

REALITIES AND PROSPECTS OF MANAGING THE DEVELOPMENT OF AGRICULTURAL BUSINESS IN UKRAINE

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Abstract

The world's food security largely depends on the stability of agri-business worldwide, but mainly in the main producing countries of agri-food products. The purpose of the study is to determine the current realities and opportunities for the development of agrarian business in Ukraine in crisis conditions for the development of effective strategies and promising growth of the agrarian sector. Research methods: monographic, abstract-logical methods, method of analogies and comparisons, systematic approach, statistical and graphic methods. In the course of the study, it was determined that in 2022, a significant number of agricultural enterprises suffered losses as a result of the system challenges. The loss of 15-20% of cattle, pigs, and poultry, and the loss of production facilities and animal husbandry complexes led to a reduction in production in both the crop and animal husbandry sectors. The article highlights the exogenous and endogenous risks of the functioning of the agricultural sector. Internal risks include loss of production and resource potential of the agricultural sector; the liquidation of a significant number of agrarian business enterprises; change of specialization due to significant economic losses; loss of part of the infrastructure facilities for storage and primary processing of agricultural products; difficulty in selling products to foreign markets. Exogenous risks are described, in particular, the reduction of investments in agricultural production, problems with the purchase and import of fertilizers and plant protection products into the country, and delays in the purchase of modern agricultural machinery. It was noted that the presence of the listed external risks will have a negative impact on the country's economy and food security. The actions of the government for the sustainability of agrarian business are described, namely, the restoration of the export of agricultural products by sea, the development of alternative logistics networks for export, solving the problems of the seed company, and providing the possibility of special credit programs and tax holidays. The main problematic issues that the government needs to solve to ensure the stability of the agrarian business and the possibility of its further effective functioning are presented.

Key words: agrarian business, risks, tax holidays, sustainable development, innovative entrepreneurship, preferential lending

INTRODUCTION

The agricultural business of Ukraine is one of the key sectors of the country's economy.

Ukraine is recognized as an important producing and exporting country of agri-food products in Europe.

The great potential of agriculture, significant cultivated areas, and favourable climatic

conditions for the cultivation of various crops make it possible to conduct business effectively.

The economic crisis, which started since the end of 2021 and continued in 2022, has affected all spheres of activity, in particular, the agrarian direction. The government and Ministry of Agriculture make huge efforts to

sustain agriculture taking into account its importance in supplying agri-food products to cover the needs of the domestic and international market.

The agricultural sector plays a significant role in achieving this goal: ensuring the functioning of business, supporting the country's economy, providing the basic needs of the population, and providing jobs – all this can be done by the agricultural sector in conditions of systemic risks. However, the agricultural sector of Ukraine has its own risks, problems, and unresolved questions for the government.

Many scientists are engaged in the study of the state of the agricultural sector of Ukraine and the analysis of the dynamics of its development, in particular, scientists I. Lazaryshyna [2], A. Nikolaeva [5], T. Shmatkovska [7, 8], I. Voronenko [11] studied the main problems of the pre-war agricultural sector that prevented further effective activities of the sector, analyze the impact of the financial crisis on the functioning of the agrarian sector. Leading specialists of the National Institute of Strategic Studies [4] are studying the potential of the agro-industrial complex in conditions of systemic risks, researching the directions of state policy to protect the Ukrainian economy. Despite the conducted research, the question of assessing the impact of the financial and economic crisis on the agrarian business of Ukraine and its further development remains insufficiently studied, which led to the choice of the research direction of this article.

In this context, the aim of the study is to determine the current realities and opportunities for the development of agrarian business in Ukraine in crisis conditions for the development of effective strategies and promising growth of the agrarian sector.

MATERIALS AND METHODS

Scientific works of domestic and foreign scientists dedicated to the study of the state of the agricultural sector of Ukraine and the analysis of the dynamics of its development

served as the theoretical and methodological basis of the study.

