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MACROECONOMIC SITUATION OF THE UKRAINIAN AGRICULTURAL SECTOR

МАКРОЕКОНОМІЧНА СИТУАЦІЯ АГРАРНОГО СЕКТОРУ УКРАЇНИ

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Abstract. The article considers the current trends in the development of the agro-industrial complex in the framework of the fact that in Ukraine land reform has largely been limited to the transformation of state ownership into collective. Weak reforms have not been able to radically change the traditional collective organization of Ukrainian farms. The disintegration and internal restructuring of large farms were very limited.

Therefore, it is not surprising that the transition process does not increase profitability and efficiency. It has been suggested that agriculture can boost broad investment and reform throughout the economy.

The main five goals that the state should adhere to in the process of implementing agrarian reform in Ukraine are proposed. The impact of the implementation of agrarian reform on the industry is analyzed and proposals are made to strengthen its action.

The importance of the issues raised is that the current government should take into account all factors that affect or may affect the development of Ukraine's agricultural sector (both endogenous and exogenous), as only through a symbiosis of proposals in this area can a positive result be possible. It is determined that the negative effects occur in two ways: the lack of VAT refunds and export quotas and duties.

Of course, there are many small positives and negatives from public policy, but they are relatively insignificant. The article identifies the results of the analysis of the main advantages and disadvantages of reforming the agro-industrial complex in these areas.

It is proved that further progress in improving the efficiency of agriculture in Ukraine requires further restructuring of farms into smaller autonomous units based on private ownership of land and assets, clear wording of procedures that allow individuals and small groups to reach land and property, development land markets, as well as the creation of a functioning market infrastructure for competitive supply of raw materials, marketing services and financial services.

Purpose. To reflect the importance of the chosen theme, as it is in the context of a major economic and food security of the country.

Method. In the article used the following methods: analysis, synthesis, deduction, extrapolation method, comparative method and inductive.

Results. It has been proven that the country needs clear procedures that allow individuals and small groups to enter with shares of land and property, develop land markets, and create a functioning market infrastructure for competitive supply of raw materials, marketing services and financial services.

Scientific novelty. The weight of issues raised reflected in the fact that we should take into account all the factors that affect or may affect on the development of Agrarian sector of Ukraine. Only through symbiosis proposals in this area can be possible positive result.

Practical importance. Results of the study can be used in the educational process of students, and may be the basis for further scientists research in this area.

Key words: agricultural sector; agricultural enterprises; agro-industrial complex; land; agricultural markets; agricultural production.

Анотація. У статті розглянуто поточні тенденції розвитку агропромислового комплексу в межах того, що в Україні земельна реформа обмежилася перетворенням державної власності в колективну. Слабкі реформи не змогли докорінно змінити традиційну колективну організацію українських господарств. Розпад і внутрішня перебудова великих господарств були дуже обмеженими. Тому не дивно, що процес переходу не забезпечує підвищення прибутковості та ефективності.

Висунуто припущення, що сільське господарство може дати поштовх широким інвестиціям та реформам у всій економіці. Запропоновано основні п'ять цілей, яких має дотримуватися держава в процесі реалізації аграрної реформи в Україні.

Проаналізовано вплив реалізації аграрної реформи на галузь та висунуто пропозиції щодо підсилення її дії.

Вагомість порушених питань виражається в тому, що чинна влада повинна враховувати всі фактори, які впливають або можуть вплинути на розвиток аграрного сектору України (як екзогенні, так і ендегенні), оскільки тільки завдяки симбіозу пропозицій у цій сфері може бути можливий позитивний результат.

Визначено, що негативні дії відбуваються двома способами, як-от відсутність відшкодування ПДВ та експортних квот і мит. Звичайно, є багато дрібних позитивів і негативів від державної політики, але вони відносно несуттєві. У статті визначено результати аналізу основних переваг та недоліків реформування в АПК за окресленими напрямками.

