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# **PROBLEMS OF WORLD AGRICULTURE**

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## State Financial Support of Agriculture in Ukraine

**Abstract.** In recent years, Ukraine has allocated considerable financial resources for agricultural support according to their demands on the budget. However, the increase of domestic support has not substantially influenced the effectiveness indices of agricultural yields. This demonstrates the imperfect nature of the internal support mechanisms for Ukrainian agriculture. As a result, domestic support has not become an effective stimulus for increases in production quality or stock/breeding production. In 2013, Ukraine gathered its biggest grain harvest. This increase in production did not, however, improve the financial results for agriculture and did not produce stable and dynamic branch development due to the negative influence of the global financial crisis. An unbalanced supply and demand of agricultural production, low buying ability of inhabitants, and the lack of an effective mechanism of domestic support caused several problems with price in the domestic food market.

**Key words:** state support, agrarian policy, agriculture, Ukraine

## Introduction

Global economic practice considers state budgetary policy to be one of the most important instruments of state regulation for the redistribution of national income as a means of solving urgent tasks of the agricultural sector.

Budgetary financing of the agricultural sector has its own specific requirements, such as the financing of programs to support livestock, crop production, compensation of expenses for resources, programs of preferential lending, etc. Each agricultural support program is defined by its own goals and methods of implementation. However, the special approaches which should be used to estimate the effectiveness of budget expenditures are not really used in Ukraine.

Therefore, it is obvious that the state has the task of finding the most effective usage of budget funds, especially under conditions that limit such funds [Galushko 2006].

## Material and methods

The given research is based on general scientific methodology. The research process utilized such methods of scientific research as: system analysis and synthesis, monographic, abstract, logical, economically-mathematic, computational and balance methods.

In order to evaluate the effectiveness of agricultural policy and the level of domestic support for agriculture, we used the methodology which is applied to member-countries of the OECD. The methodology of quantitative estimation of state support has been

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substantiated in the works of such known scientists as Josling [1973], I. Tsakok [1990], A.J. Webb [1990], M. Lopes [1990], R. Penn [1990].

## **Results**

At the initial stage of the transformation of the economy, the policy regarding budgetary support for agricultural production was very conservative. It was closed to outside participation by other interested parties, and did not come under control of any of the public professional organizations that were established by agrarian enterprises. It did not become compulsory for budget administrators to report on annual expenditures until the Resolution of the Cabinet of Ministers of Ukraine of October 15, 2014, № 1378. This resolution approved the procedure for conducting public consultations on the formation and implementation of state policy.

From 2000 to 2011, funding for agriculture from the state budget increased more than 900%, from 1.2 to 10.5 billion UAH. The share of budget allocations as a percentage of total state budgetary expenditures for agriculture decreased from 3.5 to 2.8 %, while GDP increased from 0.7 to 0.8% during this period.

However, the significant growth in budgetary support during this period did not significantly affect the efficiency and competitiveness of agricultural producers, nor did it help the agricultural sector of Ukraine become a more attractive investment for domestic and foreign capital.

The agricultural sector received its largest allocation of government support (13 billion UAH) in 2008. Since that time, the government has been forced to cut expenditures on agriculture (about 9-10 billion UAH) due to a generally difficult economic situation and rigid budget cuts. In the last three years, funds were insufficient to meet the planned agricultural budget. In particular, the gap between planned expenditures and actual expenditures was about 26% and 27% in 2011 and 2012, respectively. The gap reduced to 21% in 2012, but it still remained too large to provide a favorable investment climate in the sector. In addition, there is a positive trend of gradual restructuring of state support towards “measures that stimulate growth” – that is, measures that do not distort trade or that cause minimal distortion (for example, research and training on agricultural subjects, programs for environmental protection and regional development, etc.), as opposed to measures that “slow growth” (production subsidies, price regulation tools). The total volume of production subsidies over the past seven years decreased by 70%, while the share of subsidies that “stimulate growth” in the total agricultural budget increased from 55% in 2007 to 84% in 2013 [Ogarenko 2013].

The two key sources of support for agricultural producers are: a) preferred treatment for Value Added Tax (VAT) payment, and b) Fixed Agricultural Tax (FAT). The FAT in particular, exempts agricultural enterprises from paying income tax. In nominal terms, the volume of these benefits rose from 1,5 billion UAH in 2001 to 18 billion UAH in 2012. At the same time, during 2001-2012, changes in the tax system were implemented which actually reduced significantly the real tax benefits for the entire sector.

The reduction in real tax benefits stems primarily from the failure to return VAT that was added onto the export of grains and oilseeds. According to estimates, failure to return VAT in exports has led to lower purchase prices of more than 9 million UAH: this means that the balance of tax benefits (including exemption from VAT and FAT) was only about

8,5 billion USD in 2012, since the return of VAT on export was not restored (partially) until 2014 [Sabluk, Saperovich 2014].