To achieve the goal, modern research methods were used: system analysis – in the study of the theoretical and methodological foundations of the functioning and development of agrarian business; monographic and abstract-logical method for revealing the analytical potential of the agricultural sector; the method of analogies and comparisons – when comparing various processes and trends regarding the development of agrarian business in Ukraine. The systematic approach made it possible to identify exogenous and endogenous risks of agrarian business during 2022. The use of statistical and graphic methods allowed us to display the rate of export of grain and oil crops, as well as the number of agricultural producers who took advantage of the preferential credit program.

RESULTS AND DISCUSSIONS

The powerful agricultural and production potential of Ukraine ensures the stability of food security not only in its territory but also in a number of countries around the world. During 2022, the total number of economic entities of the agro-industrial complex, that suffered losses as a result of the systemic risks, is 2,653 units.

A significant reduction in the area of arable land and perennial plantations was observed by 1.9 million hectares and 9 thousand hectares, respectively [3]. Today, the problem of non-compliance by land users with protection requirements is quite acute, which can have serious consequences for the environment and natural resources. Below are some of the possible effects of this loss of control:

- decrease in soil quality;
 - pollution of water resources;
 - loss of biodiversity;
 - loss of recreational and cultural values.
- All these led to the reduction of cultivated areas, as a result of which the volume of crop production decreased by 35-40%. If the problems of the agrarian industry are not

systematically solved, the area planted under grain crops may decrease by 45%.

According to the Ministry of Agrarian Policy, 15-20% of cattle, pigs, and poultry have been lost in the livestock industry over the past year. These most affected business formations in Chernihiv, Kharkiv, Sumy, Kyiv, Donetsk, Luhansk, Mykolaiv, Kherson, and Zaporizhzhia regions, where at the beginning of 2022 all categories of farms were concentrated: cattle population – 25.3%, cows – 25.8%, pigs – 31.5%, sheep and goats – 28.2%, poultry – 24.9%. The production of animal products in these regions was: meat – 20%, milk – 28.7%, and eggs – 44.8% [10]. Analyzing the given figures, we can conclude that there was a significant reduction in production in both industries, which in turn slows down the conduct of agrarian business. The next step of our research will be the identification of endogenous and exogenous risks in the functioning of the agricultural sector (Fig. 1).

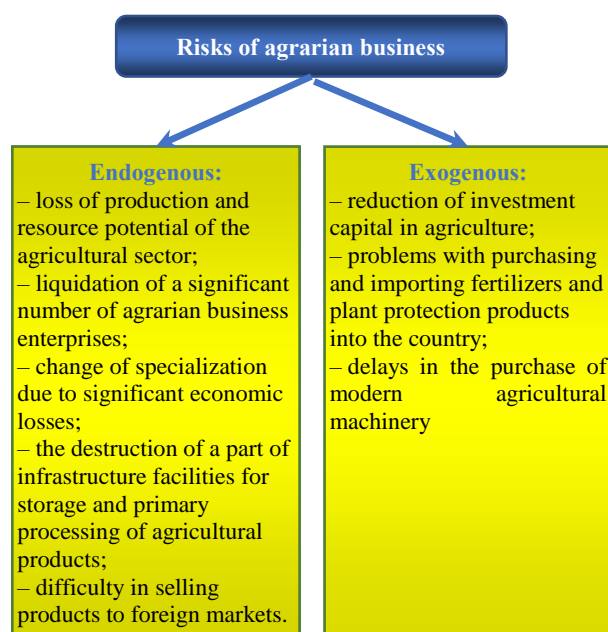


Fig. 1. Agricultural business risks during 2022
Source: grouped by authors based on sources [1; 4; 9].

One of the main risks of agrarian business is the loss of production and resource potential of the agricultural sector. As mentioned above, this is a significant reduction of agricultural land, which made it impossible to carry out agricultural activities (in 2022,

compared to 2021, the total sown area decreased by 20%). The decrease in productivity and deterioration in the quality of agricultural land is caused by a decrease in the number of fertilizers and plant protection products. According to experts' estimates, the domestic consumption of nitrogen fertilizers in 2022 decreased by 40–55% – from 4.75 million tons to 2–2.9 million tons [10].

