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State Support for the Agricultural Sector in the Context of Inclusive Rural Development

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► **Abstract.** The agrarian sector as a system-forming sphere of the rural economy becomes decisive for rural development based on inclusiveness. The influence of the state on the development of the sector by means of financial support should not only contribute to strengthening the production capacity and competitive advantages of commodity producers, but also have a positive impact on the development of rural areas and increase the opportunities for attracting the population to public life. These tasks are being updated in the context of a long-term budget deficit, in particular, aggravated by the conduct of military operations and the need to direct public funds in areas with the greatest multiplicative effect. The purpose of the study is to investigate the impact of state financial support for the agricultural sector on rural development from the standpoint of compliance with the principles of sustainability and ensuring the inclusivity of socio-economic development. To achieve this goal, the study used: general logical methods of analysis and synthesis in the development of laws regulating the system of state support in Ukraine; statistical and economic methods for grouping recipients of state support by different statuses, programmes, areas; methods of mathematical analysis to assess the dynamics of indicators and identify patterns of distribution of support funds, calculating the dependence of budgets of territorial communities on agricultural production. Tabular and graphical methods were used to visualise the results of the study. The abstract and logical method was used to generalise conclusions and formulate proposals. Based on the study results, including the analysis of the agricultural companies that received the most financial support from the state in three years, the public irrationality of the existing distribution of state support is substantiated, which leads to an increase in the gap between the production capacities of farmers, strengthening the uneven development of the agricultural sector and rural areas as a whole. The implemented improvement of legislative norms is not reflected in the practical plane, so the trend of asymmetric distribution of funds in favour of large businesses remains. The study argues for the need to introduce a number of changes in the system of distribution and use of state financial support for the agricultural sector, concerning regulatory support and control over its implementation, strengthening requirements for recipients of funds in terms of economic and social responsibility to promote rural development based on the principles of inclusivity. One of the conditions for all programmes funded by the state should be the prioritisation of achieving a social effect and maintaining sustainable development. Taking into account the proposed changes would help to preserve the multi-complexity of agriculture and the sustainability of food systems, expand the circle of recipients of support and strengthen the financial stability of small producers, increase revenues to local budgets, and increase the efficiency of using public finances in terms of their public function, achievement of a synergistic effect from the use of budget funds in the economic, social, and environmental spheres, establishment of sustainable foundations of rural development on an inclusive basis

► **Keywords:** agriculture, financial support, sustainable development, agricultural producers

► Introduction

Modernity needs a reorientation of societal development models, which until recently prioritised solely economic interests, towards the goal of sustainable, inclusive development in a balanced three-dimensional space: economic, social, and environmental. Public policies in any sector, especially through financial mechanisms, must be consistent with sustainable development commitments, with a focus on respect for human rights, ensuring access for all segments of the population to participate in

socio-economic life, and equitable distribution of public goods. State support for agriculture has a significant impact on achieving the goals of agricultural policy, so the issue of effective use of these funds is relevant and socially significant. The success of transformation for more than a third of the country's population will depend on how effective the support measures are in terms of meeting the public interest.

In most countries, agricultural production is supported by the state. These significant financial

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resources are used to stimulate agricultural production, maintain the competitiveness of commodity producers, and ensure food security. Historically, the policy of state support is updated during significant socio-economic transformations. In the United States, it began with the Great Depression, when nearly 20% of Americans lived in rural areas and received their livelihood directly or indirectly from agriculture. As a result, the first measures were aimed at maintaining raw material prices and incomes of rural households. In European countries, a powerful impetus for the development of support policies was the food shortage caused by the Second World War. And the original EU policy was aimed at ensuring the adequacy of domestic food supplies and supporting agricultural development. In the future, the goal of supporting each country was to increase the competitiveness of the industry and strengthen trade positions in the global liberalised market. An additional but equally important effect of support is the impact on rural development.

In the study "State support for the development of Ukrainian territories in 2019" conducted by the U-LEAD with Europe programme [1] financial support for agricultural producers is included in the area of "Rural development", which emphasises its social significance. Accordingly, it is necessary to investigate the effectiveness of state support not only in terms of changes in the profitability, price, and profitability of agriculture, but also to consider the social impact, in particular, compliance with sustainable management methods, social responsibility, rural development, reducing income polarisation, etc.

In Ukraine, most of the studies are devoted to the economic efficiency of state financial support and its impact on the development of domestic agriculture. At the same time, in different periods, in accordance with the current problems at that time, the areas of using budget funds, their compliance with the adopted development strategies and legislative innovations adapted to European conditions are analysed. Over the past 10 years, much attention has been paid by the global scientific community to developing areas for economic development based on the principles of inclusivity. Expanding opportunities to involve people in the processes of production, distribution, and income generation is becoming a fundamental policy framework in many countries.

Thus, *the purpose of the study* is to investigate the impact of state financial support for the agricultural sector on rural development from the standpoint of compliance with the principles of sustainability and ensuring the inclusivity of socio-economic development. To achieve this goal, the following scientific tasks will be solved: the channels of influence of agricultural activities on inclusive rural development are substantiated; legislative innovations in the field of state support for the agricultural sector from the standpoint of inclusivity are outlined; financial support for the agricultural sector for previous years is analysed; areas for improving the conditions for providing state support to promote rural development based on inclusivity are determined.