It can be seen, therefore, that any reform of the preferential taxation system that aims to reduce benefits and increase public revenues should be planned and implemented very carefully. It should consider the interests of various interested parties, thereby avoiding uncertainty for producers and traders. The first step in this direction was made in March, 2014. In particular, the base of FAT was extended, and this led to an increase of FAT from 6 to 19,2 UAH per hectare in average. Also the minimum rent for the land was increased [Ogarenko 2013].

At present, the acting structure of VAT collection is very important for agricultural producers, because its effect can be considered as twofold: on the one hand, there is no outflow of revenue from sales which can be aimed at current production needs; on the other hand, part of the revenues come back in the form of grants and are obtained through budgetary compensation [Shindyruk 2006].

The analysis suggests that the amount of support to agricultural producers has decreased in general, but there is a tendency to reduce direct budget subsidies and increase the amount of support through mechanisms of a special VAT structure for agricultural producers (Figure 1).

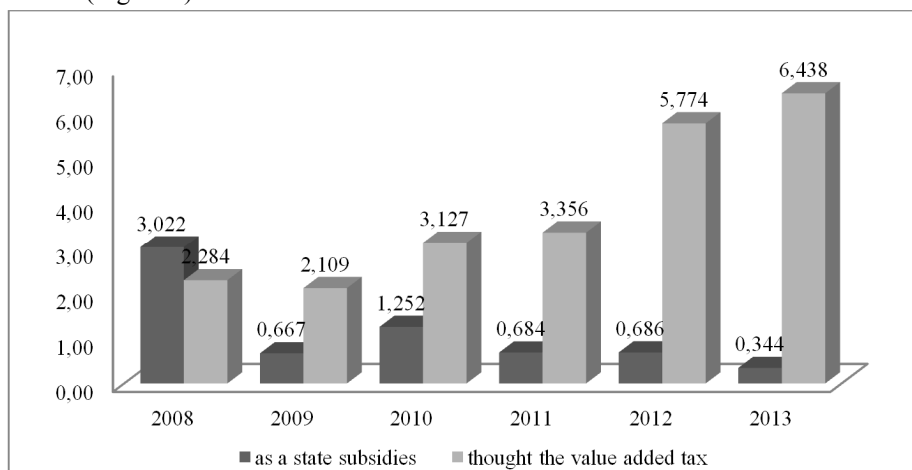


Fig. 1. The amount of state financial support for agricultural producers, billion UAH

Source: own edition according to the data State statistic service of Ukraine: [www.ukrstat.gov.ua](http://www.ukrstat.gov.ua).

During the analyzed period, the amount of subsidies for agricultural producers decreased from 3 billion UAH in 2008 to 300 million UAH in 2013. At the same time, the amount of support through special VAT structures increased from „2 billion in 2008 to 6,5 billion UAH in 2013.

The structure of state support to agricultural producers changed significantly during the analyzed period. Thus, budget subsidies accounted for 55 % of budget support in 2008, and their share was less than 5% in 2013. The majority of state support consisted of money that came to agricultural producers through the special VAT structure.

The above-mentioned comparison does not take into account the financial support given through the application of a special tax system for agricultural producers. This

amount is difficult to calculate given the fact that the amount of support should be compared with the amount of corporate income tax, the calculation of which is very complex and cannot be applied equally to all farmers.

In terms of percentage of state support to agricultural enterprises, Ukrainian crop production received about 60 % or 4034.4 million UAH, and livestock products received 40% or 2685.5 million UAH (Figure 2).