Failure to comply with technical standards leads to their removal from cultivation for a long time, and this is a third of the territory, which is classified as a zone of risky agriculture, which will require significant funds for their return to active use by farmers. Systemic risks had a negative impact on the capital of the agribusiness sector, in particular, the costs of production capacity increased – more than 1.6 billion USD, in livestock complexes – more than 1.5 billion USD [3].

The liquidation of agrarian business enterprises or a change in their specialization should be singled out as a separate risk. A significant number of workers in this field and farmers were forced to stop their activities (more than 150,000 people). There were problems related to grain storage infrastructure. According to estimates, the deficit of storage capacities (10–15 million tons) due to the closing of granaries increased to 20 million tons [4].

Considering the various consequences of the liquidation of agribusiness enterprises, it is important to conduct a thorough analysis and develop effective strategies that ensure the balanced development of the sector and minimize the negative impact.

During the studied period, there was a reduction in investment in agricultural production. There are problems with the purchase and import of fertilizers and plant protection products into the country and delays in the purchase of modern agricultural machinery. The presence of the listed external risks will have a negative impact on the country's economy and food security.

As of January 1, 2023, the direct losses of agricultural producers are estimated at 7,832.4 million dollars. At the same time, great hopes

are placed on the agricultural sector. Therefore, it is appropriate to highlight the actions of the government for the sustainability of the agrarian business:

- «Grain corridor»;
- logistics in conditions of blockade of ports;
- solving the problems of the seed company;
- financial support;
- lending;
- tax holidays.

An important achievement of the government was the restoration of the export of agricultural products by sea, the so-called «grain corridor», this happened on August 1, 2023. In this way, Ukraine was able to export more than 3.5 million tons of agricultural products to the countries of Asia, Europe, and Africa. Figure 2 shows the rate of export of grain and oil crops from March 2022 to March 2023.

