



**ECONOMIC ANNALS-XXI**  
ISSN 1728-6239 (Online)  
ISSN 1728-6220 (Print)  
<https://doi.org/10.21003/ea>  
<http://www.soskin.info/ea/>

Volume 187 Issue (1-2)'2021

Citation information: Yukhymenko, P., Sokolska, T., Arbusova, T., Paska, I., & Zharikova, O., Khakhula, L., Zhytnyk, T. (2021). Formation of the model of state support for the Ukrainian agrarian sector in the market economy: change of the approach. *Economic Annals-XXI*, 187(1-2), 75-81. doi: <https://doi.org/10.21003/ea.V187-07>



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## Formation of the model of state support for the Ukrainian agrarian sector in the market economy: change of the approach

**Abstract.** The study's main purpose is to investigate the basic principles of forming the model of state support for the Ukrainian agrarian sector in the year 2020. The subject-object method was used to determine the essential understanding of the state support for the agrarian sector in market conditions and identify

various characteristics, direct relations, feedback, dependencies, and the tools and mechanisms used to implement the support. The principles of granting and using state support for the agricultural sector, including competence, orientation, honesty, compatibility (adequacy, timeliness), neutrality (impartiality), compromise, pre-investment character, versatility, financial character, maximum benefit, are substantiated. It is proved that Ukraine needs to create a new ideological platform of state support for the agrarian sector, which should be based on strengthening the position of small businesses in the value chain, shifting the focus from agricultural holdings to farmers and private peasant farms that fulfill most of the social functions of the industry.

**Keywords:** Agricultural Sector; Agricultural Producers; State Support; Incentives; Principles; Agricultural Policy

**JEL Classification:** Q13; Q18

**Acknowledgements and Funding:** The authors received no direct funding for this research.

**Contribution:** The authors contributed equally to this work.

**DOI:** <https://doi.org/10.21003/ea.V187-07>

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#### **Формування моделі державної підтримки українського аграрного сектору в ринковій економіці: зміна підходів**

**Анотація.** Головна мета статті – дослідити основні принципи формування моделі державної підтримки українського аграрного сектору в 2020 році. Обґрунтовано принципи надання та використання державної підтримки аграрному сектору, включаючи компетентність, спрямованість, чесність, сумісність (адекватність, своєчасність), нейтральність (неупередженість), компромісність, передінвестиційний характер, універсальність, фінансовий характер, максимальний зиск. Доведено, що Україні потрібно створити нову ідеологічну платформу державної підтримки аграрного сектору, яка повинна базуватися на зміцненні позицій малого бізнесу в ланцюжку створення вартості, переносі акценту з агрохолдингів на фермерів і приватні селянські господарства, які виконують більшість соціальних функцій галузі.

**Ключові слова:** аграрний сектор; сільськогосподарські виробники; державна підтримка; стимули; принципи; аграрна політика.

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**Формирование модели государственной поддержки аграрного сектора Украины в рыночной экономике: изменение подходов**

**Аннотация.** Цель статьи – исследовать основные принципы формирования модели государственной поддержки аграрного сектора Украины в 2020 году. Обоснованы принципы предоставления и использования государственной поддержки аграрного сектора, включая компетентность, ориентацию, честность, совместимость (адекватность, своевременность), нейтральность (беспристрастность), компромисс, прединвестиционный характер, универсальность, финансовый характер, максимальную выгоду. Доказано, что Украине необходимо создать новую идеологическую платформу государственной поддержки аграрного сектора, которая должна основываться на усилении позиций малого бизнеса в цепочке создания стоимости, смещении акцента с агрохолдингов на фермеров и фермерские хозяйства, которые выполняют большинство социальных функций отрасли.

**Ключевые слова:** аграрный сектор; сельхозпроизводители; государственная поддержка; льготы; принципы; аграрная политика.

**1. Introduction**

Modern agriculture remains one of the most subsidized economic activity types since it provides food security. In this regard, the issue of the need for state support is rather axiomatic than problematic (Pronko et al., 2020).