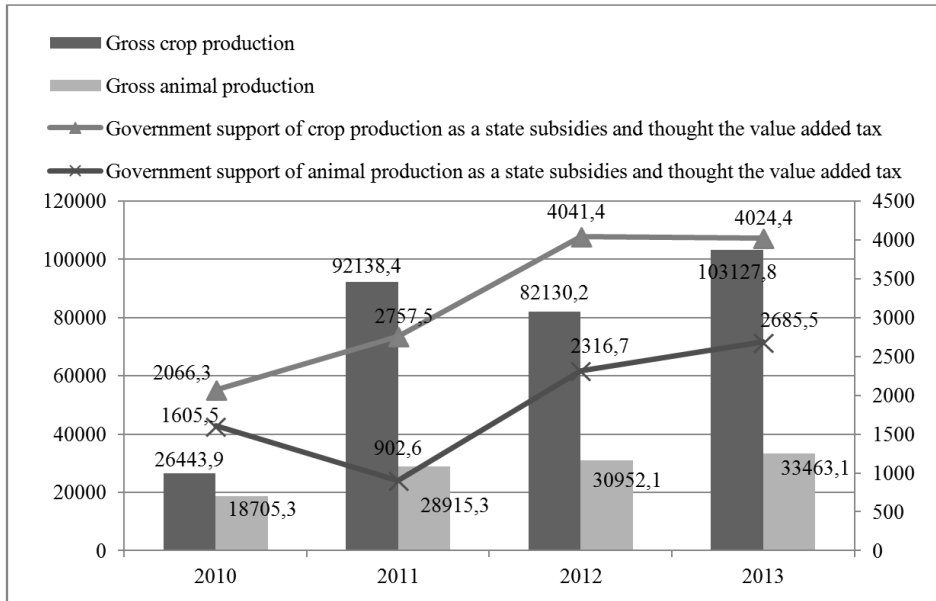


Fig. 2. Gross output of crop and livestock production in Ukrainian agricultural enterprises (in comparative prices) and state support through budget subsidies and special structure of VAT collection, in million UAH

Source: constructed according to the data State statistic service of Ukraine: [www.ukrstat.gov.ua](http://www.ukrstat.gov.ua).

The analysis shows that the increase in government funding for agricultural production in 2013 compared to 2011 did not affect the level of gross output significantly, especially for livestock products. Through subsidies to processing enterprises from VAT for sold milk and meat in live weight, agricultural enterprises received 2462.9 million UAH in 2013; this was two times more than in 2012 (Table 1).

Table 1. State support of livestock production in agricultural enterprises of Ukraine in terms of budget subsidies and special structure of VAT collection, million UAH

Products	2010 n.		2011 n.		2012 n.		2013 n.	
	1*	2*	1*	2*	1*	2*	1*	2*
Total, including:	169	1436.5	91.5	811.1	427.1	1889.6	222.6	2462.9
Milk	60.7	712.4	1.8	120.1	227.7	689.7	92.3	1104.6
Beef	47.4	115.7	33.9	47.2	71.9	137.0	52.9	207.8
Pork	47.7	117	4.5	128.9	114.5	175.1	21.6	288.4
Poultry	13.3	491.4	4.3	442.2	0.1	816.2	0.1	777.0

1\* – budget subsidies; 2\* – subsidies through special structure of VAT collection

Source: own edition according to the data State statistic service of Ukraine: [www.ukrstat.gov.ua](http://www.ukrstat.gov.ua).

The analysis indicates that per 1c of products, state support increased 1.29 times with an increase of milk purchase price of 1.28 times, on average, and an increase of the total cost of 1.33 in 2013 compared to 2010. (Table 2)

Average prices for beef increased by 1.18 times, the total cost – 1.33 times, and the amount of governmental support – 1.62 times per 1 c of products during the analyzed period. Average prices for pork increased by 1.27, the total cost – 1.17 times, and governmental support – 1.43 times. Average prices for poultry increased by 1.07 times, the total cost – 1.14, and governmental support increased by 1.56 times.

In conclusion, increments of the governmental support for all major types of livestock products outpaced the growth rate of purchase prices and total cost.

Table 2 The effectiveness of major types of livestock production in Ukraine

Pro- ducts	The average selling price of 1 c, UAH	Total cost of 1 c, UAH	Profit (loss) from sales of 1 c, UAH	Subsidies from VAT and budgetary supplements per 1 c, UAH	Including:		The level of profitabi- lity (loss ratio) without subsidies, %	The level of profitabi- lity (loss ratio) with subsidies, %
					Subsi- dies from VAT, UAH	Budgetary supple- ment, UAH		
2010								
Milk	269,8	228,9	40,9	40,8	37,6	3,2	17,9	35,7
Beef	896,1	1397,2	-501,1	85,0	60,3	24,7	-35,9	-29,8
Pork	1220,4	1323,7	-103,3	52,8	37,5	15,3	-7,8	-3,8
Poultry	989,3	1034,4	-45,1	464,9	452,6	12,3	-4,4	40,6
2011								
Milk	313,1	264,3	48,8	6,2	6,1	0,1	18,5	20,8
Beef	1196,7	1590,9	-393,2	55,4	27,7	27,7	-24,7	-21,2
Pork	1364,8	1417,6	-52,8	35,8	34,6	1,2	-3,7	-1,2
Poultry	1038,0	1247,1	-209,1	635,2	629,1	6,1	-16,8	34,2
2012								
Milk	272,7	266,5	6,2	41,6	31,3	10,3	2,3	18,0
Beef	1236,9	1754,9	-517,9	125,3	82,2	43,2	-29,5	-22,4
Pork	1594,1	1562,6	31,5	81,7	49,4	32,3	2,0	7,2
Poultry	1121,0	1207,9	-87,0	762,1	762,0	0,1	-7,2	55,9
2013								
Milk	345,8	304,3	41,5	52,5	48,5	4,1	13,6	30,9
Beef	1053,7	1857,6	-803,9	138,1	110,1	28,0	-43,3	-35,8
Pork	1552,6	1549,7	2,8	75,7	70,4	5,3	0,2	5,1
Poultry	1057,7	1174,6	-116,9	725,6	725,5	0,1	-10,0	51,8

Source: Own edition according to the data State statistic service of Ukraine: [www.ukrstat.gov.ua](http://www.ukrstat.gov.ua).

