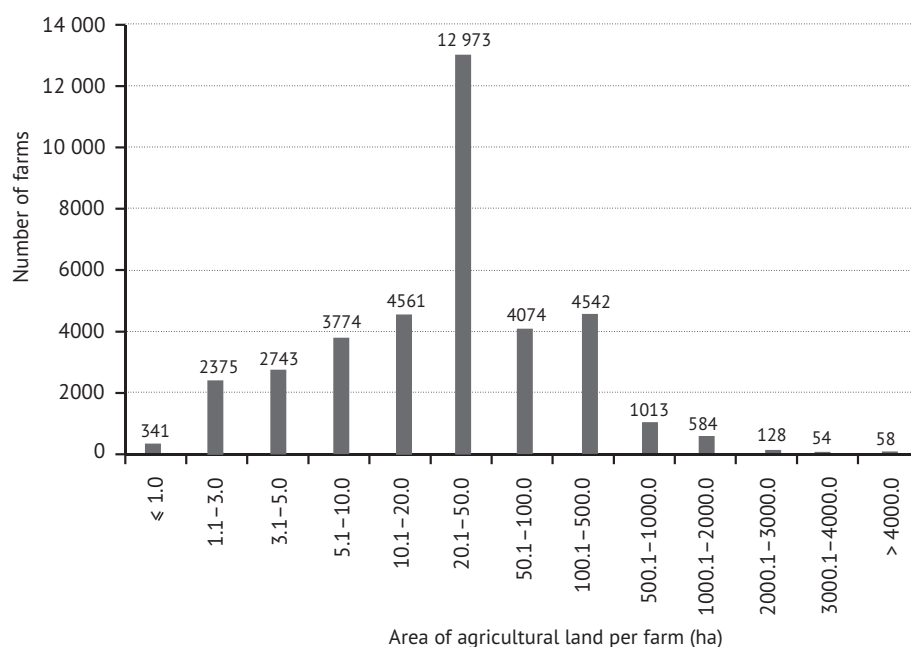


Fig. 3. Structure of farms by area of agricultural land per farm

As of 1 January 2011, farms accounted for 7.2% of the gross production of crops in the country and only for 1.8% of the gross animal production. In 1995, however, the figures were much lower: 0.9% and 0.3%, respectively (Table 1). It should be noted that 55% of the Ukrainian gross agricultural production of 2010 was provided by individual peasant households, whose share in 1990 was 30.5% (SSSU 2011).

Farms constitute a growing form of business in agriculture. The increasing number of farms and their development promote the revitalisation of villages, the preservation of the traditions and culture of Ukrainian people, and the creation of jobs in rural areas, and play an important role in solving social problems in the countryside.

Table 1. Gross agricultural production by type of agricultural holding (in 2005 prices; million UAH)

Item	1990	1995	2000	2005	2007	2008	2009	2010
All types of agricultural holdings								
Total gross production	145 874.9	94 794.8	77 889.4	92 585.6	88 768.5	103 977.9	102 092.6	100 536.2
Crop production	66 559.7	49 370.7	43 573.0	53 975.6	49 718.0	64 899.1	61 544.6	58 677.6
Animal production	79 315.2	45 424.1	34 316.4	38 610.0	39 050.5	39 078.8	40 548.0	41 858.6
Agricultural enterprises								
Total gross production	101 299.1	48 625.5	26 478.0	33 802.4	35 439.8	47 865.4	45 780.4	45 149.2
Crop production	49 913.8	27 267.7	17 820.4	21 731.5	20 657.6	32 136.1	28 498.7	26 443.9
Animal production	51 385.3	21 357.8	8 657.6	12 070.9	14 782.2	15 729.3	17 281.7	18 705.3
of which farms								
Total gross production	583.3	1 308.5	3 424.6	3 477.2	3 477.2	5 921.4	5 074.9	5 012.9
Crop production	452.8	1 156.3	3 101.8	2 884.9	2 884.9	5 263.1	4 393.6	4 253.1
Animal production	130.5	152.2	322.8	592.3	592.3	658.3	681.3	759.8
Households								
Total gross production	44 575.8	46 169.3	51 411.4	58 783.2	53 328.7	56 112.5	56 312.2	55 387.0
Crop production	16 645.9	22 103.0	25 752.6	32 244.1	29 060.4	32 763.0	33 045.9	32 233.7
Animal production	27 929.9	24 066.3	25 658.8	26 539.1	24 268.3	23 349.5	23 266.3	23 153.3

In 2010, farms had a total workforce of 98.4 thousand, among them 57.7 thousand hired workers (or ca. 9% of 665 thousand people employed in agriculture, hunting and forestry). Their number increased by 27.3% compared to 2000. In the same year 2010, the profitability of large and medium agricultural enterprises was 21.1%, and that of farms amounted to 32.4% (Table 2), indicating the effectiveness of the latter form of farming.