Доведено, що подальший прогрес у напрямі підвищення ефективності сільського господарства України потребує продовження реструктуризації фермерських підприємств у менші автономні одиниці, засновані на приватній власності на землю та активи. Також країна потребує чіткого формулювання процедур, які дозволяють вийти окремим особам та малим групам із частками землі та майна, розвитку земельних ринків, а також створення ринкової інфраструктури для конкурентоспроможного постачання сировини, маркетингових послуг та фінансових послуг.

Мета. Відобразити важливість обраної теми, оскільки вона перебуває в контексті великої економічної та продовольчої безпеки країни.

Метод. У статті використано такі методи: аналіз, синтез, дедукцію, метод екстраполяції, порівняльний метод та індуктивний.

Наукова новизна. Вагомість порушених питань виражається в тому, що ми повинні враховувати всі фактори, які впливають або можуть вплинути на розвиток аграрного сектору України. Тільки симбіоз пропозицій у цій сфері уможливить позитивний результат.

Результати. Доведено, що країна потребує чіткого формулювання процедур, які дозволяють вийти окремим особам та малим групам із частками землі та майна, розвитку земельних ринків, а також створення ринкової інфраструктури для конкурентоспроможного постачання сировини, маркетингових та фінансових послуг.

Практичне значення. Результати дослідження можуть бути використані в навчальному процесі студентів, а також можуть стати основою для подальших наукових досліджень у цьому напрямі.

Ключові слова: аграрний сектор; сільськогосподарські підприємства; агропромисловий комплекс; земля; аграрні ринки; сільськогосподарське виробництво.

RELEVANCE OF THE ARTICLE

Agriculture could provide the impetus for sweeping investment and reforms across the entire economy.

All agricultural markets will be negatively affected by the poor macroeconomic fundamentals in Ukraine. There will be limited investment into the country over the coming quarters given the unstable situation, which will affect agricultural production over forecast period. Russia's ban on imports from Ukraine will weigh on production for the dairy and livestock industries, as Russia represents one of Ukraine's largest agricultural export markets. Furthermore, significant currency depreciation will limit imports, hitting input usage and domestic investment [5].

Ukraine should become attractive to foreign investors, get complex tax codes, laws and regulations, poor corporate governance and weak enforcement of contract law make doing business within the country difficult.

Theoretically speaking, a sensible Ukraine land reform could set off an agricultural boom in a country commonly known as the "breadbasket of Europe."

The Government of Ukraine has set the goals of agrarian reform along the following five directions:

land reform and reform of property relations in the agro-industrial complex;

establishment of new business entities on the basis of collective agricultural enterprises, employing private property and land ownership, widely relying on leasing;

formation of a market infrastructure in the agro-industrial complex;

modernisation of production, and establishment of competitive agricultural enterprises;

perfection of the mechanisms of state regulation in the agricultural sector.

FORMULATION OF THE PROBLEM

In Ukraine, land reform has been mostly limited to transforming state ownership into collective ownership. The weak reforms have failed to radically change the traditional collective organization of Ukrainian farms... Break-up and internal restructuring of large farms has been very limited. Hence it should not be a surprise that the transition process is not delivering in terms of increased profitability and efficiency.

Agriculture is therefore one of the strategically important sectors, accounting for 8,2% of the GDP and 14,5% of total goods exports in 2016. It absorbs

approximately 15,8% of the total employment. As in most other ex-Soviet republics, the agricultural sector is characterized by the co-existence of large-scale commercial agro-enterprises that generate approximately 45% of the total agricultural output and a large number of family farms that emerged after collective farming was abandoned following the collapse of the Soviet Union [1].

ANALYSIS OF RECENT RESEARCH AND PUBLICATIONS

Recently, much attention was paid to the study topic. Results of the study can be found on the Internet, which covered not only political articles on the subject, but the results of the investigations of the scientists.

SEPARATION OF UNRESOLVED PREVIOUS PARTS OF THE GENERAL PROBLEM

little attention has been paid to identifying land reform issues. The media also pays little attention to this issue.

THE AIM OF THE STUDY

To reflect the importance of the chosen theme, as it is in the context of a major economic and food security of the country.

