

## THE STATE BACKING MECHANISM FOR THE DEVELOPMENT OF THE AGRARIAN SPHERE OF ECONOMY OF UKRAINE

Mykola Malik, Lesia Zaburanna  
Ukrainian Academy of Agrarian Sciences

**Abstract.** The article deals with analysis of the current situation in agriculture sector and creation of the basic prerequisites of building the state backing mechanism for the development of the agrarian sphere of economy of Ukraine to improve its performance.

**Key words:** the state backing mechanism, development of agrarian sphere, credit support

### INTRODUCTION

Due to its geographical location, climate and large areas of fertile soils Ukraine is one of the largest agricultural countries. The agricultural sector of economy has a special social status in relation to industrial and urban areas through its territorial, settlement and social autonomy, that is why its sustainable development is extremely important to Ukraine. The development of this brunch depends directly on the process of social reproduction, on the living standards of people and it consists almost 14% of GDP and insures the state food security. Furthermore, one third of the population of Ukraine resides in the rural areas. Hence, the problem of gradual development of the agrarian sphere of economy is of paramount importance for the state.

The question about the state backing mechanism for the development of the agrarian sphere of economy of Ukraine was raised by a number of prominent scientists, namely O.M. Borodina, V.V. Zinovchuk, P.K. Kaninsky, Y.O. Lupenko,

O.M. Mogylnyy, L.V. Moldavan, B.Y. Paskhaver, O.L. Popova, I.V. Prokopa, P.T. Sabluk, A.E. Yuzefovych, V.V. Yurchyshyn. However, current situation and basic prerequisites of creating the state backing mechanism for the development of the agrarian sphere of economy of Ukraine require more detailed study and clarification.

## RESEARCH METHODS

The main goal of our study is to explore the features of the state backing mechanism for the development of the agrarian sphere of economy of Ukraine and suggest ways to improve elements of this mechanism in order to improve its performance.

In the study of theoretical foundation of research and creation the state backing mechanism for the development of the agrarian sphere of economy of Ukraine, authors used a genetic method that aims to identify heredity in the formation of principles of the state backing of the agrarian sphere. Also, authors used a retrospective method, which provided an opportunity to reveal the genesis of development principles of the state backing of the agrarian sphere. Economic and statistical methods which cover qualitative and quantitative aspects were employed in order to investigate the major tendencies of agricultural development in Ukraine and their impact on transition to sustainable development. Information basis of the research are the results of scientific search of the problem solution, materials of state statistical agencies, publications in periodicals, official governmental information, scientific articles and monographs.

## RESULTS

Further development of agrarian industry requires proper financial support. Practically, the funds sufficient for purchase of resources (machinery, fertilizers and fuels) are necessary. It is almost impossible to trace out problems, find solutions to them and manage them without profound objective analyses of agrarian financing of enterprises. The process of activation of marketing processes within agrarian sector has positively influenced the dynamics of agrarian production. From the year 2000 in all the categories of sectors of economy there have been gradual development of agrarian gross products (Table 1).

Gross products production by agrarian enterprises, farms and households in the year 2011 has reached the equilibrium proportions (Table 2).



**TABLE 1.** Production of agrarian gross products. Prices of the year 2010 (bn UAH)

Year	Gross products		In particular			
			crops industry		cattle-breeding industry	
	bn UAH	before the year 2005 (%)	bn UAH	before the year 2005 (%)	bn UAH	before the year 2005 (%)
2005	179.6	100	65.1	100	114.5	100
2006	184.1	102.5	67.5	103.7	116.6	101.8
2007	172.1	95.8	66.2	101.7	106.0	92.5
2008	201.5	112.2	65.3	100.3	136.3	119.0
2009	197.9	110.2	68.0	104.4	127.9	113.4
2010	194.9	108.5	70.3	107.4	124.6	108.8
2011	233.7	130.1	71.3	109.5	162.4	141.8

Source: The panorama of the agricultural sector of Ukraine 2011, MAP, Kyiv 2012.

**TABLE 2.** Contribution of the main categories of business entities in producing gross output (in prices of year 2010)

Category of business entity	Measurement unit	2000	2005	2006	2007	2008	2009	2010	2011
Agrarian farms	bn UAH	54.8	64.6	69.0	66.1	87.3	84.1	82.1	104.8
Farms	bn UAH	3.1	8.1	9.8	8.3	14.1	12.1	11.9	16.2
Private households	bn UAH	93.0	106.8	105.3	97.7	100.1	101.7	100.8	112.6
The share of households in total scale	%	61.6	59.5	57.2	56.8	49.7	51.4	51.7	48.2

Source: The panorama of the agricultural sector of Ukraine 2011, MAP, Kyiv 2012.