In line with the Law of Ukraine "On Farming" (BVRU 2003b), newly-established farms during the first three years (or five years in localities with an insufficient number of people to hire) after its creation, farms with a separate farmer's estate, farms that conduct economic activity and are situated in mountain localities in woodland areas, identified in the established order by the Act of the Cabinet of Ministers of Ukraine, and some other categories of farms are allowed to receive support from the state and local budgets, including the Ukrainian State Fund for farmers (hereinafter referred to as Ukrstatefund), which is a state budget institution that serves the implementation of state policy on the financial support for the formation and development of farms.

The Cabinet of Ministers of Ukraine annually ensures funds to support farmers in the state budget, and executive agencies and local governments do the same in the draft local budgets.

The Ukrstatefund was established in 1992, and then provided farmers with equipment and loans through a competition. Since 2002, when the procedure of the Utilisation of the State Budget Resources was changed, the financial and credit support for farmers has been carried out through the partial reimbursement of bank loans and the provision of guarantees for loans. The aid has been given in the form of medium-term loans for production purposes as well as for processing and marketing.

In 2004, the Cabinet of Ministers of Ukraine approved the procedure of the Utilisation of the State Budget Resources allocated for farmers' support (BVRU 2004a). Later on, this document was amended annually until 2012. The procedure has evolved over the past five years, and has appeared to limit the amount of loans per farm and the reimbursement of interest for newly-established farms.

At present, the financial support as a non-repayable aid is offered on a competitive basis to newly-established farms, farms with a separate farmer's estate, and farms that conduct economic activity and are situated in mountain localities in woodlands areas within a fiscal year to cover (partially or fully) not more than two types of costs associated with the following activities:

- 1) allotment of land for farming,
- 2) payment of interest on bank loans (according to the interest rate of the National Bank, which is in force on the date of the accrual of interest on loans),
- 3) purchase of a tractor, combine or truck (of domestic production or foreign origin if not produced in Ukraine), according to the list approved by the Cabinet of Ministers of Ukraine, subject to the further use by the farm for at least three years from the state registration – 30% (without VAT), but not more than 200 thousand USD for vehicles,
- 4) construction and reconstruction of a livestock farm (including the preparation of project estimates) – 30% (without VAT), but not more than 200 thousand USD for a built or renovated facility,

Table 2. Efficiency of agricultural production

Item	1990*	1995	2000	2005	2007	2008	2009	2010
Profit or loss (-) on sale of agricultural production (million UAH)	LME 11 422.8	675.6	-121.4	1 255.2	4 168.9	5 462.1	7 120.0	12 750.5
	farms				1 066.6	1 307.6	1 567.5	2 588.8
Profit or loss (-) on sale of crop production (million UAH)	LME 7 060.0	1152.7	1 834.5	900.2	5 501.6	5 450.7	6 334.3	11 375.9
	farms				1 086.8	1 265.8	1 549.7	2 575.8
Profit or loss (-) on sale of animal production (million UAH)	LME 4 362.8	-477.1	-1 955.9	353.0	-1 332.7	11.4	785.7	1 374.6
	farms				-20.2	41.8	17.8	13.0
Profitability of agricultural production (%)	LME 42.6	13.6	-1.0	6.8	15.6	13.4	13.8	21.1
	farms				29.4	24.6	24.0	32.4
Profitability of crop production (%)	LME 98.3	55.5	30.8	7.9	32.7	19.6	16.9	26.7
	farms				34.1	27.0	26.1	35.4
Profitability of animal production (%)	LME 22.2	-16.5	-33.8	5.0	-13.4	0.1	5.5	7.8
	farms				4.6	6.7	3.0	1.8

LME – large and medium enterprises

* million KRB (Ukrainian karbovanets)

- 5) making insurance payments on contracts of compulsory insurance, the types of which are defined in paragraphs 11 and 30 of Article 7 of the Law of Ukraine "On Insurance" – not more than 50%,
- 6) training, retraining and skills upgrading for farmers,
- 7) expansion of research on the issues concerning agricultural production, and publication of guidelines on the use of the resulting scientific and technical achievements.