METHODS, OBJECT AND SUBJECT OF RESEARCH

In the article used the following methods: analysis, synthesis, deduction, extrapolation method, comparative method and inductive.

Object of the article is the state, subjects of the article are peasant farms and agro-industrial enterprises.

BASIC MATERIAL

In recent years, agricultural production has declined drastically because of a decrease in the number of tractors and combine harvesters in working order and to the lack of fertilizers and pesticides. These shortfalls in agricultural inputs reflect declining investment in agriculture, and feed directly into declining production.

In general, the agricultural sector is experiencing serious internal difficulties, due to the transitional nature of the economy. A new policy and direction for Ukraine's agricultural sector is necessary. Agriculture poses the greatest challenge to the survival of Ukraine's political leaders, because almost half of the Ukraine's population live in rural areas [2].

In 2014 Ukraine total grain crop was estimated to be record 64 million metric tons, however as several regions are claiming their independence due to the War in Donbass and the Crimea Crisis the actual available crop yield was closer to 60,5 million metric tons [3].

So, as we can see, Ukraine's economy is on his knees after 20 years of neglect and robbery. But there is one sector that is already flourishing and could be an engine of recovery.

As farming is a low-margin, labour-intensive business, the sector was largely ignored by the incumbent oligarchs, who preferred to pick off the easy-to-steal metal plants and simple-to-run banks.

Living closer to the EU is obviously a good thing for Ukraine's farmers. However as be reported, under the terms of the free trade and association deal signed this year with the EU access for Ukraine's agricultural products to EU markets is actually limited to begin with, in order to protect the EU's own agricultural production. About 40% of the EU budget goes on farm subsidies, whereas only 1,8% of Ukraine's budget is spent this way. But we need to understand, if we move closer to the EU, we will not only change the market, we will change fundamentally the way they work.

While the task of reforming the country's agriculture sector looks daunting, there is actually a lot of money about given the pressure on the global food supply from the rising population.

Agriculture could provide the impetus for sweeping investment and reforms across the entire economy.

Putting more investment into leading agricultural companies is pointless unless it is accompanied by associated investment into the supporting infrastructure.

One key change for the agricultural sector is to finally push ahead with land reform. Ukraine has some 20mn hectares of arable land, of which 10mn hectares belong to the government, which could be sold off.

However, no one is expecting this to happen quickly; the privatisation of land remains one of the most politically charged issues that any country has to deal with.

All agricultural markets will be negatively affected by the poor macroeconomic fundamentals in Ukraine. There will be limited investment into the country over the coming quarters given the unstable situation, which will affect agricultural production over forecast period. Russia's ban on imports from Ukraine will weigh on production for the dairy and livestock industries, as Russia represents one of Ukraine's largest agricultural export markets. Furthermore, significant currency depreciation will limit imports, hitting input usage and domestic investment.

The agricultural sector is experiencing serious internal difficulties, due to the transitional nature of the economy. A new policy and direction for Ukraine's agricultural sector is necessary. Agriculture poses the greatest challenge to the survival of Ukraine's political leaders, because almost half of the Ukraine's population live in rural areas.

In general, Ukraine has tremendous agricultural potential but this potential has not been fully exploited due to depressed farm incomes and a lack of modernization within the sector. Insecure land ownership and an inefficient registration system have also held back Ukraine's farming sector, but it has improved in recent years.

Ukraine should become attractive to foreign investors, get complex tax codes, laws and regulations, poor corporate governance and weak enforcement of contract law make doing business within the country difficult.

The World Bank ranked Ukraine 137 out of 183 economies in its Doing Business Report in 2017. Many foreign financial

institutions have left the Ukrainian market, according to a February U.S. State Department report.

So, the main problems that we can identify in the sector:

– Credit Problems. Most farms are able to receive credit, but interest rates and collateral demands are high. Since many farms are already heavily in debt to banks or suppliers of fertilizer and plant-protection chemicals, and since agricultural loans are not guaranteed by the government, banks are largely unwilling to make long-term loans. Most credit is extended in the form of seasonal loans (six to ten months) used almost exclusively for the purchase of fertilizer and plant protection chemicals.