State support for the agricultural sector is a pressing issue for many Ukrainian researchers. The evolution of the establishment and gradual development of state support in Ukraine was studied by O. Borodina [2], B. Paskhaver [3], I. Tytarchuk [4] et al. A thorough investigation of the international experience of protectionist policy in relation to agriculture is presented in the monograph edited by O. Borodina [5]. Considering the evolutionary changes in the international practice of support by the authors' team, the conceptual foundations for the development of the system of state support for the agricultural sector of the Ukrainian economy in the context of globalisation are developed and a change in the focus of support towards promoting the development of small-scale production and improving the mechanisms and institutional environment for providing state assistance, in particular, for the development of rural areas, is proposed.

A broad discussion regarding the state support for the agricultural sector continued in Ukraine during the preparation for WTO membership (2008). Analysis of theoretical and applied aspects of state support for the agricultural sector in the context of compliance with the provisions of the agreement on agriculture, signed within the framework of the protocol on Ukraine's accession to the WTO, a clear distinction between measures of internal support for agriculture between those that do not affect the production and trade of agricultural products (measures of the "green box") and those that cause a distorting effect on trade (measures of the "yellow box"), the possibility of repurposing individual subsidies for permitted areas, determining the volume and modes of use of "boxes" became the main research topics of S. Kyryzyuk [6], Kobuta [7], M. Kropyvko [8], O. Mogylnyi [9], P. Gaidutskiy [10] and others.

The investigation of agricultural protectionism in the context of signing the association agreement between Ukraine and the EU and further harmonisation of Ukrainian and European legislation is given a prominent place in the studies by T. Zinchuk [11], I. Kobuta [12], T. Ostashko [13], A. Khodakivska [14], A. Zagurskiy [15], Y. Lupenko [16], A. Panuhnyk [17]. T. Zinchuk and O. Skidan, emphasising the advantages of financial support for farmers in the EU countries, note the presence of "the existing skew of the current mechanism for distributing direct payments, which does not contribute to the development of small farms and reduces their competitiveness", and emphasise the need to change the "design of direct payments in order to ensure greater efficiency and accessibility directly by farmers" [18, p. 113-125]. H. Hryhorieva [19], P. Kulynych [20], and O. Gafurova [21] have devoted their study to the problems of the legal provision of state support for agriculture.

Investigating the support of the agricultural sector as a state financial mechanism for improving the efficiency of agricultural production, researchers focus on the fairness of its distribution, restrictions that exist for small producers, and preferences that large agricultural enterprises have [22]. Based on the experience of some European countries, for example, Germany, where there is no support for large

agricultural producers at all (there is a principle: higher profits – higher taxes), and the regulations of the CAP EU (Common Agricultural Policy of the EU) on the introduction of additional social and environmental requirements for profitable enterprises to receive state assistance [23], Ukrainian researchers suggest improving the regulatory requirements for providing and receiving support, considering aspects of fair distribution of funds between different groups of producers.

Together with a thorough investigation of various aspects of supporting the agricultural sector, especially its economic feasibility, the issues of the general efficiency of public funds allocated to support the agricultural sector remain rather understudied. In the context of a long-term budget deficit, in particular, aggravated by the conduct of military operations, the effect of using public funds should be multiplicative, and one of its mandatory manifestations should be the promotion of inclusive development of rural communities. This paper is aimed at investigating this particular aspect.

► Materials and Methods

The methodological basis of the research is theoretical generalisations and substantiation of the role of agriculture in rural development on an inclusive basis. Systematisation of direct channels of influence of agricultural activities on inclusive development allowed forming a system of indicators for operational monitoring and forecasting of prospects for increasing inclusion in social development. Using general methods of analysis and synthesis in the development of laws and regulations that directly regulate the system of state support in Ukraine, it is specified that non-compliance with legislative norms has a multi-vector negative impact and violates the establishment of sustainable development conditions based on inclusivity.

Empirical research was conducted based on the data of the “Report on recipients of state support in the agricultural sector for 2019-2021”, published by the Ministry of Agrarian Policy and Food of Ukraine. Using the statistical and economic method, recipients of state support were grouped by different statuses, programmes, and areas; analytical data on the dynamics of indicators were processed and patterns of distribution of support funds were identified. Agricultural dependence of the budgets of territorial communities was determined based on data from the state web portal of the budget for citizens [24]. Using mathematical analysis methods, the share of taxes in the budget revenues of territorial communities, which depends on agricultural production, was calculated.

The information base of the study is formed based on publicly available statistical data of the

state statistics service of Ukraine, reports of the Ministry of Agrarian Policy and Food of Ukraine, web portals of territorial communities, and Internet resources with information about these producers of agricultural products. The location of production facilities and the main activities of agricultural producers were determined based on open data from the counterparty verification service YouControl [25]. To form a sample of subsidised budgets of territorial communities, data from the analytical portal of community capacity were used [26].

Tabular and graphical methods were used to visualise the results of the study. The abstract and logical method was used to generalise conclusions and formulate proposals.

