

# THE ROLE AND PLACE OF THE STATE IN THE DEVELOPMENT OF UKRAINIAN FARM HOUSEHOLDS

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## Abstract

*The main objectives of our research are: analysis of the economic efficiency of the farm households functioning; assessment of the effectiveness of state support for the production of agricultural commodities in farm households; development of mechanisms of farm household state support taking into consideration Ukraine's membership in the WTO. It is the determined stimulation of the development of farming and service cooperatives is an extremely important task. It was determined the main reasons for low effectiveness of farm households. Clarified other problems which farm households face nowadays and the main reasons for low effectiveness of farm households*

**Keywords:** farms, competitiveness, economic support, state policy instruments

**JEL classification:** H 70, Q 13

## 1 Introduction

The transformations taking place in the agrarian sector of the Ukrainian economy led to the formation of various forms of ownership and business entities based on private ownership of productive assets, labor and free enterprise, which include farm households that make their significant contribution in the development of agricultural production and play an important role in enhancing the competitiveness of the agrarian sector of the economy.

Therefore, the agrarian policy pursued by the State should be based both on the interests of the agrarian sector of the economy as a whole, as well as on individual economic entities. Measures of economic support should take into account

the existing division of labor between large and small forms of management, as well as the changes taking place in these forms of management in order to create conditions for their further functioning and development.

Farm households, which have flexibility and mobility in a market economy, create the conditions for its stable development. These households promote stronger socio-economic motivation for effective work, increase the use of available natural, economic, material, technical and labor resources and meet necessary food needs of the population.

## **2 Data and Methods**

The study used statistical data from the State Statistics Service of Ukraine, methodological publications and annual reports of Eurostat, ministries and departments of Ukraine, own results of scientific researches of the author, reference and information publications, Internet resources, etc. In the process of research, the following methods were used: statistical analysis – to study the dynamics and structure of the development of farms; problem-oriented – to substantiate the strategic directions of state support policy; comparison – to analyze the current state and development trends; monographic – for the study of production and economic activities of farms; grouping method – to analyze the results of the questionnaire; abstract-logical – for the formulation of conclusions.

## **3 Results and Discussion**

Currently, the share of farm households remains small, namely at the level of 6-8% per year in the overall structure of gross agricultural production. At the same time, the main volume of farm products is generated in the field of plant growing – more than 90%. Until recently, the level of technical efficiency of production, particularly farm yields, in the vast majority remained significantly lower, compared to medium and large enterprises. The main reason for this state of affairs is a qualitatively worse own material and technical base of farms, the complexity of access to advanced technologies, breeding, use of plant protection products, fertilizers and other reasons, primarily due to the constant shortage of own working capital and limited access to credit resources. At present, unfavorable conditions for the farm households functioning have been created, which leads to a decrease in their number (Table 1).

**Table 1 The dynamics of the number of farm households in Ukraine, depending on the degree of participation in agricultural production**

Indicators	Year					2016 in % to:	
	2012	2013	2014	2015	2016	2012	2015
<b>Total number of farm households</b>	40676	40752	39428	39581	40946	100,7	103,4
<b>Farm households not engaged in agricultural activities</b>	6679	6956	7295	7278	7263	108,7	99,8
<b>Farm households engaged in agricultural activities</b>	33997	33796	32133	32303	33683	99,1	104,3
<b>Of them:</b>							
<b>Large and medium</b>	850	861	812	836	841	98,9	100,6
<b>Small</b>	33147	32935	31321	31477	32842	99,1	104,3

Thus, during the period 2012-2016, the total number of registered farms increased by 0.7%, or 270 units, and amounted to 40,946 units in 2016. The positive trend is to reduce the number of farms by 314 units that did not carry out the main activity in 2016 compared with 2012.

At the same time, it should be noted that a high proportion of farm households, which do not carry out economic activity in the total number of farms (17.8%), remains.

There is a negative tendency to reduce the number of large, medium and small farms. At the same time, the pace of decline of the latter exceeds the former. The main reason for the decline of small farms is their bankruptcy, large and medium – transformation into other organizational and legal forms.

Farm households did not become the leading producers of the main types of agricultural products due to objective and subjective reasons. Thus, the share of crop production was about 11.2%, livestock – only 2% in the total structure of gross output in 2016.

