

## **PRIORITIES OF INSTITUTIONAL SUPPORT OF MODERN FORMS OF ECONOMY IN A SYSTEM OF AGRARIAN RELATION OF UKRAINE**

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**Abstract.** International experience of state support of agriculture is analyzed. A necessity of development of socio-ecological-economic model of agriculture in Ukraine is proved. In the papers is proved the necessity of creation and function of social-ecological-economic model of agriculture development, where a social-ecological-economic development is characterized like economic development of rural territories, rural employment in agriculture, the efficiency of employment etc. Based on the analysis of scientific literature, it's confirmed that development socio-ecological-economical forms of economy are accompanied with modification of the institutional structure of regulation of agriculture.

**Key words:** agrarian sector, forms of economy, socio-ecological-economic model, agrarian policy, sustainable development, social capital

### **INTRODUCTION**

In agriculture an effective management can be defined as a balanced mix of economic, social and environmental components, as over-exploitation of natural resources and human pressure on the soil, leading to a significant reduction in their rehabilitation and reproductive opportunities by reducing and cost-effectiveness of entrepreneurs in agriculture. This led to a development of socio-ecological-economic model of management in agriculture, which involves a simultaneous use not only economic, but also social and environmental indicators, which greatly enriches the scientific and practical approach to sustainable development in the agricultural sector of Ukraine.

Theoretical and practical aspects of management in the context of globalization, including property relations and institutional support are highlighted in the writings of such scholars as: V.D. Bazylevych, K.S. Bazylevych, V.M. Geets, J.M. Lopatynskiy, P.T. Sabluk, S. Zabolotny, M. Wasilewski and others.

Significant contribution to the scientific analysis of the development and operation of forms of economy in agricultural sector of developed countries commit such scholars: L.V. Moldavan, O.V. Shubravska, T.O. Semkina, B.P. Yakobchuk and others.

Despite the strength and solidity of scientific development, not illuminated remain priority aspects related to the study of modern forms of economy in agricultural sector.

## RESEARCH METHODS

An importance and necessity of the study of modern forms of economy in agricultural sector in order to identify and to ensure not only their economic efficiency, but also sustainable use in the context of sustainable development led to the selection of topics and the relevance of the study. In the study are used general scientific and special methods. A methodological base of study as to determine rational and effective forms of economy are general scientific methods. Through systematic analysis are used the economic, social and environmental components of forms of economy in their relationship and interaction between them.

## RESULTS

For ensuring an effective functioning of agrarian sector of national economy is required such institutional transformation by which the conditions for the sustainable development of the industry are provided. This primarily refers to the State as the main institution. In the theory of institutionalism, in particular in its choice of the public, the State is seen as a means of social cohesion, the main tasks, besides market regulation are to ensure rules and regulations in society.

The main functions of the State are [Lopatynskiy 2006, p. 204]:

- a legislative and regulatory framework;
- production of public goods and services;
- stabilizing the economy;
- support for competition;
- redistribution of income, etc.

In agriculture, the implementation of State functions should be provided with the principles of agricultural policy. The main objective of agriculture is a performance of complex economic, social and environmental functions, which can



only provide some form of production. Because agricultural policy of State regulation and State support for agriculture should be directed to:

- definition of the basic model of economy;
- providing a support of basic forms of economy in its infancy;
- State regulation of land use;
- providing an institutional environment for the socio-ecological-economic forms of economy.

One of the main goals of agricultural policy, in our opinion, is to determine the basic economic model and the formation of targeted public policy.

According to L.V. Moldavan, in Ukraine the concept of farming system as a base in the reform process was not established. The farms, in the opinion of scientist, "did not receive equal opportunities with corporate commercial forms of economy as collective enterprises, which initially were formed by heads of former collective farms with using land and property of their former members". Therefore, according to the scientist, farming in Ukraine is developing very slowly [Moldavan 2010, p. 17].