► Results and Discussion

The development of communities, especially those dominated by rural settlements, is significantly dependent on agriculture. The agricultural sector prevails in the rural labour market and provides employment for 38% of the employed population. Although 2/3 of these farmers work informally, they receive income from agricultural activities [27]. In total, almost 4.0 million household farms [28], which is more than 80% of their total number, produce agricultural products for their own consumption and for sale, and their well-being depends to a greater or lesser extent on agriculture. Agricultural activities have a significant impact on the budgets of territorial communities. In 2021, a third of local budget tax revenues were generated by agricultural production. Payment for land (land tax and rent from individuals and legal entities), a single tax from agricultural producers, and personal income tax on income from renting out land in the budgets of some rural communities reached more than 50% of tax revenues. Among the most agrarian-dependent communities are Horodkivska rural community of the Vinnytsia Oblast, whose budget tax revenues are 50% dependent on agriculture; Mykhaylivska rural community of the Poltava Oblast – 56%; Blahodatnenska rural community of the Mykolaiv Oblast – 58.9%; Kochubeyivska rural community of the Kherson Oblast – 62%; Ulanivska rural community of the Vinnytsia Oblast – 62.2%; Krasnopilska rural community of the Zhytomyr Oblast – 65.5%, and others [24].

Thus, the agricultural sector as a system-forming sphere of the rural economy and social development of communities becomes one of the main economic factors of inclusive rural development. Ensuring productive employment and income of the rural population, and forming the revenue side of community budgets are direct channels for the impact of agricultural activities on inclusive rural development (Fig. 1).

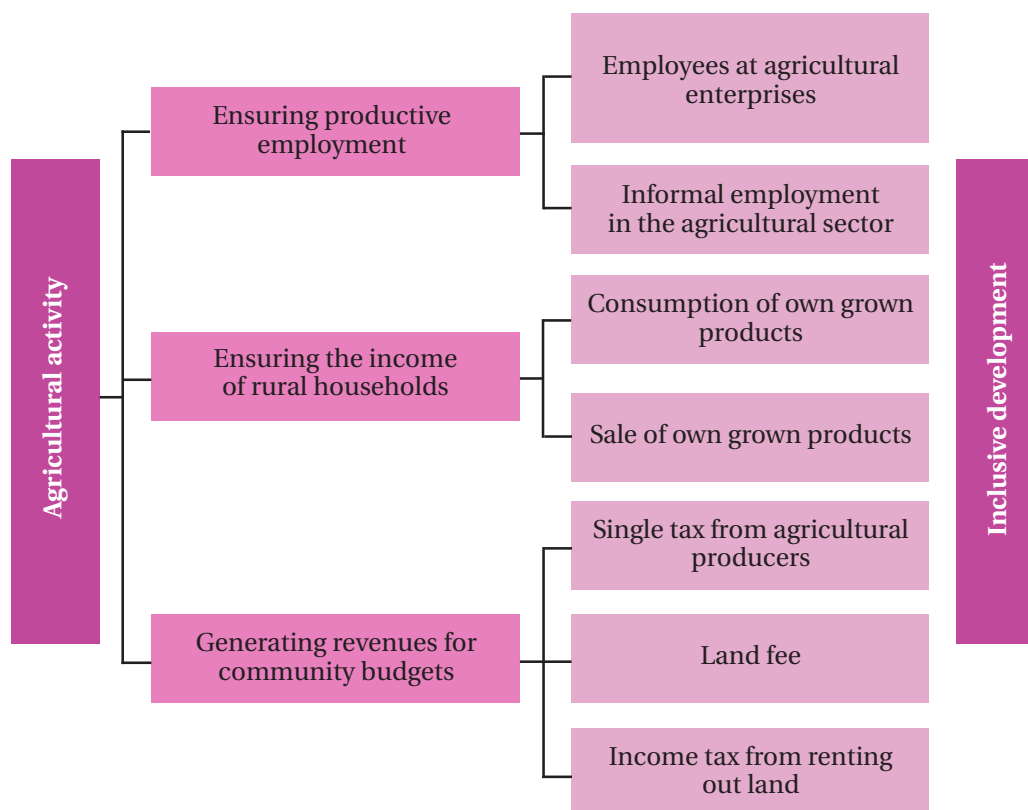


Figure 1. Channels of direct impact of agricultural activities on inclusive rural development

Source: compiled by the author

Changes in quantitative and qualitative indicators of certain factors, namely, an increase in the level of productive employment in the status of employees or self-employed persons, a decrease in informal employment, an increase in individual income from agricultural activities and tax revenues to the budget, will increase the well-being of the population, access to quality goods and services and, accordingly, will contribute to socio-economic development on an inclusive basis.

As noted above, agricultural production in the vast majority of countries, including developed ones, is supported by the state. Budget resources are spent to stimulate agricultural production, ensure food security, etc. The impact of support on rural development is evaluated separately. This study tests the

hypothesis as to what extent the existing state support for farmers in Ukraine contributes/hinders rural development on an inclusive basis. Financial support for the agricultural sector is one of the protectionist measures of the state. The level of agricultural protectionism depends on legally established norms and economic opportunities, and its course depends on established development priorities. The Law of Ukraine “On Amendments to the Budget Code of Ukraine” provides “to establish that in 2017-2021 the annual amount of funds from the national budget of Ukraine allocated for state support of agricultural producers is not less than 1% of output in agriculture” [29]. The actual volume of state support for farmers is significantly lower, and this trend has continued throughout the entire period of operation of the Law (Table 1).