It should be noted that the narrow specialization of all categories of farm households is the cultivation of the main types of grain crops: wheat, maize for grain and sunflower.

This circumstance indicates a lack of long-term prospects of production and economic activity of farm households.

There is a steady tendency to increase the scale of agricultural production in the countries members of the European Union.

Despite the small size of the farms, European producers have achieved significant results in land cultivation and animal breeding. There is a positive dynamics in farmers engaged in livestock and crop production. At the same time, European farmers receive direct financial support. It accounts for more than two-thirds of all agrarian expenditures [1].

The expert notes that as concerns the social sphere of the agrarian sector of the EU countries, rural development policy deserves special attention. The funding takes place through a separate fund and regional programs. Interestingly, following the accession to the Union of new member States, measures of rural development in the system of farm support dominate.

Most US production control programs limit availability of farm products for average Americans and raise prices. This is an exclusive effect that is achieved in highly competitive economy by the power of the State, acting in the interests of farmers. Like most Western countries, the United States Department of Agriculture (USDA) provides pricing support programs for farmers and ranchers, assists them in managing their business by supplying information on commodity programs, sign up periods, payments, and qualification criteria [2].

For comparison, in the EU countries there is a single agricultural policy, the total support for the agrarian sector in the countries of the European Union was almost €60 billion annually in 2013-2014, which is about EUR 525/ha or 20% of gross agricultural output. Depending on the country, state support for the industry varies, in particular, in the Netherlands and Belgium – about EUR 500/ha, Poland – EUR 345/ha.

To compare, this indicator in Ukraine was in the range of EUR 10-20/ha in 2016, taking into account the funds remaining in the framework of the special VAT regime [3].

The main purpose of these programs is to provide stability or increase prices for the products of farmers and their income, although usually it is possible to achieve by raising the purchasing prices for agricultural products and the relative decline of their consumption.

During 2010-2016, the methods of state support for farm households underwent significant changes. Let's dwell on the analysis of their effectiveness. During 2010-2014, the use of direct budget allocations and VAT refunds was practiced (Table 2).

Table 2 The dynamics of state support for farm households of Ukraine

Indicators	2010	2011	2012	2013	2014
<b>Total</b>	448,2	626,3	934,5	836,6	1186,8
<b>Incl. medium and large</b>	219,7	338,2	420,1	390,7	585,9
<b>Including per one farm household</b>	267,5	399,8	494,3	453,8	728,7
<b>Small</b>	228,5	288,1	514,4	445,9	600,9
<b>Including per one farm household</b>	5,6	7,2	12,9	11,2	19,2
<b>Budget grant – total</b>	93,4	67,3	66,1	45,7	34,4
<b>Incl. medium and large</b>	29,8	22,0	9,9	12,7	7,1
<b>Including per one farm household</b>	36,3	26,0	11,7	14,8	8,8
<b>Small</b>	63,6	45,3	56,2	33,0	27,3
<b>Including per one farm household</b>	1,6	1,1	1,4	0,8	0,9
<b>VAT – total</b>	354,8	559	868,4	790,9	1152,4
<b>Incl. medium and large</b>	189,9	316,2	410,2	378,0	578,8
<b>Including per one farm household</b>	231,3	373,7	482,6	439,0	719,9
<b>Small</b>	164,9	242,8	458,2	412,9	573,6
<b>Including per one farm household</b>	4,1	6,1	11,5	10,4	18,3

There was an increase in funding of state support for farm households by 2.6 times during 2010-2014, mainly due to the VAT reimbursement by 3.2 times. At the same time, state allocations reduced by 2.7 times. It should be noted that per one farm household, the largest recipients of state support were medium and large farms, mainly due to VAT refunds.

The mechanism of VAT collection has undergone some changes in agriculture since 2015. This happened as a result of the adoption of the Law of Ukraine "On Amendments to the Tax Code of Ukraine and Certain Legislative Acts of Ukraine. Regarding Tax Reform" (№ 71-VIII of 28.12.2014), as well as legislative acts in the field of taxation.