In developed countries, corporate forms are partnerships, S-corporations (USA), in France – associations of farmers with joint management (GAEC), and logistic companies (EARL, SCEA), a group of local agriculture (Japan), co-operatives with collective land lease (Italy, Spain), community manufacturers or simple company (Germany).

L.V. Moldavan studying a global practice of organizational forms of agricultural activities, said that a creation and development of social and economic organizations is supported by State. Thus, the association of farmers in GAEC Act provided subsidies amounting to 50% of initial capital, soft loans, exemption from some taxes.

Subsidies to agricultural producers in the EU make up 40% of the gross agricultural output. According to the State Statistics Service of Ukraine in Ukraine in 2009 were 41,906 farms while only 394 farmers were given financial support in the amount of 19,999.7 thousand, including the average amount of financial support provided to farmers on non-returnable basis amounted to 48.6 thousand per farm. Loans under the program of state support received only 966 farms in 2009<sup>1</sup>.

The need for government support of farmers and their associations is proven by experience of Western countries. In general, agricultural policy of developed countries is aimed for providing a farm management model as a base.

According to J.M. Lopatynskyi, an effective agricultural policy is ensured through certain mechanisms which scientist includes [2006, p. 211]:

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<sup>1</sup> Data obtained from website of Ministry of Agrarian Policy and Food of Ukraine <http://minagro.gov.ua>.



- creation of market institutions (structural and functional);
- promotion of sustainable development.

In authors' opinion, a stimulation of sustainable economic development in agriculture should take into account of three components: economic, social, environmental. A special place in the economic component takes state support of agriculture (both target and financial).

According to European Commission's, public support of farmers in EU is in the following areas [Lopatynskiy 2006, p. 211]:

- public support for emerging farmers;
- State support for farmers who are in disadvantaged areas;
- special support for young farmers;
- support inheritance;
- public support for the creation of groups of farmers associations.

Social component of sustainable development includes the following elements:

- State employment policy;
- creation of social infrastructure in rural areas;
- counseling;
- sociological studies.

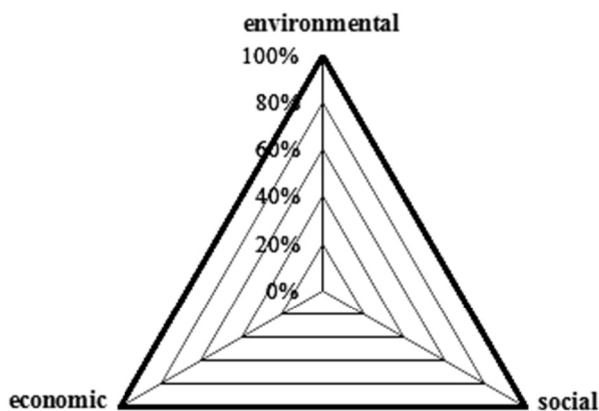
Environmental component of sustainable development, on our mind should cover the following elements:

- implementation of regulations and standards on environmental protection;
- implementation of a number of measures to conserve natural resources;
- ensuring an environmental control;
- consideration of environmental impacts in decision-making;
- ensuring an environmental safety and maintain an ecological balance in Ukraine;
- promotion of socio-ecological-economic forms of economy in agriculture.

An important factor in improving the competitiveness of national economy in agrarian sector is an establishment and functioning of the socio-ecological-economic model of agriculture. In authors' opinion, the socio-ecological-economic model of agriculture is a model of effective agricultural policy, which combines balanced economic, social and environmental components (Figure 1).

Therefore, authors proposed an economic-mathematical model of "An estimation of level of effective forms of economy in agriculture", which makes it possible to determine a level of effectiveness of forms of economy in agrarian sector in the context of its sustainable development, taking into account economic, social and environmental component [Pimenova 2012, pp. 77-88].





**FIGURE 1.** Triangle of balancing an economic, social and environmental components of agricultural activities

Source: Authors' compilation.