Table 1. Regulatory and actual volumes of state support for the agricultural sector

	2017	2018	2019	2020	2021
Agricultural output, <i>million UAH</i> ¹	707,792	847,587	842,767	892,852	1,017,851,3*
State support for the agricultural sector, <i>billion UAH</i>	5,379.3 ²	4,237.0 ²	4,567.7 ³	4,031.4 ³	4,712.4 ³
Legally established support rate (1%), <i>billion UAH</i>	7,077.92	8,475.87	8,427.67	8,928.52	10,178.51
Compliance with the legal norm, %	76.0	50.0	54.2	45.2	46.3

Source:

¹Economic accounts of agriculture (production account and income generation account) [30]

²The Law of Ukraine “On the National Budget of Ukraine” for the corresponding years.

³Report on recipients of state support in the agricultural sector [31]

*Calculated data. In 2021, the index of agricultural products compared to 2020 was 114.4% (the volume of agricultural products in constant prices is used to calculate the index). Express issue of the State Statistics Service of 01/18/2022 Agricultural output index in 2021 (preliminary data) [32]

In 2017, the volume of state support amounted to 76% of the norm established by law, and agricultural producers did not receive almost UAH 1.7 billion. In the future, despite the increase in gross agricultural output, support remained almost at the same level, and in 2020 its volume amounted to only 45.2% of the expected amount according to the norms. In other words, the legislative regulation of certain provisions does not guarantee the allocation of funds in full, which indicates the exclusive dependence of state financial support on the capabilities of the budget and the priorities of the authorities. Restrictions on public financial resources increase competition in access to support funds and increase attention to the effectiveness of their use. More powerful agricultural enterprises have advantages in the fight for limited finances, and thus insufficient funding to support the agricultural sector becomes the first factor in the exclusivity of various, including small, agricultural producers.

Another virtually unimplemented legislative initiative was amendments to the Law of Ukraine "On State Support for Agriculture of Ukraine" regarding new principles of state support, compliance with which should contribute to the preservation of multi-layered agriculture and the sustainability of food systems. In particular, the established principle of fairness should be ensured by the proportionality of the distribution of state support and limiting the maximum amount of support per producer of agricultural products, and the principle of "targeted area of state support – priority provision of state support to small farms, including family farms that own and/or use no more than 100 hectares of agricultural land" [33]. The adopted legislative innovations are not reflected in the practical plane. Neither the procedures for using support funds nor the passports of budget programmes set requirements for compliance with the implemented initiatives. Regulation of recipients of state support, considering preferences for small farms, would help to increase the level of inclusion [34]. Thus, failure to comply with the legally established norms on the volume of support and the principles of its distribution violates the establishment of the economic basis for Inclusive development.

Given that public finances, first of all, should ensure the fulfilment of national needs for socio-economic development, the allocation of sectoral and/or

industrial support should be accompanied by the establishment of clear requirements of a public nature. When allocating state allocations to support the agricultural sector, it is necessary to take into account a number of external effects, in particular the socio-economic impact on the development of communities where the main activities are carried out, the payment of taxes to both local and state budgets, job creation, compliance with environmental standards, etc.

According to the "Report on recipients of state support in the agricultural sector" in 2019-2021, the total amount of state support amounted to UAH 13.3 billion [31]. Its recipients were about 19 thousand agricultural producers. Among the main beneficiaries are powerful farms of the agricultural holding type; producers whose land bank is more than 1,000 hectares; farms that are registered in the register of large taxpayers, which, according to the norms of the tax code, include companies with an annual income of more than EUR 50 million or a total amount of annual contributions to the state budget of more than EUR 1.5 million [35]. But farms that cultivate land with an area of up to 50 hectares (their share is 47.3% of working farms [36, p. 164]), and households are almost deprived of the opportunity to use financial support from the state. Currently, there are no real preferences to support small agricultural producers, who most need additional financial resources.

According to the above-mentioned report, during the study period, individuals (households) received only 8.2% of the total amount of support [31]. In 2019, support was provided for the cultivation of young cattle, in 2020-2021 – in support of beekeeping (Table 2). In 2019, about 100.0 thousand recipients of the "subsidy for young animals" used state support. This is the largest number of individuals who received financial support during the period. In 2020-2021, beekeepers could receive a special budget subsidy for existing bee colonies. The number of recipients annually was about 5 thousand people [37]. Through the mechanism of additional payment of USC to members/heads of family farms, the state redistributed UAH 603.6 thousand. Considering that the minimum amount of USC for one person in 2021 was UAH 15,950, and the possible amount of additional payment by the state was 0.9 of the minimum insurance premium [38], the number of recipients of this type of support was less than 100 people.