Private rural households play a supplementary role in formation of supply at the markets of dairy products and meat (beef and pork). In the year 2011 the enterprises have increased the production level for 6%, whereas the households of population have decreased the production level for 1.7%. The total crops in the year 2011 was 27.6 million ha. The dominant position in the structure of the cultivation area is occupied by grain crops and industrial crops, that have augmentation tendency, while fodder crops tend to decline.

The positive change of the agrarian production is a result of establishment of new market systems in the rural areas. It can be traced on the base of alleviation of agrarian production on business entities (Table 3).

**TABLE 3.** The production efficiency on agrarian business entities of Ukraine

Indicators and industry	Average for 1996–1999	Average for 2001–2004 p.p.	2005	2006	2007	2008	2009	2010
Income (loss) from sales of agricultural products (m UAH)	-2 279	1 383.4	12 532	630.4	4 168.9	5 462.1	7 120.0	12 807.3
The level of profitability of agricultural production (%)	-22.2	11.0	6.8	2.8	13.6	13.4	13.8	20.6
Including crop production	12.2	30.0	7.9	11.3	32.7	19.6	16.9	26.4
livestock products	-47.6	-14.1	-5.0	-11.0	13.4	0.1	5.5	8.0

Source: Agriculture of Ukraine: Statistical Yearbook for 2008–2011 State Statistics Committee of Ukraine, Kyiv 2009–2012.

Disregarding the fact that in general this sphere of economy is unprofitable, the profit (since 2001) comes mostly from the crop sector. The productivity rate and remuneration of labour increase. Hence, by the year 2010 the industrial production index has three times increased since 1990, and the average monthly wages on the rural households have been increased from 73 UAH in 1995 up to 2,239 UAH in 2010 [Botwina 2011].

The agrarian sector of economy of Ukraine considerably contributes to the formation of the nation gross indexes of additional value. Its share in gross value added in 2010 was 13.2%, exceeding revenues from construction, metallurgy, energy and engineering together. The consolidated budget on agriculture in 2011, received taxes and fees of about 5 billion UAH [The panorama... 2012].

The reforms performed in the agrarian sphere have changed the patterns of ownership, but still a number of financial problems in the agrarian sector still remain unsolved.

These are [Hryvkivska 2012]:

- low level of technical equipment, poor marketing culture;
- the level of proficiency is low (it has both positive and negative consequences). On the one hand, it presupposes the decrease of the level loses at the expense of other activities, on the other hand, it leads to the deconcentration of financial resources;
- level of the development of infrastructure of the sector is insufficient;



- the increase of sums of state dotation without proper feedback;
- inadequate information supply of agrarian commodity producers;
- the absence of timely regulation of agrarian markets;
- the mechanism of governmental support for the sector is inefficient.

Within the period of transition agrarian sector of Ukrainian economy was deprived of proper governmental support. The government had to reduce the level of support of agrarian sector due to the lack of budgetary funds and structural changes within state economy.

Money spent from the budget for agriculture not always reach the declared destinations, sometimes even lead to the withdrawal of funds from the agricultural sector. In addition, the budget process in the agricultural sector is highly inefficient [Demyanenko 2005]. The ways of application of funds to finance agricultural support programs are adopted after the adoption of the budget. Thus, funds are allocated not to implement specific programs in science-based volumes, but to provide execution of the budget.

Under Ukrainian law, the share of expenditure to finance agricultural development should be at least 5% of government spending. However, the law does not provide an exact definition of government spending for the development of agriculture.

Of the total expenditure of the Ministry for research and development in agriculture was directed: in 2002 6.5% of all spending by the Ministry of Agricultural Policy, in 2003 – 1.9%, in 2004 – 2.5%, in 2005 – 2.6%, in 2006 – 1.9%, in 2007 – 1.9%. The share of these expenditures in recent years is much smaller comparing with the rate in 2002. It is triggered not by the decline of the total sum of budgetary spending on agrarian industry research, but it is a result of change of distribution of these funds between the agents of financial management that took place in 2003.