This model was developed on the basis of pair wise comparisons using scoring system and integral parameters that define an economic, social and environmental aspects of forms of economy. To socio-ecological-economic development in agrarian sector on one hand belong an economic development of rural areas, engaged people in agricultural land, employment performance, characterized by per capital income, ecologically safe production which is oriented on human needs and more. Socio-ecological-economic development in agrarian sector is a development which involves balancing of economic, social and environmental components. On other hand socio-ecological-economic development is determined by the role of social capital, which, in our opinion, should be taken into account when shaping agricultural policy.

Social capital is social relationships and bonds that are formed in agrarian sector, based on trust and encourage participants to more effective action to achieve common goals [Bazilevych, Bazilevych 2008, p. 78].

According to F. Fukuyama, social capital is a common norms and values that are practiced by a select group of people and allow them to collaborate [Fukuyama 2006, p. 8]. Namely the growth of level of social capital in agriculture will influence on forming the non-commercial and non-commercial productive unions. Due to this will increase an organic and ecological production from little farms and peasants, will develop the small business in rural territories.

V.M. Heyets, exploring a socio-economic model of a future of Ukraine, said that the determining role of social capital is to ensure a development of any country and interdependence of technocratic and social components of a new philosophy, which in turn requires a detailed analysis of a content of socio-humanistic

components [2009, p. 317]. On our opinion, agriculture such a branch of economy where very important the development not only socio-economic components but also and ecologic because ignore of ecologic component will influence the destruction of branch. So, as we see, in modern condition of agriculture development we could speak about necessity of creation and function of social-ecological-economic model of agriculture development, where a social-ecological-economic development is characterized like economic development of rural territories, rural employment in agriculture, the efficiency of employment, ecologically safe production focused on human needs and etc., on the one side and on the other side is a significant role of rural social capital.

Social development of agrarian sector currently investigated by Ukrainian scholars mainly without taking into account a problem of restoring a confidence of rural population and entrepreneurs to government and financial entities.

According to I.I. Mazur, trust is not only a social institution it is also the institution of the competitiveness of National Economy [2011, p. 29].

In Ukraine a level of confidence of rural population and entrepreneurs in agrarian sector to government and State institutions, to banks and financial institutions, insurance companies, collective investment institutions and to business is general low, according to J.J. Maly, means discouraged of citizens to themselves [2010, p. 77].

Thus, the sociological studies of Institute of Economics and Forecasting of National Academy of Science of Ukraine, which are presented in the monograph of V.M. Heyets "Society, State, Economy", show a low level of confidence of Ukrainian people to political parties and political leaders, trade unions, the Verkhovna Rada of Ukraine, the authorities, law enforcement leaders [2009, p. 364–371]. V.M. Heyets notes that "Ukrainian government has lost the confidence of the citizens and the ability to develop, resulting in the country for the sixth year in a row going political crisis. Under these conditions, in fact, the question of the formation of a new ideology and implementation of development policies aimed at mobilizing both as a social and economic resources, which will in future enter into the international community of countries with high living standards and democracy as a universal value of social order" [2009, p. 347].

Based on the analysis of scientific literature, it is confirmed that development socio-ecological-economical forms of economy are accompanied with modification of the institutional structure of regulation of agriculture. Functioning of effective forms of economy promotes the competitiveness of the agricultural sector of the national economy.

On our opinion in agriculture is manifested through:

- low level of confidence in banks and financial institutions, which hampers a development of agricultural production due to shortage of financial resources;



- low level of trust in insurance companies that inhibits a growth of certain types of crops that are more sensitive than others to weather conditions;
- low level of rural population to government is not conducive to an establishment and development of NGOs in agriculture, which would represent, meet and protect social interests of its members in a particular statute or field of activity.

The deputy head of district administration Radomyshl (Zhytomyrska oblast) V.M. Pustovit notes that a complexity of forming public organizations among beekeepers is in low confidence of beekeepers to power despite a current direct financial State support to beekeepers. At courses of training beekeepers in 2011, organized by the National University of Life and Environmental Sciences of Ukraine postgraduate education with the support of web browser "Brotherhood of Beekeepers of Ukraine", an overwhelming number of beekeepers claimed that officially they would not like to register an apiary despite direct financial support from the government, because the government distrust "today – support tomorrow – taxes" – say beekeepers. Low level of confidence to state institutions hampers the development of agricultural cooperatives.