According to the data (Table 2), due to an increase of governmental support, the efficiency of livestock production managed to increase slightly. However, beef production is unprofitable in Ukraine.

The analysis shows that the government spends more money in supporting poultry production than beef and pork production. Per 1 kg of poultry governmental support of agricultural enterprises through special structure of VAT collection increased almost 1,6 times from 2010 to 2013. (Figure 3)

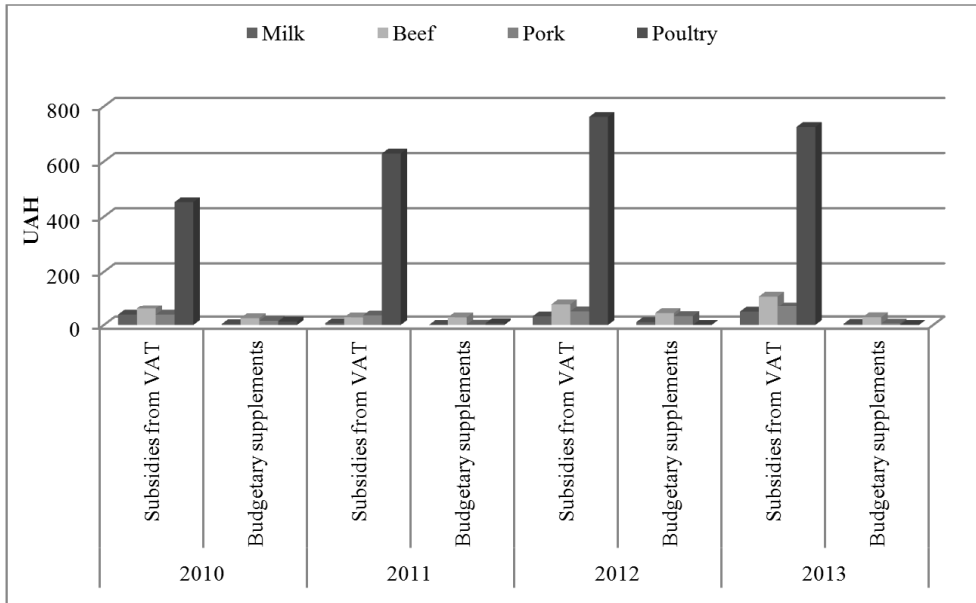


Fig. 3. Governmental support for major types of livestock production in agricultural enterprises of Ukraine through budget subsidies and special structure of VAT collection per 1 c, UAH

Source: own edition according to the data State statistic service of Ukraine: [www.ukrstat.gov.ua](http://www.ukrstat.gov.ua).

However, poultry production in agricultural enterprises would remain unprofitable without governmental support. Despite the increase of governmental support poultry production has remained unprofitable since 2007.

## Conclusion

Our analysis shows that state subsidies to agricultural producers were increased significantly from 3 billion in 2008 to 6.5 billion in 2013 during years 2008-2013. The mentioned increase in governmental support for agricultural producers allowed them to significantly increase profitability, and as a result, contributed to the dynamic development of agricultural production.

There were significant changes in the structure of financial support for agricultural producers. Thus, if the state financial support in 2008 was carried out mainly by direct payments from the budget in favor of agricultural producers (about 60% of total support), in 2013 the situation was radically different. More than 90% of the total support was implemented through the mechanism of VAT. Thus, the volume of direct budget payments to agricultural producers was almost neutralized, and the role of financial support through the VAT mechanism became dominant. It should be noted that financial support through the mechanism of VAT is available for tax payers of VAT and consequently small farmers, which are not registered as VAT payers, were deprived of any financial support in most cases.



Dynamic development of agricultural production in Ukraine occurred mainly due to increases in crop volume, while there was a decrease in livestock animals. The main livestock products were produced by small farms and family farms; this is a characteristic feature of the livestock industry. Small and family farms are not able to receive assistance through the mechanism of VAT, as they are not subject to the VAT tax, thereby reducing the direct financial support.

In addition, the number of budget programs for financial support for agricultural producers saw a targeted decrease during the years 2008-2013.

Thus, there was a transition from targeted financial support for agricultural producers to total overall support without industry-specific recipients, which contributed to a substantial increase in crop production.

This should draw attention of those who allocate public financial support for agricultural producers to those who really need such support, because there is a situation where those producers who are already operating profitably get more financial support through the mechanism of VAT, and small farmers and family farmers end up with a lack of governmental financial support.

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