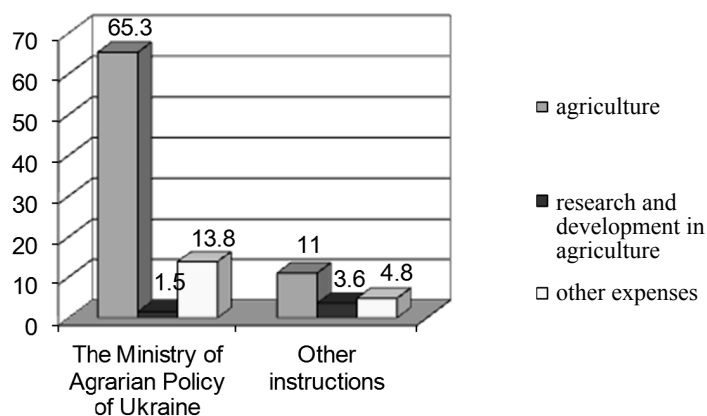
The large sums are spent on education (training institutions of higher education, postgraduate education, training and retraining) – from 84.4 to 95.1%, and the development of community services in rural areas, support for housing, spiritual and physical development. These expenditures can be considered as such that directly or indirectly influence the development of agriculture [Demyanenko, Ed. 2011].

It is worth mentioning that in Ukraine, except the Ministry of Agriculture, there are other agents of financial management of funds allocated from the budget for agriculture. Within three recent years these are: the Ministry of Industrial Policy, the State Committee of Ukraine for Water Resources, the State Committee of Ukraine for Land Resources, Ukrainian Academy of Agricultural Sciences, the State Committee of Ukraine for Construction, Architecture and Housing Policy, state local administrative bodies of areas of Ukraine and administrative bodies of the Autonomous Republic Crimea.



These financial resources are sent to the funding of such programs as: financial support for the production and creation of new national plant protection and plant growth regulators, their state testing and registration, management and administration in the field of water management, maintenance of national and inter-farm irrigation systems of government, leadership and management of land resources, land reform, titling the right of private ownership of land in rural areas and cadastre development; radical improvement of land research farms, breeding livestock and poultry in research farms, breeding crops in levels of primary crop. The largest share is devoted for the exploitation of national and inter-farm irrigation systems of government.

Figure 1 shows the structure of expenditures which, in authors' opinion, influence the development of agriculture (average data 2006–2011). Constructed according to the State Treasury of Ukraine.



**FIGURE 1.** The structure of fiscal expenditures that affect the development of agriculture  
Source: Calculated according to the State Treasury of the country.

As the Table 4 shows, the share of expenditures that affect the development of agriculture in recent years ranged from 5.2 to 7.7%.

The considerable share of government spending on agriculture is spent on current needs of institutions, so it can not influence the development of the agricultural sector.

The Ministry of Agrarian Policy of Ukraine remains the main agent of financial management of government spending on agrarian sector of economy. It provides funding for direct support to producers (grants to support crop and livestock, credit support measures to support agricultural enterprises in agricultural machinery, support for farmers) and the provision of public services: research,

**TABLE 4.** Budget expenditures that affect the development of agriculture

Expenditures	2006	2007	2008	2009	2010	2011
Agriculture (line 2)	1 329.7	2 739.8	2 749.4	4 628.0	6 310.2	7 475.0
Research and development in agriculture (line 6) (m UAH)	-90.4	128.3	184.8	275.9	309.6	349.6
Other expenditures undertaken by the Ministry of Agriculture (line 9 applications) (m UAH)	475.3	549.9	656.1	930.5	1 357.0	1 350.4
Total expenditures that affect the development of agriculture (m UAH)	1 895.4	3 418.1	3 590.3	5 834.4	7 976.8	9 175.0
The share of expenditures that affect the development of agriculture in the total expenditures of the state budget (%)	5.3	7.7	5.7	5.2	5.8	5.3
Share of the Ministry of Agriculture in the total expenditures of the state budget (%)	4.2	6.4	4.7	4.4	4.9	4.6

Source: Calculated according to the State Treasury of the country.

education, infrastructure, maintenance of budgetary organizations, socio-cultural development of the village. Recently, the positive tendency in financial backing of the Ministry can be traced as funds are allocated to the planned volumes. However, the allocation of large sums of money at the end of the fiscal year does not allow to use all appropriations [Demyanenko, Ed. 2011].

**TABLE 5.** State funding of agricultural sector

Rates	Measurement unit	2002	2003	2004	2005	2006	2007	2008	2009	2010
Expenditure on agricultural sphere	bn UAH	1.6	2.5	3.2	5.2	7.3	8.2	12.2	6.4	5.8
The share of expenditure in the budget structure	%	3.3	4.5	4.3	4.4	5.3	4.7	4.8	6.4	1.9

Source: Ministry of Finance of Ukraine.