Despite the numerous scientific developments of national scientists on the essence, tools, and mechanisms of state support for the agrarian sector, its form, methods, volumes, and objects should be applied to remain debatable and need more profound study (Pushak et al., 2021). In particular, to improve economic and social performance, the basic requirements and rules that the procedure of state support for agricultural producers must meet need improving. Collective decision-making is a must in public policy since it has to consider different interests, with their pros and cons (Savitska et al., 2020). Since it is a matter of using budgetary resources, priorities must be clearly defined and agreed. This fact necessitates a clarification of the basic principles the agricultural policy should be based on to support agricultural producers and rural development; this clarification will provide the most objective approach to the state support implementation (Zakharin et al., 2021).

**2. Materials and Methods**

The subject-object method is used to determine the essential understanding of state support for the agrarian sector in market conditions over the year 2020 and to identify the various characteristics, direct relations and feedback, correlations, and the tools and mechanisms applied in the state support implementation.

To summarize the results obtained, we used the dialectical method of learning the effects of economic laws and analysis and synthesis, economic-statistical, monographic, and abstract-logical.

### 3. Results and Discussion

The particular conditions of agriculture most often explain the need for state support for the agrarian sector due to the dependence on natural and climatic conditions and the demand to ensure national food security. The range of reasons for supporting this sector had expanded significantly since 1992 when the concept of multifunctionality of agriculture arose and the industry, in addition to its main purpose - the food and raw materials production (so-called «white functions»), performs several other important functions, in particular, landscape planning, ecosystem services (green and blue services), as well as promoting the socio-economic viability of rural areas (yellow functions) (Huylensbroeck et al., 2007; Pronko et al., 2020).

Traditionally, a state influences the development of this important sphere of the economy through the arsenal of legal, administrative, economic, propaganda methods and tools, some of which form the national model of its regulation. The set of levers used by the state combines instruments aggregated according to the characteristic features: utilizing influence, area, industry, a form of regulation, stages (priorities) of agrarian policy, degree of influence on agrarian production and trade, type of trade (Danylenko, 2019). State support is also a part of the state regulation of the agricultural sector, which, in addition to incentive instruments including the studied lever, involves restrictive means of influence on agriculture (Pushak et al., 2021).

According to the OECD definition, government support is interpreted as gross transfers to agriculture from consumers and taxpayers arising from government policies that contribute to the development of the agricultural sector, regardless of the transfers goals and economic impact (OECD's producer support estimate and related indicators of agricultural support, 2016). In addition to budget expenditures that are reflected in government accounts, the support includes other projected transfers that do not require real cash payments (such as taxes, loan benefits, high import taxes, etc.).

Ukrainian legislation considers state support as a policy in budgetary, credit, price, regulatory and other areas of public administration to stimulate agricultural production and agricultural market development, as well as to ensure food security of the population (On state support of agriculture of Ukraine: Law, 2004; Zakharin et al., 2021).

Therefore, when it comes to state support, we usually relate it to stimulating, assisting, facilitating, developing encouragement, and therefore it makes sense to define the parties of the process - it can be «state» and «recipients», i.e., «donors» and «recipients». An important feature of this regulatory tool indicating its specifics and differs from others is that the support must necessarily be full or partial donation. The economic aspects of granting and using state support to the agricultural industry and improving its mechanism are inextricably linked to the principles upon which this process should be based and form the basis of theory and practice. These principles include the following:

- competence - donors' (public authorities') high awareness of the amount of the assistance provided;
- orientation - identifying the directions of assistance, that is, clarifying the issues of the necessary transformations, their potential results, and possible ways of the implementation;
- honesty - the parties must realize the necessity to support their own virtue which is to provide reliable information on the business scope and income since it involves the use of budgetary resources; the state must pay declared funds timely with no bureaucratic delays;
- compatibility (adequacy, timeliness) - state support must meet the needs and be easily perceived by the recipient;
- neutrality (impartiality), that is, lack of relation to any aspirations of a political nature, an attempt to avoid the influence of big business on the decision-making of government;
- compromise (non-conflict) - compassion for the sake of achieving high efficiency of state support;
- pre-investment character - the creation of necessary conditions for enterprises further private lucrative investments, facilitating decision-making on activities in the agricultural sector;
- universality - recognition of multiple options for socio-economic development of the agricultural sector. State support may deal with measures for the development of production, trade, rural social sphere, ecology, science, education, etc.;
- financial nature - accumulation of state and regional funds. This is a combination of non-repayable financing, preferential loan financing, loan guarantee, etc.;
- maximum benefit. The support can only be beneficial if it provides socio-economic outcomes, and it keeps the effect afterward.

A tendency to increase absolute and relative financing of the basic support programs for agricultural production development started in 2018. The financing, however, did not take into account the costs of training specialists for agro-industrial complex in higher educational establishments of the I-IV levels of accreditation, as these institutions became subordinated Ministry of Science and Education of Ukraine since 2015. The main directions of direct and indirect state support for agricultural producers aimed at facilitating their development and maintaining their financial condition. These include financial support for activities in the agro-industrial complex by reducing the cost of loans - 2801030 (2015-2020), simulating the functioning of farms and cooperatives - 2801230 (2018-2020), promotion of horticulture and viticulture 2801350 (2012, 2017-2018-2019-2020), animal husbandry - 2801540 (2012-2014, 2016-2018-2020), financial support for agricultural producers (reducing price for agricultural machines - 2801580 (2018-2020).

The analysis of the dynamics of distribution and financing of expenditures of the State Budget of Ukraine on agricultural production development programs demonstrates that government decision-making is conducted following the needs and requests of agricultural producers; it aims to meet their interests and find a compromise. In particular, most programs underwent changes in both funds provision and their spending during 2018-2020, which reveals positive effects and problems in implementing the principles of compatibility and non-conflict of government support (Table 1).

In 2018 the share of financial support for agricultural producers aimed to reduce agricultural machinery prices was the largest and amounted to EUR 42.96 billion. (70.5% of the financing of agribusiness development programs) while in 2018-2020 it was inferior to the state support for animal husbandry industry, amounted to EUR 90.32 million in the 2019 budget, and EUR 104.65 million (59% of the total amount of government support) in 2020 against the previously declared EUR 119.60 million. There are also significant fluctuations within the year between the budgeted funds, allocations directed to the Ministry of Agrarian Policy's registered accounts, and financial resources directed to regions and transferred to current accounts of economic entities. In 2019, as of December 21, 2019, 82.8% of the total amount of development program allocations was provided to the recipients, first of all for the financial support for agricultural producers and state support for the livestock sector (over 70%), only a quarter of the amount was transferred to state support for the development of hop growing, planting young gardens, vineyards and berry gardens, and their supervision, 14% - for financial support for agricultural activities through cheaper loans, and the least amount - 11% - for financial support for farm development. Operational regulation features could explain this situation: searching for an

Table 1:  
**Distribution and financing of the State Budget of Ukraine expenditures for agricultural sector development programs, 2018-2020, EUR mln**

Expenditures code and name according to the program classification	2018 Budget*	2019 Budget					2020 Budget *
		Plan*	Funds approved by annual list and allocated**	Provided by 12.21.2019**	Transferred to the recipients by 12.21.2019**		
					absolute	% of the approved budget	
2801030 Financial support for AIC activities through cheaper loans	38.87	1.97	7.95	7.95	1.13	0.42	3.80
2801230 Financial support for farms development	1.64	4.48	6.28	1.42	0.69	0.33	23.92
2801350 State support for hop growing development, planting young gardens, vineyards and berry gardens and the supervision	2.24	8.97	11.96	3.11	3.02	0.76	11.96
2801540 State support for animal husbandry	5.08	90.32	71.79	71.56	50.40	2.10	104.65
2801580 State support for agricultural producers	42.96	20.78	28.55	20.78	11.44	2.16	26.36
AIC development programs	60.90	126.53	126.53	104.82	66.67	2.48	176.67
Financing the Ministry for Agriculture Policy	166.41	319.62	320.37	297.45			362.60

Notes:

\* according to the Laws of Ukraine «On the State Budget of Ukraine» for 2018-2020;

\*\* according to the Ministry of Agrarian Policy of Ukraine.