In 2016, the process of further changes to the system of taxation of agricultural activity was observed, based on the Law of Ukraine "On Amendments to the Tax Code of Ukraine and Some Other Legislative Acts of Ukraine on Provision of Balance of Budget Revenues in 2016" No. 909 of December 24, 2015, without the introduction of any compensatory measures in terms of budget support for agricultural development. This situation is unacceptable for a number of reasons.

In the process of adopting a compromise solution on the use of special VAT regime in agriculture, the Ministry of Finance of Ukraine has chosen the worst

possible option – partial preservation of special VAT regime for all types of agricultural activity [4].

On the basis of the developed Law of Ukraine "On Amendments to the Tax Code of Ukraine and Some Other Legislative Acts of Ukraine on Provision of Balance of Budget Revenues in 2016" partial preservation of a special regime of VAT under the scheme of 25/75 was envisaged for 2016. In particular, the new law provided for the centralization of 10% of the amount of VAT accumulation with further distribution within the framework of targeted budget support programs.

In practice, only large agricultural enterprises and corn traders benefited from the realization of the scheme proposed by the Ministry of Finance of Ukraine in 2016. All other participants in economic relations in agriculture, including the State, lost. VAT support in relation to net revenues from the sale of export-oriented crop production was about 10%. At the same time, as a result of the restoration of VAT refunds when exported, the price of such products increased by at least 12-15%. Consequently, the producers of export-oriented crop production even gained from such legislative changes.

For agricultural enterprises, in particular farm households engaged mainly in the production of export-oriented types of crop growing, the Ministry of Finance left an additional 25% of the amount of VAT accrual. As a result, the estimated total income of such enterprises of the corporate sector of the agrarian economy from the partial abolition of the special regime and the restoration of export refunds increased by 7-8% compared to 2016 and 2015, respectively.

A completely different situation is observed in the farm households of the corporate sector of the agrarian economy, which specialize in the production of non-export oriented agricultural products. For such households, VAT support decreased fourfold: from 10.2% in 2015 in relation to net revenues to 2.6% in 2016.

There is a particularly threatening situation with livestock breeding, which will undergo a double blow. On the one hand, this will happen due to the increase in feed prices owing to an increase in the price of grain after the restoration of VAT refunds at export. On the other hand, many livestock enterprises will become unprofitable due to the loss of the bulk of VAT support that ensured cost-effectiveness of such enterprises in 2014-2015 [5].

In assessing the role of the special tax regime for the farmers, it should be noted that in recent years more than 95% of the total amount of state support to the industry was provided. Consequently, the competitiveness of agricultural products in the domestic and world markets increased significantly and a stable financial position of agricultural enterprises was ensured.

The use of indirect state financial support through the application of special tax regimes does not contradict the rules of the World Trade Organization, while

Ukraine is limited in the volume of direct budget support. At the same time, the ratio of the allowable limit of direct budget support to the amount of VAT support in 2013 was 26%, in 2014 – 16%, and in 2015 it did not exceed 11%.

The timely change in taxation of agricultural enterprises negatively affected investment activity, which would result in a reduction in agricultural activity and gross value added in the industry in the near future.

The abolition of the special tax regime will be a significant obstacle to the successful European integration of Ukraine's agriculture into the European economic space as a result of the reduction of competitiveness in connection with the entry into force on January 1, 2016 of the economic part of the Association Agreement between Ukraine and the European Union. This support is especially important in the first year of this Agreement [6].

The action of special VAT regime contributed to ensuring the investment attractiveness of the agrarian sector, increasing the level of financial investments in the development of agro-industrial production, which positively affected its volumes, especially had a good impact on crop growing, as well as increased the creditworthiness of the industry.

The experts note that, although, a special regime of VAT accumulation is more effective compared to many direct budget support programs due to its affordability and low administrative costs, nonetheless has a number of shortcomings.

First of all, almost two-thirds of the amount of VAT accumulation is generated by those types of agricultural products that do not actually require budget support because of the high cost-effectiveness of their production.

The second major drawback is the pro-cyclicality of support. That is, with increasing production volumes and profitability, VAT accumulation increases, while less cost-effective or loss-making activities require more budget support.

The special VAT regime somewhat restrained the investment activity of business entities, which planned to make significant investments. After all, in this case they will not be able to take advantage of the VAT accumulation. This special VAT regime hampered the development of agricultural cooperation, since cooperatives had been placed in unequal tax conditions with agricultural enterprises.