The budgetary funding of agricultural sector is regulated by the State target program of the Ukrainian rural areas development until 2015 and the Agreement on Agriculture concluded with the WTO on the basis of the principles of free access of agents of management to budgetary resources with justification criteria of distribution of these resources. There are priority areas such as funding scientific research, professional training, social development of the village, quality control and standardization of food.

## CONCLUSIONS

Government spending and financial backing for agriculture in Ukraine is significantly different from existing global trends and increase tendencies. The example of Ukrainian economy substantiates the fact that the existence of direct budgetary support and its gradual growth does not guarantee the receipt of the funds by the agrarian sector. State regulation of the agricultural sector in Ukraine is inefficient, since taxpayers pay far more than industry in general receives, and much more than actual manufacturers get.

Basic problems are: increased demand for loans, high cost of credit, low income households reduce the internal market potential, overproduction – the inability to sale products leads to revenue losses, which leads to loan defaults and finally leads to bankruptcy.

The guidelines for the increase of the agrarian production efficiency level include improving the financial condition of agricultural enterprises through enhancing the role of corporate finance and provision of funding.

For the improvement of credit support agricultural enterprises should implement the restructuring of credit debt (to extend the loan repayment in 3–5 years) and form a system of timely supply of credit through the creation of the Agricultural Bank, the system of credit cooperatives and cooperative banks. The credit risk insurance can be also essential.

The system of state budgetary support for agrarian commodity producers is also to be reconstructed. The reconstruction should include the following patterns following: it is necessary to point out the main lines for support in accordance with WTO requirements (enhanced support for rural development, environmental protection and the development of social infrastructure in rural areas), and optimization of budgetary programs simultaneously with their service (half of the existing programs are not funded, so the priority areas are to be defined).

Taking into consideration the fact that the development of livestock industry lags in it is necessary to encourage its development. The patterns to consider include problems of optimization of forms of business and development of cooperation. It is time to unite the efforts of credit, servicing and consumer cooperatives.

## References

- Agriculture of Ukraine: Statistical Yearbook for 2008, State Statistics Committee of Ukraine, Kyiv 2009.
- Agriculture of Ukraine: Statistical Yearbook for 2009, State Statistics Committee of Ukraine, Kyiv 2010.





- Agriculture of Ukraine: Statistical Yearbook for 2010, State Statistics Committee of Ukraine, Kyiv 2011.
- Agriculture of Ukraine: Statistical Yearbook for 2011, State Statistics Committee of Ukraine, Kyiv 2012.
- Balances and consumption of basic food products by the population of Ukraine in 2010 Statistical Collection, State Statistics Service of Ukraine, Kyiv 2011.
- BOTWINA N.O. 2011: Fiscal policy sustainability agrosphere, IAE NNC, Kyiv.
- BUZUDALOV I.N., KRYLATYKH E.N., NIKONOV A.A. et al. 1993: Agrarian relations: theory, historical practice, prospects of development, Nauka, Moscow, p. 405.
- DEMYANENKO M.J. 2005: The national system of state support to agriculture in WTO, Accounting and Finance 5, pp. 11–13.
- DEMYANENKO M.J. (Ed.) 2011: Public policy financial support of the agricultural sector in agriculture, IAE NNC, Kyiv.
- HRYVKIVSKA O. 2012: Providing financial security of Agriculture, Ternopil.
- The panorama of the agricultural sector of Ukraine 2011, MAP, Kyiv 2012.
- Socio-economic situation in rural areas of Ukraine. Collection of articles, State Statistics Committee of Ukraine, Kyiv 2011.
- SOZINOV O.O. 2001: Agrosphere of Ukraine in XXI century, Bulletin of the NAS of Ukraine 10.
- Yurchishin V.V. 2005: Rural areas as system-forming factors of development of agrarian sector of economy, Economics of AIC 3, pp. 3–10.

### **MECHANIZM INTERWENCJI PAŃSTWA NA RZECZ ROZWOJU SFERY AGRARNEJ GOSPODARKI UKRAINY**

**Abstrakt.** Artykuł zawiera analizę bieżącej sytuacji w sektorze rolnictwa, a także odnosi się do zagadnień tworzenia mechanizmów wsparcia państwowego na rzecz rozwoju sfery agrarnej gospodarki Ukrainy, celem poprawy jej kondycji.

**Słowa kluczowe:** mechanizmy interwencji państwa, rozwój sfery agrarnej, finansowanie kredytami