The financial support as a repayable aid (guaranteeing the return of the budget resources) in an amount not exceeding 250 thousand UAH is provided on a competitive basis to the following entities:

- newly-established farms, farms with a separate farmer's estate, and farms that conduct economic activity and are situated in mountain localities in the territory of Polesie – for a period of three to five years, for the production, processing and marketing of products, and for the implementation of industrial activities,
- other farmers – for up to five years, for the purchase of machinery or equipment, the renovation of working capital, the production and processing of agricultural products, the construction and reconstruction of production and non-production premises, including a residential building (with total area not exceeding 125 m²), the cultivation of perennial plants, the development of credit and service cooperatives, including the payment of equity contributions to mutual funds of agricultural service cooperatives formed by farmers themselves or together with members of private farms, as well as the irrigation and reclamation of land (BVRU 2004a).

Since 2002, the state financial support to farmers through the Ukrstatefund has been given in the framework of the budget programme "Financial support for farmers". During the year 2005, it was the budget programme "Credit farms", and in 2009, also the budget programme "Credit farms at the expense of the Stabilisation Fund".

Altogether, according to the information of the State Treasury of Ukraine, in the year 2002, the financial support provided to farmers from the state budget on an irrevocable basis totalled 187 537.69 thousand UAH, and on a return basis, 279 215.3 thousand UAH. The dynamics of the state budget financial support to farmers in Ukraine is shown in Figure 4.

In addition, in line with the Law of Ukraine "On State Support of Agriculture in Ukraine" (BVRU 2004b), financial support is provided to agricultural businesses through a mechanism including the reduction of loans and the compensation of lease payments; the provision of subsidies to the producers of livestock to meet the level of the effective demand of Ukrainian consumers and to prevent the loss of the domestic producers of such products; the allocation of budget subsidies per unit of arable land; the partial refund of the cost of seeds of highly reproductive varieties of planted crops; the implementation of targeted state programmes to improve soil fertility and combat pests and diseases of agricultural plants and animals in contaminated areas; and others (Table 3).

Until 2012, the legal basis of the state support provided to small businesses (regardless of the form of ownership) in order to overcome the crisis as early as possible and

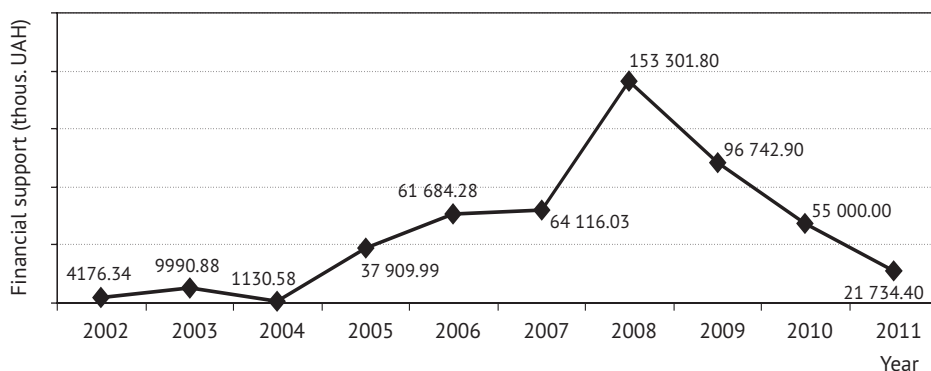


Fig. 4. Dynamics of the financial support to farmers from the state budget

Table 3. Government support to private farms (million UAH)

Item	2008	2009	2010
Total government support	692.3	658.5	448.2
Government subsidies	469.5	111.3	93.4
– support for crop production	265.4	46.4	50.5
– development of animal production	78.2	17.9	7.8
– measures for reproduction of water living resources	0.0	0.0	0.1
– other types of government support	125.9	47.0	35.0
Support through value added tax	222.8	547.2	354.8
– support for crop production	151.3	517.3	302.5
– development of animal production	71.5	29.9	52.3

create conditions for accelerating the introduction of market reforms in Ukraine was determined by the Law of Ukraine “On State Support of Small Business” dated 19 October 2000, № 2063 -III. In 2012, the Parliament of Ukraine adopted the Law of Ukraine “On the Development and State Support of Small and Medium Enterprises in Ukraine” (BVRU 2012), which defines the legal and economic principles of the state policy support and the development of small and medium businesses.