– Problems of employment. The decline in employment in agriculture has taken place as a result of negative factors acting from both demand and supply. Formation of labor supply determines the unfavorable demographic situation and the lack of proper motivation and incentives work.

– Lack of improvement of mechanisms of state regulation of agricultural sector's development of Ukrainian economics. The main problem is that the implementation of state agricultural policy through appropriate mechanisms of state regulation of the agricultural sector must decide triple task, namely, as noted above, to ensure food security and create an efficient economy, provide an integrated socio-economic development of rural areas.

– Investment climate. Doing Business 2013 data for Ukraine shows attractiveness of Ukraine for investors. Ukraine is currently ranked 134th (out of 185 economies), which shows a 4,6% points increase compared to the previous year of 2016, when it was ranked 152. The aim of the current government is by the end of the 2015 to be between the top – 100 countries.

– Property rights. In Ukraine the property rights are not yet clearly defined.

– Corruption. As it was mentioned before, Ukraine scores extremely low on the freedom from corruption index. Ukraine ranks 144 from 174 countries in the Corruption Perception Index with 26 points out of 100 in 2012 (one of the most corrupted countries in Eastern European and Central Asia).

– Obsolete Machinery and Inadequate On-Farm Storage. A chronic lack of modern harvesting equipment remains one of Ukraine's main obstacles to increasing grain output and quality.

– Shrinking Livestock Inventories. The loss of State subsidies following the collapse of the Soviet Union in 1991 increased feed and production costs and reduced profitability for livestock enterprises. As prices for meat products increased, consumer demand declined, thus establishing a downward spiral that continued throughout the decade.

– Forming and effective use of physical capital in agricultural enterprises under changeable market conditions.

– Lack of full implementation of agrarian reforms.

– Complicated, ever-changing schedule of charges in the tax system of the country.

Theoretically speaking, a sensible Ukraine land reform could set off an agricultural boom in a country commonly known as the “breadbasket of Europe”.

The efficiency of agrarian reform largely determines the overall course and results of market transformation, since the agrarian sector accounts for 32% of Ukraine's population, almost a quarter of production assets and close to 14% of the annual output of goods and services. The documents that determine the strategy of reform in Ukraine point out that agricultural policy should be the “key element, stimulating factor” of accelerated market transformation of the economy.

The necessity for deep reform of the agrarian sector flows from not only the systemic nature of socio-economic transformation that Ukraine is presently undergoing, but also by the critical state of agriculture as such.

The documents that determine the strategy of the state policy define the goal of transformation in the agrarian sector of Ukraine's economy as follows: “The strategic goal of the agrarian policy lies in formation of a true owner and master of land, social and economic progress of the countryside, resolution of the food problem, and raising the agricultural sector of Ukraine's economy to the world level. Agrarian reform encompasses all basic elements of the agricultural sector:

production or property relations (economic aspect);
social structure (social aspect);
production technology (techno-economic aspect);
management (organisational-economic aspect);
legislative support for all processes and results of reform (legal aspect).

Therefore, agrarian reform has a comprehensive, systemic character and should be pursued with account of the requirements of co-ordination and balance of the changes in each of the above aspects.

The Government of Ukraine has set the goals of agrarian reform along the following five directions:

land reform and reform of property relations in the agro-industrial complex. Under legislation adopted in 1992, Ukrainian law recognizes private ownership of agricultural land, as well as collective and state ownership. Also, a program to transfer land from state ownership to collective and individual ownership was initiated on a large scale, along with procedures to restructure collective and state farms. The transfer of land ownership and restructuring of traditional farms create opportunities for private farming to develop in the Ukraine after decades of collective management of agriculture;

establishment of new business entities on the basis of collective agricultural enterprises, employing private property and land ownership, widely relying on leasing;

formation of a market infrastructure in the agro-industrial complex;

modernisation of production, and establishment of (domestically and internationally) competitive agricultural enterprises;

perfection of the mechanisms of state regulation in the agricultural sector.