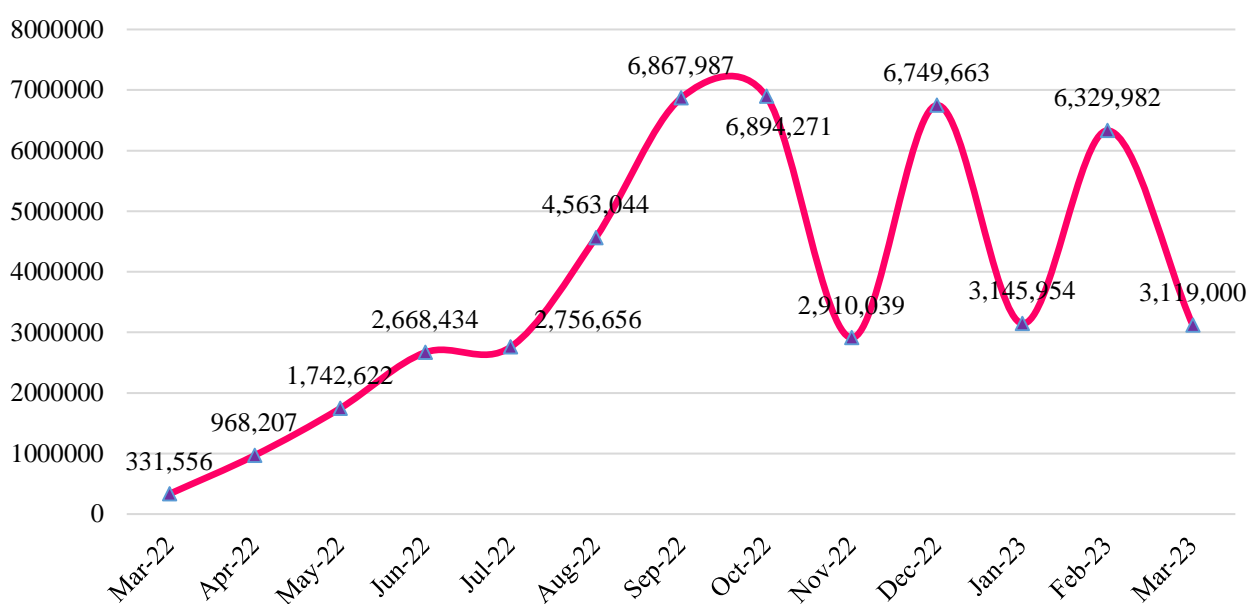


Fig. 2. Export rates of grain and oil crops during March 2022 – March 2023.
 Source: [10].

From this figure, we can see that it was precisely from August that the growth of exports took place. In November 2022 and January 2023, due to the influence of systemic risks, we notice a sharp drop in the curve. Since the beginning of March 2023, 3,119 tons of agricultural products have been exported. We hope that this indicator will increase until the end of the year and will be within the previous level.

Therefore, the Government is carrying out all the necessary work so that the ports of “Great Odesa” to export 3-4 million tons of agrarian business products every month. Note that before 2022, the volume of such cargo amounted to almost 5 million tons per month. This suggests that under such difficult conditions, the economy of Ukraine receives billions of profit from the agrarian business.

The business community is making every effort to reach agreements with Romania and Bulgaria for exports through their seaports. Another logistics direction is railway communication, but, in this respect, significant funding is needed to expand the railway infrastructure network of both Ukraine and neighbouring countries.

The sowing campaign remains an urgent problem for the Government. In this field, a number of measures have been taken, among which we can highlight the following: the processing of the necessary licenses and certificates has been minimized, the import of agricultural plant products has been simplified, the principle of extraterritoriality has been introduced, a zero rate of excise tax has been introduced and VAT has been reduced to 7% on fuel, work with pesticides

and agrochemicals has been simplified, provided the possibility of operating tractors, self-propelled chassis without their registration. These innovations will certainly have a positive effect on the sowing, but the work to ensure the functioning of the agricultural sector must remain systematic and planned. In particular, the problem of the sharp rise in fuel and fertilizer prices remains relevant, which requires additional government measures to solve it.

Agricultural business needs financial assistance from the state. Therefore, the Government adopted the resolution «On Amendments to Certain Acts of the Cabinet of Ministers of Ukraine on Providing Credit Support to Agricultural Producers» [5], which defines financial support for farmers. This resolution is more intended for small and medium-sized enterprises with a turnover of no more than 20 million EUR per year, and which cultivate up to 10,000 hectares of land. The point is to compensate the interest rate on borrowed loans. The maximum amount of the loan, which is subject to interest rate compensation, is up to UAH 50 million.

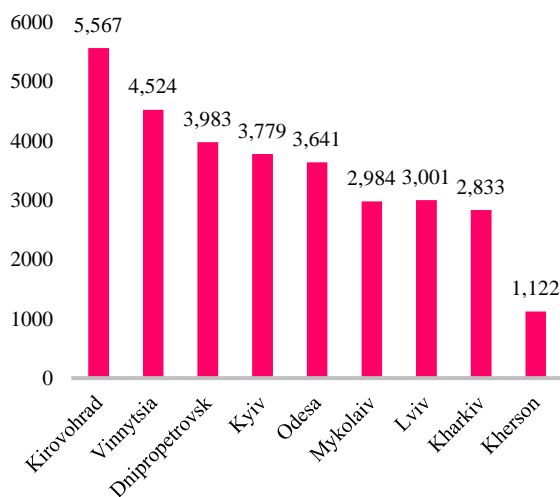


Fig. 3. The number of rural commodity producers who used the «5-7-9 Available Loans» program by region, 2022.

Source: calculated by the authors based on [10].