Social capital is a common traditions and norms that promote cooperation, it is very important, because it reduces transaction costs by increasing the price of formal cooperation [Fukuyama 2006, p. 7]. An experience of developed countries, such as the US and EU countries, shows that namely an agricultural cooperation is the key to successful development of farming. A study conducted by F. Fukuyama in the book "Trust: the social virtues and the path to prosperity" shows that such countries are the ones with a high level of confidence.

Martin Sorrell, owner of the famous company WPP, which employs 163 thousand people in 110 countries, almost 60% invests in human capital, speaking at the World Economic Forum in Davos in January 2013, expressed the following, opinion: "reluctance to collaborate is the most destructive force for any company" [2013].

In his article "I am an Owner and I act like one", Martin Sorrell substantiates the idea that today division of responsibilities between an owner and manager destructive effects on productivity. In a situation where a manager without being a business owner, you control the business phenomenon of "business", he is excluded as an entrepreneur is someone who takes risks. An entrepreneur risks by own funds and property and the manager risks by money and property owner [2013].

Authors fully support this view and believe that sustainable development is important to exclude such a division.

Talking about modern forms of economy in the agrarian sector of Ukraine an emphasis should be placed on the fact that the peasant (owner) directly was personally involved in the manufacturing process, performing administrative,



organizational and executive function, which will provide consumers organic and environmentally friendly agricultural products. Peasant more responsible towards their work the land to farm, to the environment. The downside of this is small batch production that is unprofitable for processing and marketing institutions, so the release can be combining them in such a form of economy as an agricultural cooperative.

The complexity of the formation and development of agricultural cooperatives in Ukraine due, on one hand, imperfect legislation, lack of state support, and on other hand a low level of confidence of the rural population in State and reluctance to partnership. However, as international experience with agricultural cooperation is the key to successful development of agrarian sector.

According to F. Fukuyama, create the necessary legislation, constitution and electoral system even easier than have to trust people, especially at all levels of society. Therefore, the main task of State in agrarian sector, in authors' view, is to increase the level of trust of peasants, farmers and entrepreneurs to State institutions, the banking system, insurance companies, collective investment institutions, to businesses, and even to ourselves by creating public-private partnerships in agrarian sector.

## CONCLUSIONS

Thus in agriculture an efficient management should combine balanced economic, social and environmental components as overexploitation of natural resources for personal gain leads to exhaustion, which eventually reduces and economic performance of businesses. The priority of the state agricultural policy is a creation and functioning of the socio-ecological-economic model of agriculture. Socio-ecological-economic development is determined by the role of rural social capital that should be subject to state regulation.

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### **PRIORYTETY WSPARCIA INSTYTUCJONALNEGO NOWOCZESNYCH FORM DZIAŁALNOŚCI W SYSTEMIE AGRARNYM UKRAINY**

**Abstrakt.** Międzynarodowe doświadczenie w zakresie wspierania rolnictwa przez państwo zostało poddane analizie. W artykule przedstawiono konieczność opracowania modelu społeczno-ekologiczno-ekonomicznego dla rolnictwa na Ukrainie. W artykule udowodniono konieczność tworzenia modeli społeczno-ekologiczno-ekonomicznych celem rozwoju obszarów wiejskich, zmian w zatrudnieniu w rolnictwie, wydajności pracy itd. Na podstawie przeprowadzonego przeglądu literatury potwierdzono, iż rozwojowi społeczno-ekologiczno-ekonomicznemu towarzyszą zmiany struktury instytucjonalnej w zakresie regulacji w rolnictwie.

**Słowa kluczowe:** sektor rolny, formy gospodarki, model społeczno-ekologiczno-ekonomiczny, polityka rolna, zrównoważony rozwój, kapitał społeczny