Table 2. State support for households (individuals)

Year	Area of state support	Support amount, thousand UAH	Share in the total amount of support, %
2019	Special budget subsidy for raising young cattle	615,356.5	13.5
2020	Special budget subsidy for existing bee colonies	239,798.8	5.9
2021	Special budget subsidy for existing bee colonies	240,000.0	5.1

Source: Report on recipients of state support in the agricultural sector [31]

Financial support for households that produce agricultural products is an important factor in economic inclusion. These financial resources increase the production potential of small agricultural producers, contribute to the development of the local economy, and improve the well-being of the rural population. But given the number of recipients, such government support remains a scarce resource with limited impact on the inclusivity of rural development.

Among the recipients of state support in almost all of them are farms. This category of producers includes farms with 20 hectares of land, as well as with 5,000 hectares or more. Due to the lack of differentiation of farms by their size or volume of production/income, the principles of fair distribution of support funds and monitoring of their target direction are violated. As a result, farmers who produce high-margin cereals, oilseeds, and chicken receive high-value state support funds. But small farms rely exclusively on their own resources and ensure the production of

labour-intensive vegetables, fruits, berries, livestock products, etc. Without a clearly defined classification of farms and rationing of criteria for classifying them as large, medium, and small, state support will continue to finance profitable agricultural businesses.

The analysis of only the areas of state support indicates the preservation of preferences for large farmers. The largest amount, as in previous years, was allocated to support animal husbandry – UAH 5.1 billion (Fig. 2). In certain areas of the programme “State support for the livestock industry”, more than 2/3 of funds were received by corporate structures, in particular, for partial reimbursement of the cost of construction and reconstruction of livestock farms and complexes (28%), partial reimbursement of purchased breeding animals for further reproduction (19%), partial reimbursement of construction and reconstruction of grain storage and processing enterprises (15%). The corresponding activity is carried out only by large agricultural producers.

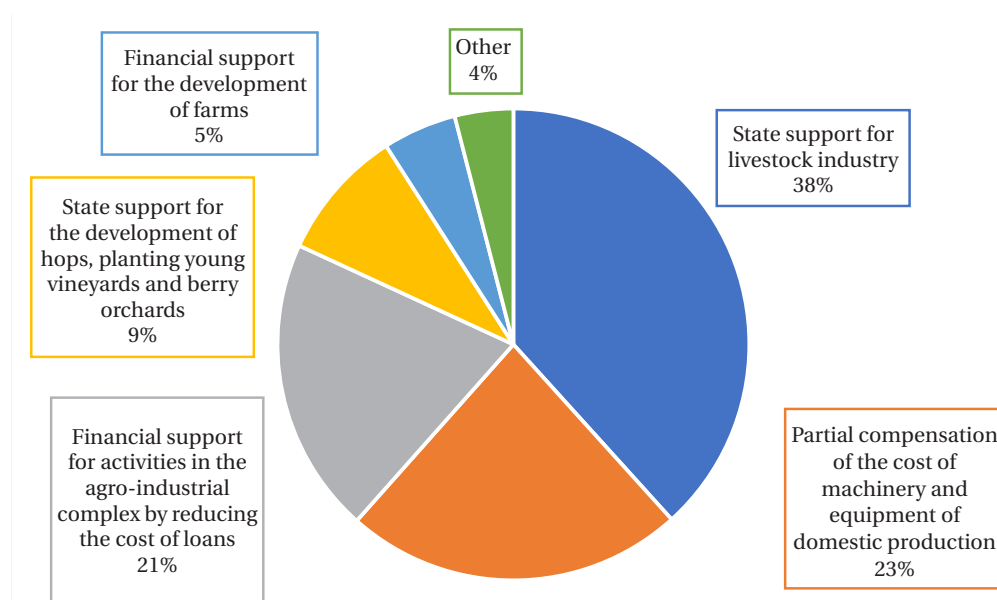


Figure 2. Distribution of state support in the agro-industrial complex during 2019-2021

Source: Report on recipients of state support in the agricultural sector [31]

The situation is similar in the areas of “Financing partial compensation for the cost of machinery and equipment of domestic production”, and “Financial support for activities in the agro-industrial complex by reducing the cost of loans”, for which UAH 3.1 billion and UAH 2.7 billion were allocated, respectively. Recipients of funds are mainly large farmers. The main limiting factors for attracting amalgamated communities and farmers to these programmes are: a large amount of collateral, which ranges from 150 to 300% of the loan amount; small management sizes (¾ of all farms have up to 100 hectares of agricultural land in their land use); insufficient level of documented financial turnover, etc. [22].

Only 5% (UAH 0.7 billion) of the total amount was allocated for financial support for the development

of farms. But even in this group of recipients, there are farms with hundreds of hectares of land, production volumes that allow forming batches of products for sale on the Electronic Grain Exchange, and the need for equipment worth hundreds of thousands of UAH.

As a result, in accordance with the directions of financial support and the use of funds, the individual sector, including small farms, potentially received about 15-20% of the total support. Despite the fact that its share in the production of agricultural products is 46% [36, p. 45]. The asymmetry of the distribution of support funds among recipients increases the polarisation of the production potential of farmers, eliminates the competitive advantages of small producers, and makes it impossible to develop

multi-layered agriculture. The long-standing disproportionality in the distribution of state support undermines the foundations for the formation of family management and the development of multiculturalism in rural areas. "The creeping process of latifundation and monopolism and displacement of small and medium-sized enterprises in the future threatens a complex of destructive consequences for rural areas" [39] and undermines the country's food security. State support for the agricultural sector does not promote inclusive development, but rather strengthens intersectoral (corporate vs individual) segregation.