In addition, the special VAT regime negatively affects the level of prices for export-oriented crops, because the reimbursement of VAT is not made, as there is no appropriate source of funds.

In 2017, instead of a special VAT regime, a budget subsidy was introduced, which was aimed exclusively at supporting livestock producers. Despite the restrictions introduced by the budget subsidy allocation for the development of agricultural commodity producers and stimulation of agricultural production in 2017, approved by the Resolution of the Cabinet of Ministers of Ukraine of

August 02, 2017, No. 83, for poultry enterprises in the amount of 50%, their actual share in the total amount of paid grants amounted to 51,7%.

Moreover, the enterprises of two super-power groups of poultry companies received 44.5% of the total amount of subsidies – almost 1.8 billion UAH. The share of above-mentioned companies in the total amount of subsidies amounted to 85.8%.

All enterprises included in the top 5 largest recipients of budget subsidies represent the poultry industry.

The largest amount of subsidies received by only one poultry farm amounted to UAH 583 million, which is 14.7% of the total paid subsidies under the support program. In total, the five largest recipients of this form of support were able to receive 1,648.8 million UAH of budget subsidies, representing 41.3% of total support for the sector.

An important factor in state support for farm households is the introduction of a simplified tax system in the form of a fixed agricultural tax, which was subsequently transformed into a single tax for payers of the fourth group. But in recent years, this tax lost its unconditional attractiveness to agricultural enterprises: the single tax rates significantly increased, the list of taxes and charges from which the single taxpayers were released was reduced. As a result of these changes, the tax burden on the taxpayers of increased significantly.

We have analyzed the norms of the Tax Code of Ukraine, which are available to enterprises of the corporate sector of the agrarian economy for legal entities. Among them: the general system; simplified system of taxation for single taxpayers of the third group, simplified system of taxation for single taxpayers of the fourth group.

According to the results of the research, the fourth group of single taxpayers is more profitable for highly profitable farm households of the corporate sector of the agrarian economy, since the amount of the single tax depends on the area of agricultural land and its normative monetary valuation and does not depend on the results of the activity. The third group of single taxpayers is also suitable for highly profitable enterprises. When choosing a single tax (rate of 3% or 5%), it is also necessary to take into account the rate of profitability, after all it is better to pay at the rate of 5% and not to be registered as VAT payer for single taxpayers. In such a case, the entity should not have VAT payer status.

To be a single taxpayer with the registration as VAT payer (tax rate of 3%) is profitable for highly lucrative farm households of the corporate sector of the agrarian economy, which, under the terms of working with contractors, must be a VAT payer.

The general taxation system is profitable for low-gain (less than 15%) or loss-making agricultural enterprises, but it may be disadvantageous for economic

entities that own large areas of agricultural land, since they will have to bear additional costs of paying the land tax which the single taxpayers of the third and fourth groups do not pay.

So now, choice of the optimal tax burden depends directly on the management of the farm household. It should be noted that in recent years, the single tax of the fourth group of taxpayers (formerly a fixed agricultural tax) was the most effective method of state support for farms.

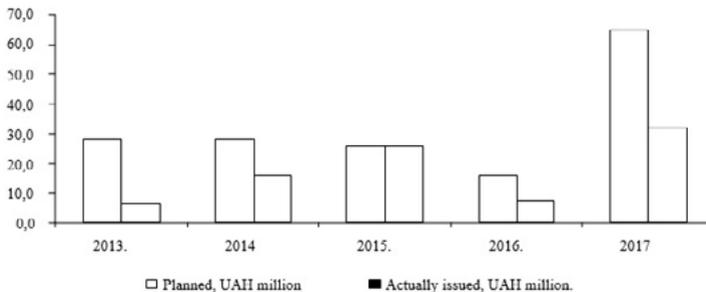
In accordance with Article 10 of the Law of Ukraine of 19.06.2003 № 973 "On Farm Enterprises", assistance to farm households is carried out through the State Farmers Support Fund of Ukraine, which is a state budget institution and performs functions for the implementation of the state policy on financial support for the establishment and development of farms.

Financial support is provided in accordance with the Procedure for the use of funds budgeted to support farm households, approved by the Cabinet of Ministers of Ukraine from August 25, 2004, No. 1102 (as amended).