The objectives of state policies on small and medium enterprises (SMEs) in Ukraine are as follows: 1) creating favourable conditions for SMEs; 2) ensuring the development of SMEs by creating a competitive environment and improving their competitiveness; 3) stimulating the investment and innovation activities of SMEs; 4) facilitating procedures to help SMEs in promoting the goods (or services) supplied by them and the results of intellectual activity on domestic and foreign markets; 5) providing employment by supporting the entrepreneurial initiative of citizens.

The main directions of state policy on the development of small and medium enterprises in Ukraine are: 1) improving and simplifying the accounting procedures for tax purposes; 2) establishing a simplified system of taxation, accounting and reporting for small businesses in accordance with the criteria specified in tax legislation; 3) attracting small enterprises to the scientific, technical and socio-economic programmes of supplying products (services) for state and regional needs; 4) providing state financial support for SMEs through the implementation of government credit guarantees for loan programmes, partial compensation of interest rates on loans, etc.; 5) promoting the development of infrastructure for the support of SMEs; 6) guaranteeing the rights of SMEs in the performance of the state supervision (control) of economic activity; 7) simplifying the licensing procedures, the practices of state supervision (control), and the procedures for obtaining permits by SMEs, and reducing the duration of such procedures; 8) organising the training, retraining and skills development of staff for SMEs; 9) implementing mechanisms for promoting and stimulating the use of new technologies by SMEs, and increasing the quality of manufacturing technologies.

The arrangement of government support is set in special programmes drawn up and implemented by an institution authorised to deal with the development of small and medium enterprises, with the participation of other central executive powers and public organisations representing the interests of small and medium businesses. The government support programmes are approved by the Cabinet of Ministers of Ukraine in the established law.

The main varieties of financial support from the state are: 1) the partial compensation of interest rates on loans granted for projects set up by small and medium enterprises; 2) the partial compensation of leasing payments, factoring payments, and payments for the use of warranties; 3) the provision of guarantees and sureties on credits to SMEs; 4) the provision of credits, including micro-credits to start and run own business; 5) loans for the purchase and implementation of new technologies; 6) the compensation of costs for the development of cooperation between SMEs and large enterprises; 7) financial support for the implementation of energy-saving and clean technologies; 8) other forms of state financial support not prohibited by law.

The state assists also small and medium enterprises in innovation, science and industrial production, by: 1) providing financial support for infrastructure, including business incubators, innovative business incubators, science and technology centres, technology-transfer centres; 2) promoting the development of venture businesses; 3) creating systems of economic incentives to the economic development based on technological innovation; 4) transferring the research output obtained using budget funds into production; 5) creating conditions for SMEs to conclude subcontracts in the field of innovation and industrial production; 6) stimulating foreign investment and the development of mutually beneficial international cooperation in innovation; 7) creating conditions for the extension of cooperation between SMEs and large enterprises.

The state support for small and medium enterprises which carry out export activities can be lent by: 1) assisting in the promotion of domestic products (goods and services) on foreign markets, protecting intellectual property rights, and creating

favourable conditions for the Ukrainian participants of export activity; 2) cooperating with international organisations and foreign countries in the development of SMEs; 3) developing infrastructure to help SMEs which support export activities by providing financial assistance (loans, guarantees, export insurances, partial compensation of interest rates on loans connected with export activities, partial coverage of the expenses related to marketing activities on foreign markets, studying the events on external markets, finding partners, promoting products on new markets, participating in exhibitions and trade fairs abroad, delegating experts to study the markets of foreign countries, training, retraining and skills upgrading for the staff of export departments); 4) promoting participation in exhibitions and trade fairs abroad to display domestic products (including financial support), renting exhibition space, partially covering the costs related to the participation in exhibitions and trade fairs abroad; 5) supplying information about the potential for domestic SMEs abroad, and providing access to international information networks to search for business partners.

The state support for small and medium enterprises in training, retraining and increasing the qualifications of management and staff can be done through: 1) creating and developing a network of business incubators; 2) developing and implementing educational programmes aimed at staff training, retraining and skills upgrading based on state educational standards; 3) creating conditions to improve the professional knowledge and business skills of experts from among socially vulnerable people; 4) providing educational, methodological, scientific and technical assistance; 5) promoting participation in programmes of international experience exchange in order to introduce advanced technology and improve staff competence (BVRU 2004b).

Conclusion

As follows from the above analysis, the key to the effectiveness of state support for farms in Ukraine and their effective development is to provide an efficient agricultural policy and ensure its implementation by state authorities. The decisive factor for the further development of small and medium enterprises in rural areas is the government's decision to support them through cooperation and integration.

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