Source: Compiled by the authors

optimally coordinated management system through coordination, targeting, and cost estimation. However, financial security faces chronic problems that arise throughout the process of state influence on the agrarian sector; These are haphazard budgeting of expenditures and time gap in the implementation of the payment, lack of transparency in the allocation of budgetary allocations. In particular, the procedure for obtaining funds for farmers and private peasant farms is complicated and bureaucratic due to the principle of manual distribution of funds to agrarian units in regional state administrations, which is still applied. This has led to the lack of producers' confidence in the state and in support tools such as direct subsidies and subsidies, and, in fact, their low impact on agriculture. The reasons for this situation, among other things, are that direct budget support programs were not implemented properly due to lack of funding, which indicates problems with the implementation of the principle of good faith by the state (On state support of agriculture of Ukraine: Law, 2004).

The difficulties that farmers emphasize include the fact that they have not been sufficiently aware of the support programs' opportunities. To receive a subsidy for young cattle farming, the application will be submitted by May 1, September 1, and December 1 for seedling growing - by June 20 and November 20 (Figure 1).

In fact, payments in most programs are made in installments, and those who fail to apply on time can join the program later and receive a prorated amount of payments. White reporting and mandatory legalization of economic activity is another stumbling block for farmers who sometimes do not hasten to do business with the state and prefer not to discuss it, which reveals violations of the principle of honesty by the recipients of support. Commercial banks act as real auditors of state resources recipients because large-scale programs are related to these banks through cheap technology, loan repayments, etc. Banking institutions still consider farmers