Next, all state support to agriculture could be structured in four big blocks:

- VAT exemption for farming industry. An agricultural producer is eligible to retain the difference between the VAT paid on inputs (i.e. fertilizer, fuel, plant protection, grain drying, etc.) and the VAT received when selling outputs (i.e. crops grown).

- Direct subsidies; These are cash disbursements from the state’s budget under various government support programs. Includes schemes widely adopted globally such as interest expense reimbursement, capex refunds for new animal farms, etc. While most of these programs are in place for years, the amounts available under these programs are budgeted each year and vary widely. Moreover, the distribution of these subsidies is believed to be corrupted. The below numbers show the dynamics of the budgeted amounts of the subsidies (while actual numbers are likely to be lower):

Table 1. Direct state subsidies, USD mln

Index / years	2013	2014	2015	2016	2017	2018
Livestock sector	169	254	92	81	74	0
Perennial crops	60	70	135	13	8	0
Other	31	35	139	15	0	15
Total	259	359	365	109	83	15

Source: *Ukrainian Agrarian Association*

- General services; The Organisation for Economic Co-operation and Development (OECD) is an international economic organisation of 34 countries, founded in 1961 to stimulate economic progress and world trade. It is a forum of countries describing themselves as committed to democracy and the market economy, providing a platform to compare policy experiences, seeking answers to common problems, identify good practices and coordinate domestic and international policies of its members. Under OECD methodology, the government expenditures on bureaucracy, research and regulatory agencies are considered to be a part of the state support. While business benefits from certain internationally required certification, majority of these money is spent on soviet-style barely benefits from this so-called research, excessive and excessive certification and bureaucracy.

- Fixed agricultural tax. An agricultural producer is eligible to pay fixed agricultural tax (~USD 0.8/ha per year until 2015, ~USD 6/ha since 2017) instead of corporate income tax (now 18%). This was considered to be a material subsidy prior to 2017; levels established from 1 January 2017 are comparable to the ones which should have been paid under general corporate

profit tax of 18%. Given the absence of reliable data on dynamics of farmers’ average profitability and high doubts of whether any of income tax would be collected under general regime, this subsidy is omitted from these calculations.

The negative actions come through two ways: absence of VAT refunds and export quotas and duties. Of course, there are many small positives and negatives coming from the state policy but they are relatively immaterial.

Excessive taxation of agriculture exports:

1. Absence of VAT refunds on grain exports. To remind, value added tax is the one paid in the country of consumption. The tax is gradually collected along the value created, with each participant in the chain paying its share of the tax. To avoid double taxation and unintended non-taxation during international trade, the common approach used by all countries who adopted the VAT is that imported goods are subject to a VAT rate based on import price, while exported goods are eligible for refunds of VAT paid on inputs. To put things simple, if iron ore producer in Ukraine paid USD 10 per ton of VAT during the production process, the same amount would be refunded when this iron ore is exported. The importer in the country of consumption would pay the applicable VAT amount (based on tax rate in his country).

2. Export quotas and duties. In addition to cancelling the refunds of VAT, the government also introduced grain export duties in 2011/12. Though they lasted for several months only, they clearly negatively affected the agriculture industry earnings.

One year earlier, in 2014/15, Ukrainian government restricted grain exports through introduction of quotas on grain export. Because amounts stipulated in quotas were materially lower than available grain export surplus (production minus domestic consumption), the spread between domestic and international prices has increased sharply, and farmers earned less than they could under free trade.

DISCUSSION OF RESULTS

The results of the study were discussed at a 3-d International scientific and practical conference “Fundamental and applied research in the modern world”.

CONCLUSIONS

The following subsections present the results of analysis of the main gains and deficiencies of reform in the agro-industrial complex along the above directions.

Further progress toward improved efficiency in Ukrainian agriculture requires continued restructuring of farm enterprises into smaller autonomous units based on private ownership of land and assets, clear formulation of procedures that allow exit of individuals and small groups with shares of land and assets, development of land markets, and establishment of functioning market infrastructure for competitive input supply, marketing services, and financial services.

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