We can observe the dynamics of farm households financing on a repayable basis during the period 2013-2017 (Figure 1).

Under the state program of granting loans to farm households, less than 50% of applications were executed. The needs of the farmers of Luganska and Donetsk regions are completely satisfied. The preference was given to those farm households with up to 500 hectares of land cultivated; which are members of cooperatives or are engaged in breeding cattle, berry, viticulture or organic production, and whose activities show the dynamics of development. It is important that for the first time the family farm will get the financial support.

**Figure 1 Dynamics of Ukrainian farm households financing on a repayable basis at the expense of the state budget**



There was planned to allocate, mln. hrn

There was actually allocated, mln. hrn

The total amount of appropriations determined by the program for 2017 was UAH 65 million, which was 4 times more than in the previous year (2016 – 15.7 mln. hrn.), of which: UAH 25 million – at the expense of the general fund, UAH 40 million at the expense of the special fund.

Also, in Ukraine, for several years now, the assistance has been provided to the small agricultural producers in the framework of 15 projects for a total of US\$ 83 million. In particular, these are projects for the development of greenhouse farming and gardening in the South of Ukraine. There are also projects to support co-operation and irrigation in the central and western regions [7]. As far as support for plant growing and organic farming is concerned, the competent ministry recognizes the importance of making a decision on the financing for the provision of assistance to farmers for the development of these areas. It is also noted in the ministry that this necessary support will be given to the farmers in the near future – as soon as the Strategy for Agriculture and Rural Development for the period until 2020 will be implemented in practice.

In 2017, the Cabinet of Ministers of Ukraine adopted the Resolution "On Approval of the Concept of Development of Farmers and Agricultural Cooperatives for 2018-2020". It forms the organizational, legal and financial background for the development of farm households and agricultural cooperatives, improving the financial situation of the rural population.

The introduction of systemic support of the farmer will allow to double the production of gross agricultural output in three years and to develop the processing of raw materials within the country. This will ensure the growth of foreign exchange earnings from agrarian exports and increase marginality for economic entities.

The State budget for 2018 has earmarked UAN 1 billion for the support of farm households. According to the budget program of support for the development of farms, the following support is offered in 2018: payment of subsidies – to farm households that are registered in the established order after January 1, 2018 and have tillage land area up to 20 hectares – in the amount of 30 th hrn. Primary right is granted to farm households, whose founders are persons under the age of 35 (inclusive); support of agricultural cooperatives by reducing the cost of purchase of machinery and equipment (70%); cheapening of loans received from a state bank or a bank in which 75% and more of the shares belong to the state in authorized capital; compensation of the cost of purchased seeds and seedlings of agricultural plants of Ukrainian selection such as: superquality stock seeds, stock seeds, first generation seeds, parental seeds and F1 hybrid seeds.

The program also includes providing preferential loans, the cost of agricultural machinery and equipment will be partially offset. Besides the program provides financial support for livestock production, horticulture, viticulture and

agricultural processing, offers cheaper agricultural loans and insurance, support for beginners. It is planned to hold special land auctions for the right to lease land for horticulture, viticulture, hop cultivation and organic farming.

The concept will stimulate the farm households to obtain farmer's status and the unification of farmers in cooperatives.

According to scientists, as a result of the implementation of the Concept, it is expected to increase the share of farm households in production of gross agricultural products to 12%, the growth in the number of jobs in five times (from one hundred to a half million), technical re-equipment of farmers. Also it is planned to expand the area under organic crops to 10% during this period.

## 4 Conclusions

On the basis of the conducted analysis it was determined that the main reasons for low effectiveness of farm households are the lack of a coherent and consistent state policy aimed at supporting farm households having land in cultivation, ownership and use with a total area of no more than 100 ha; low level of opportunities for attracting financial resources and investments for the functioning and development of farms; impossibility to attract land resources for mortgage lending.

Stimulation of the development of farming and service cooperatives is an extremely important task that will give effect in many respects. Since new jobs in the countryside will bring taxes to the local budgets, the development of rural areas, and the slowdown of urbanization, the reduction of the Ukrainian village extinction rate. Such economic results, supplemented by the solution of other problems which farm households face nowadays, will allow to be better prepared for the opening of the land market in the future.

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