Lending should be considered as an integral part of the effective functioning and development of agrarian business. The program «Affordable Loans 5-7-9» became a

significant support for agricultural producers. The availability of such loans at a normal rate with partial compensation from the state and also with state guarantees has attracted considerable interest from agricultural enterprises (Fig. 3).

From Figure 3, we can see that quite a large number of enterprises in the agrarian sector throughout Ukraine received credit funds, which they use for the purchase of seeds, fertilizers, fuel and lubricating materials for preparation for sowing and harvesting, for the payment of wages to employees, etc. Opportunities to obtain credit under such conditions allow the agrarian business to support the national economy, creating demand in related industries and providing jobs in the countryside. It should be noted that today this industry provides the lion's share of foreign exchange earnings and maintains the UAH exchange rate. However, the government's promise to extend this Program in 2023 has not yet been put into practice, so farmers are forced to return last year's loans.

In general, according to the program, one business entity received a preferential loan in the amount of UAH 90 million for a term of up to 12 months. If the government does not continue the program, farmers will need to return about UAH 38 billion in loans. And this is on the eve of the start of sowing campaign, for which it is additionally necessary to attract about 40 billion UAH.

A positive moment is the tax holiday from the Government. Law No. 2120-XX [6] declares non-assessment and non-payment of land tax and rent for land plots of state and communal forms of ownership for certain preferential categories of enterprises.

Today, agrarian business is an extremely important direction of food and financial independence therefore, for its full functioning; the following key issues must be resolved:

1. To provide conditions for farmers to carry out all the necessary fieldwork. It is worth involving representatives of the EU to support Ukrainian farmers and facilitate the implementation of spring sowing.

2. Contribute to the restoration of the animal population and the reconstruction of livestock complexes. The government needs to appeal to partner countries and international organizations so that the latter introduces specialized grant programs aimed at the purchase of young animals by domestic farmers, their vaccination, the construction of family-type livestock farms, and also provide funding for such programs.

3. Ensure uninterrupted the «grain corridor». It is also important to expand the grain initiative to the Mykolaiv port hub, as well as to include in the agreement the possibility of importing mineral fertilizers to Ukrainian ports.

4. Adapt the agrarian policy of Ukraine to the relevant provisions of the Common Agrarian Policy of the EU, and promote bringing domestic legislation in this area into compliance with the requirements related to Ukraine's accession to the EU. At the same time, legislative and normative legal acts, which will be difficult for agrarians to implement under today's conditions, should be adopted with a delayed implementation period.

5. To make a decision on the extension of the «Affordable 5-7-9 Loans» program and to increase lending limits from 90 million to 180 million UAH per enterprise.

If the Government solves these problematic issues, the agrarian business will be able to work effectively and will have the opportunity to fill the state treasury.

CONCLUSIONS

The agricultural sector plays an important role in providing food, production of raw materials for industry, export of agricultural products, and provision of vital needs of the population. It ensures the development of rural areas, occupies a significant share of the labor force and has a great influence on the country's economy.

Overcoming the main risks of the agrarian sphere, namely the loss of the production and resource potential of the agro-industrial complex, the high level of soil pollution and

degradation, the forced liquidation of agrarian business enterprises, and the reduction of investments will enable agrarian business to function effectively and ensure food security. The development and modernization of the agricultural sector is an important task for ensuring the productivity, efficiency and sustainability of this industry. For this, the government needs to ensure the implementation of a complex of field works, to contribute to the restoration of the animal population and the reconstruction of livestock complexes, to adapt the agrarian policy of Ukraine to the relevant provisions of the Common Agrarian Policy of the EU, to promote the bringing of domestic legislation in this area into compliance with the requirements related to Ukraine's accession to the EU, to make a decision on the extension of the «5-7-9 Affordable Loans» program and to increase the lending limits from UAH 90 million to UAH 180 million per enterprise. We hope that the state leadership will solve all problematic issues of agrarian business as effectively as possible and provide the population with the necessary food products.

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