A detailed analysis of recipients of state financial support for the agricultural sector (the top 30 recipients were determined annually) shows that about 20% of the total amount of funds allocated during 2019-2021 is used by a very limited, partially recurring circle of agricultural producers. Among the 66 leading companies, 6 companies received support annually, 9 more – twice during the period, the rest – used the state's financial resources for one year. According to the organisational and legal status of the leaders-recipients of support, only 7 farms (10%)

received state support, the rest were limited liability companies, private companies and joint-stock companies. The rating of recipients is headed by JV LLC "Niva Pereyaslavshchiny", which has obtained UAH 164 million of support in the "Partial reimbursement of the cost of production of livestock farms and complexes, milking parlours, agricultural processing enterprises". Another UAH 15.7 million was received in other areas. The company operates on more than 20.0 thousand hectares of agricultural land and is a vertically integrated business model that specialises in growing and storing grain, producing mixed feed, fattening pigs, meat processing, and selling products through its own retail network. Next in the rating is LLC "Vinnytsia Poultry Farm", which in the direction of "Partial reimbursement of the cost of production of livestock farms and complexes, milking parlours, enterprises for processing agricultural products" in 2019 received almost UAH 112 million of support; in 2020 – UAH 48.9 million. The company specialises in poultry breeding. Other agricultural companies that received more than UAH 50 million of state financial support during 2019-2021 are shown in the Table 3.

Table 3. Top 13 recipients of state support, 2019-2021

Rating	Company name	Main specialisation	Agricultural land under cultivation, <i>thsd ha</i>	Support amount, <i>UAH</i>	Registration in the Register of large taxpayers
	JV LLC "Niva Pereyaslavshchiny"	01.11	23.0	179,719,065.0	Yes
	LLC "Vinnytsia Poultry Farm"	01.47	0.1	164,942,219.0	Yes
	FG "Gadz"	01.24	0.670	135,763,163.0	No
	LLC "PK Dniprovskiyi"	01.47	–	130,719,261.0	Periodically
	LLC "Buchachagrohlibprom"	01.11	22.4	127,457,185.0	No
	LLC "Agrarian company 2004"	01.11	35.0	112,131,801.0	Periodically
	LLC "Intelko Agro"	01.11	94.1	101,867,151.0	Yes
	PRJSC "Malynove"	01.47	–	101,756,540.0	No
	AP NPP "Vizyt"	01.11	9.0	72,163,247.0	No
	LLC "Agrofirma Pischanska"	01.11	5.6	71,875,305.0	No
	LLC "Baryshivska grain company"	01.11	53.0	62,467,983.0	Periodically
	JLLC "Druzhba-Nova"	01.11	109.5	55,453,271.0	Yes
	LLC "Pyatidni"	01.11	15.9	50,000,000.0	No

Source: Report on recipients of state support in the agricultural sector [31]

Nine of thirteen companies specialise in the cultivation of cereals (except rice), legumes, and oilseeds, one – in the cultivation of pome and stone fruits, apples, pears, and seedlings, and the main activity of the rest is poultry breeding. In the cultivation of these agricultural companies specialising in crop production, there are from 20 to 100 thousand hectares of agricultural land. Half of the companies belong to vertically integrated business structures.

The companies JV LLC "Niva Pereyaslavshchiny", LLC "Vinnytsia Poultry Farm", LLC "PK Dniprovskiyi", LLC "Enselko Agro", JV "Druzhba-Nova" are registered in the Register of large taxpayers. Two more companies – "Agrarian company 2004" and LLC "Baryshevska Grain Company", receiving state funds annually, were registered in the register for one year. Registration in the Register indicates large financial turnover, while due to gaps in the legislation, it does

not guarantee the payment of significant amounts of taxes. Some of the listed companies, in particular, those that specialise in poultry breeding, are registered as single tax payers of group 4 and pay a fixed amount, which depends on the regulatory and monetary assessment of agricultural land (in 2021, the average tax amount was UAH 1,320.0/month). Having significant assets, and receiving state support in the amount of more than UAH 50 million, companies pay symbolic taxes and receive super-profits, including at the expense of the state budget.

As noted above, the main specialisation of most top companies is crop production. The level of profitability of crop production in 2020 was 22.3 % (wheat – 33%, sunflower – 29%) [40]. Thus, the state finances a profitable agricultural business without any restrictions. requirements for compliance with the principles of sustainable agricultural development. The current procedures for the use of funds, which determine the mechanism for providing state support and passports of budget programmes that predict the effective performance of programmes, are devoid of requirements and obligations of a social and environmental nature. In the context of limited fiscal capacity, agricultural policy should focus not on financing the development of large profitable agribusinesses, but on supporting multi-agriculturalism and achieving synergies between economic, social, and environmental budgetary resources.