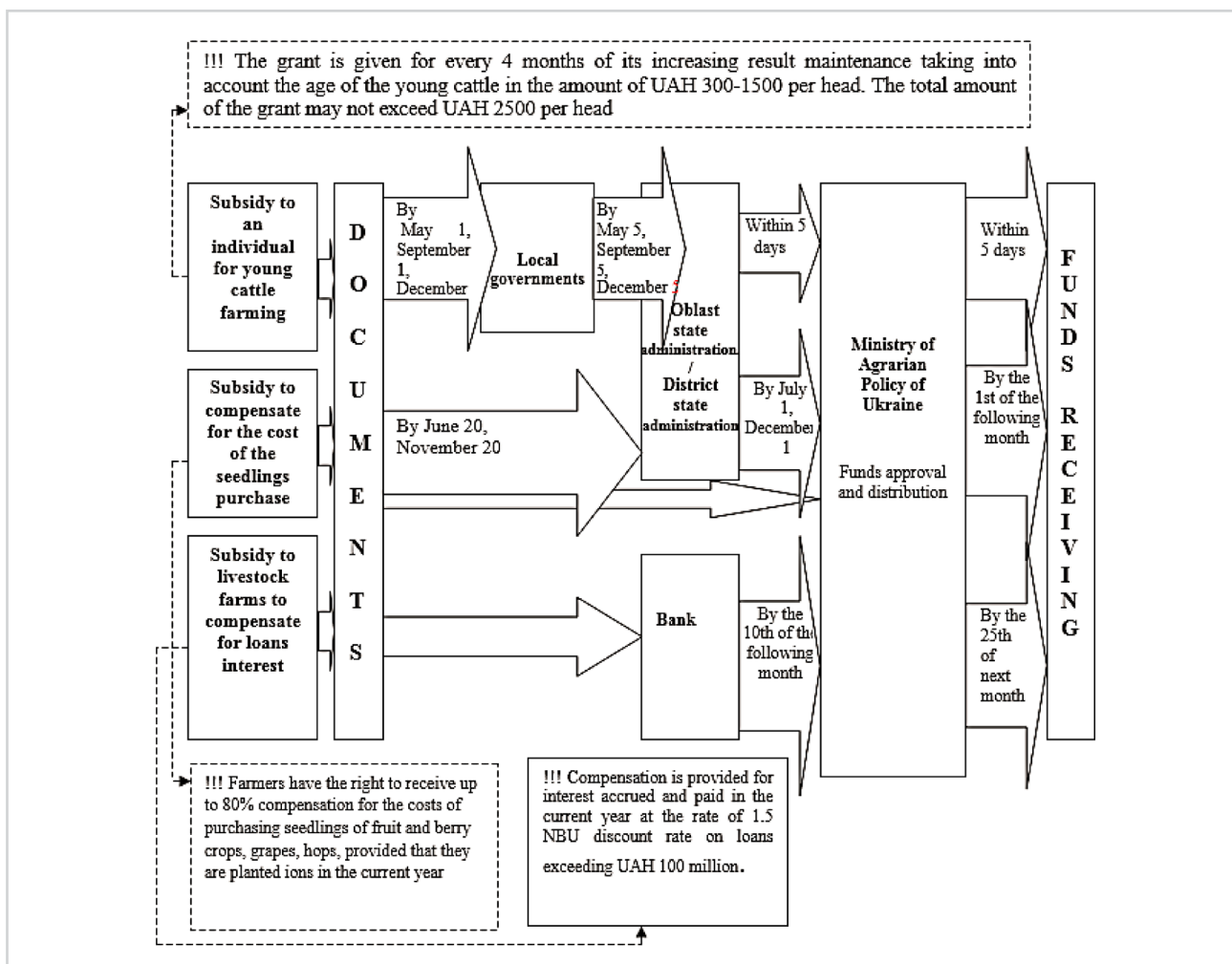


Figure 1:  
Procedure for receiving state support programs 2801350, 2801540  
Source: Compiled by the authors

unreliable borrowers and are often right because they encounter an improperly designed land bank and an annual income statement (Pronko et al., 2020).

Among the complaints that are worth mentioning here is one that the funds were allocated to the things the farmers did not need most or that the procedure for obtaining the support was unfulfillable for most farms; the lion's share of the support was given to large companies owned by old-timers of the list of the 100 richest people in Ukraine. As a result, poultry, which is controlled by large businesses, has been disproportionately supported, indicating a failure to comply with the principle of neutrality (Pushak et al., 2021). In particular, in 2018, 58% of the state subsidies to agriculture were provided to enterprises that are part of corporate structures (Myronovsky Khlibo-product and Ukrlandfarming).

#### 4. Conclusions

Having considered the global trends in increasing the importance of the agricultural sector in ensuring food security and shaping the competitive position of farmers in the national and global economic space, as well as having focused on the priorities of the EU CAP for 2021, we consider it necessary to strictly adhere to the principles of providing the state support through the formation of the relevant philosophy in the society considering its principles since it deals with budgetary, financial resources, and therefore it needs to report to taxpayers on their use.

To this end, the country needs a new ideological platform for state support for agriculture and rural areas development focused on farmers and private peasant farms, which most fully perform the social functions of the industry, in particular, on food security, employment, the formation of solvent demand and interested in the preservation of the industrial and social infrastructure of the village.

Regarding the principle of opportunities promotion arising from state support programs, local authorities should promote disseminating information to agro-producers on the resources to be used, prospective agribusiness trends, technical and technological innovations, etc.

In order to comply with the principles of stability, continuity, and heredity, we consider it unacceptable to change the state support procedure annually and undergo no changes for at least five years.

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Received 2. 11.2020

Received in revised form 22. 12.2020

Accepted 28. 12.2020

Available online 28.02.2021