Another fact points to the public irrationality of the existing distribution of state support funds. By supporting powerful agricultural enterprises, the state allegedly helps to increase export revenue and fill the budget. This allows for further redistribution of budget funds, including financing social programmes related to low incomes of the population. At the same time, the volume of payments for unemployment benefits, assistance to low-income families, the provision of benefits and subsidies to pay for housing and communal services, etc., can be significantly reduced by reducing the number of people in need of this assistance. Simplification of access and establishment of preferences for receiving direct support by small farms and rural farm-type households, of which, according to expert estimates, there are at least 600 thousand [22], would help strengthen the productive potential of farmers, increase their well-being and would have a multiplier effect in the field of rural development.

Agricultural production of companies is carried out in rural areas. The analysis of the impact of their production and financial activities on local budgets is assessed through the level of subsidisation of communities. Six communities where JV LLC “Niva Pereyaslavshchiny”, LLC “Vinnytsia Poultry Farm”, LLC “PK Dniprovskiy”, LLC “Entelko Agro”, LLC “Agrofirma Pischanska”, JV “Druzhba-Nova” are registered transfer a reverse subsidy to the state budget, which indicates a high level of financial viability of these communities, including due to the activities of agricultural producers. Three communities with four top agricultural companies registered receive a basic subsidy from the state budget. The most significant is the Trybukhivska rural territorial

community of the Ternopil Oblast with a population of 8.8 thousand people, on the territory of which FG “Gadz” and LLC “Buchachagrokhlibprom” are registered and operate. Receiving millions in state support annually, in particular in 2021 – almost UAH 100.0 million, payments of companies to the budget, for example, personal income tax, which is considered when calculating the volume of equalisation subsidies, were so small that they led to the need to receive UAH 5.875 million of the basic subsidy. This became possible both due to imperfect legislation on taxation of producers and opportunities for shadow businesses, and the lack of current monitoring of the use of funds, analysis of the real effectiveness of the use of public finances from the standpoint of their public function.

Given the difficult economic situation in the country, the budget deficit, the significant need for public finances and competition in their distribution, it is necessary to radically change the policy of state production support in the agricultural sector. All programmes funded by the state should be aimed at obtaining a public effect and take into account the inclusive aspect – justice in access, distribution, and quality. In order to reduce the economic polarisation of the production potential of farmers, aggravated, among other things, by state support, it is necessary to change the conditions for providing and controlling the use of public funds.

In order to balance the economic, social, and environmental components of development, rational use of public finances and achieve public interests, it is necessary to change the vector of state support for the agricultural sector in favour of small producers. Firstly, the share of state financial support provided to small producers and households should be clearly normalised. Distribution of support should be carried out according to the contribution of each sector to the total production. Households together with farms produce 46.1% of agricultural products, including 50.2% of livestock products and 44.9% of crop production. This proportion should at least be maintained in the distribution of financial support.

Secondly, all recipients of budget support should be transferred to the general tax system and it is necessary to set a minimum support threshold for using tax benefits.

Thirdly, recipients of support in the amount of more than UAH 10 million need to set a mandatory minimum number of jobs created.

Fourthly, recipients of support, the total amount of which for three years amounted to more than UAH 50 million, must finance the community development fund, where production activities are carried out, in the amount not lower than the basic equalisation grant of the corresponding community.

Continuing the search for effective means of supporting agricultural producers, the Ministry of Agrarian Policy in 2022 introduced a programme for providing microgrants for the development of horticulture (for planting and arranging a new garden, berry patch, vineyard). With 30% co-financing, farmers and sole proprietors can become recipients. An additional requirement is the return of 50% of the

grant to the budget in the form of taxes and fees for 5 years [41]. Another grant support will be co-financing the development of greenhouses. Both private entrepreneurs and agricultural companies or farms that own or lease land for a period of at least 25 years can become participants of the programme. Under the terms of this programme, recipients will be required to pay 50% of the grant amount in the form of taxes and fees for 3 years and employ more than 40 employees.

Given the complicated conditions for receiving such assistance and the financial “exsanguination” of farmers in wartime, the programme is unlikely to be too popular. According to the organiser of the agricultural cooperative “Victory Gardens” Lubomyr Gaidamaka, “for the construction of a greenhouse farm on 1.6 hectares of closed ground, at least UAH 14 million is needed (excluding the cost of land and communications). That is, the proposed UAH 7 million is only 50% of the cost of the complex. And the most unrealistic condition for fulfilment is the creation of 40 jobs, while a maximum of 18-20 workers are needed for a greenhouse complex on 2 hectares” [42]. Given that 50% of the grant amount will need to be returned in the form of taxes, this type of state support becomes practically a loan for producers, and not grant assistance. The proposals to improve state support clearly highlighted the points regarding the mandatory creation of new jobs and the elimination of tax benefits. But it is necessary to start implementing these initiatives carefully, based on thorough calculations, and, of course, not in wartime.

► Conclusions

The agricultural sector as a system-forming sphere of the rural economy is also becoming crucial for rural development based on the principles of inclusivity. The main channels of influence are the creation of opportunities for productive employment, income generation for the rural population, and the establishment of budget revenues for territorial communities. At the same time, the efficiency of agriculture in terms of its social significance largely depends on state regulation, including state support.

To achieve the main goal of state support, namely, stimulating agricultural production and ensuring food security, conditions, requirements, and areas of financing are constantly being improved. At the same time, the adopted legislative innovations regarding the minimum standards for the amount of support and improvement of principles in favour of fair distribution of funds and prioritisation of small producers were not reflected in the practical plane. At the same time, the trend of supporting large-scale production remains unchanged. Public finances in Ukraine are too expensive a resource, and the

distribution of funds should be aimed at obtaining a synergistic effect. In particular, state support for the agricultural sector should promote its development on the basis of sustainability in compliance with economic, social, and environmental requirements. Currently, there are no requirements for compliance with social and environmental standards in the procedures for using support funds that regulate the conditions for receiving budget funds.

According to the results of the analysis of recipients of state support for the period 2019-2021, it was found that 66 companies out of a total of 19 thousand recipients obtained about 20% of support. At the same time, these producers, taking advantage of legislative gaps, avoid fair taxes, work in the shadows, concentrate extra-large areas of agricultural land and receive super-profits at the expense of budget funds, etc. Other farmers do not have enough financial resources, which restricts access to new technologies and equipment and makes it impossible to increase productivity and competitiveness. The existing system of state support not only does not contribute to compliance with the principles of inclusion, but also performs exactly the opposite role. Due to state support, the gap between the production opportunities of farmers, the profitability of their management increases, and the uneven development of the agricultural sector and rural areas as a whole increases. Rural communities, having a very valuable potential for agricultural production, remain subsidised and limited in financial resources.

Most studies on state support for the agricultural sector are devoted to determining the economic effects for producers, analysing the impact of additional financing on increasing production and increasing economic profitability. The authors of this study focused on the issues of public efficiency of public funds allocated to support the agricultural sector. In the context of a long-term budget deficit, in particular, aggravated by the conduct of military operations, the effect of using public funds should be multiplicative, and one of its mandatory manifestations should be the promotion of inclusive development of rural communities.

The changes proposed based on the results of the study in the system of distribution and use of state support funds, improving the conditions for its provision will contribute to the preservation of multilateralism of agriculture and the sustainability of food systems, expanding the circle of recipients and strengthening the financial stability of small producers, increasing revenues to local budgets, improving the efficiency of the use of public finances in terms of their public function, the establishment of sustainable foundations for rural development on an inclusive basis.

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Державна підтримка агросектора в контексті інклюзивного сільського розвитку

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► **Анотація.** Аграрний сектор як системоутворююча сфера сільської економіки стає визначальним для сільського розвитку на засадах інклюзивності. Вплив держави на розвиток сектора засобами фінансової підтримки має не лише сприяти посиленню виробничих потужностей та конкурентних переваг товаровиробників, а й позитивно позначатися на розвитку сільської місцевості та підвищувати можливості залучення населення у суспільне життя. Ці завдання актуалізуються в умовах тривалого бюджетного дефіциту, зокрема посиленого веденням воєнних дій та необхідністю спрямовувати державні кошти за напрямками з найбільшим мультиплікативним ефектом. Метою статті є дослідження впливу державної фінансової підтримки аграрного сектора на сільський розвиток з позиції дотримання принципів сталості та забезпечення інклюзивності соціально-економічного розвитку. Для досягнення визначеної мети використовувалися: загальнологічні методи аналізу і синтезу при опрацюванні нормативно-правових актів, які регулюють систему державної підтримки в Україні; статистико-економічні методи для групування отримувачів державної підтримки за різними статусами, програмами, напрямками; методи математичного аналізу для оцінки динаміки показників та виявлення закономірностей розподілу коштів підтримки, розрахунку залежності бюджетів територіальних громад від сільськогосподарського виробництва. Для візуалізації результатів дослідження використано табличний та графічний методи. Абстрактно-логічний метод застосовувався для узагальнення висновків та формулювання пропозицій. За результатами проведеного дослідження, у т.ч. на основі аналізу діяльності агрокомпаній, які протягом трьох років отримали найбільшу фінансову підтримку держави, обґрунтована суспільна нераціональність існуючого розподілу коштів державної підтримки, що спричиняє збільшення розриву між виробничими можливостями аграріїв, посилення нерівномірності розвитку аграрного сектора і сільської місцевості загалом. Здійснене удосконалення законодавчих норм не знайшло відображення у практичній площині, тож зберігається тенденція асиметричного розподілу коштів на користь великого бізнесу. Аргументовано необхідність впровадження низки змін у систему розподілу та використання коштів державної фінансової підтримки аграрного сектора, що стосуються нормативно-правового забезпечення та контролю за його виконанням, посилення вимог до отримувачів коштів в частині економічної та соціальної відповідальності для сприяння розвитку сільських територій на засадах інклюзивності. Однією з умов всіх програм, які фінансує держава, має стати пріоритетизація досягнення суспільного ефекту та підтримання сталого розвитку. Врахування запропонованих змін сприятиме збереженню багатокладності сільського господарства та стійкості продовольчих систем, розширенню кола отримувачів підтримки та посиленню фінансової стійкості малих виробників, збільшенню надходжень до місцевих бюджетів, підвищенню ефективності застосування державних фінансів з точки зору їх суспільної функції, досягненню синергетичного ефекту від використання бюджетних коштів в економічній, соціальній та екологічній сферах, формуванню стійких основ сільського розвитку на інклюзивних засадах

► **Ключові слова:** сільське господарство, фінансова підтримка, сталий розвиток, агровиробники