

## SMALL AGRIBUSINESS IN UKRAINE

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### Summary

*Today, small farmers perform the most important functions to support the economy of the country – such as providing food and accommodation to people, especially for internally displaced people, who have suffered from the invasion. Farmers continue working despite the insane risks to their own lives. It is the households that do not allow the Ukraine's food system to collapse.*

*The purpose of the study is to characterize the features of the small business functioning in the agricultural sector of Ukraine's economy. Research methods are monographic, statistical, graphical and tabular, method of comparative analysis.*

*In the production of agricultural products, households rely mainly on their own resources, and their products are mainly aimed to self-sufficiency and partial sale in local markets. Before the full-scale war, small producers produced about 40% of the total volume of Ukrainian agricultural products, not participating in state support programs. There are many obstacles in Ukrainian law for small farmers to receive the financial support they need. In fact, farms that have up to 50 hectares of agricultural land remain outside the state support system. In the near future, it is necessary to include small farmers in state support programs, as has long been introduced in EU member states, where small farms are the leading organizational and legal form of the agricultural sector.*

*In 2022, the decline in production of small producers in rural areas, from which the population was not completely displaced as a result of military activities, will be insignificant. This partially compensates for the loss of production by large agricultural enterprises. Household activities are tied to a specific rural area, and field or farm work cannot be postponed. However, production volumes will decrease in some regions due to internal and external displacement of rural residents from areas that are under full or partial control of the occupiers.*

**Keywords:** *small farmers, agricultural products, agricultural sector.*

**JEL:** *Q1; Q12; Q18.*

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**Introduction.** Small business, in particular agrarian, plays an important role in dealing with current socio-economic issues in the development of Ukraine's economy. The essence and importance of small business are the following: it is a socially significant sector of the market economy; it is the basis of a small-scale production; it ensures freedom of market choice, saturation of the market with

consumer goods and services of everyday demand, introduction of innovations, additional jobs; it has high mobility.

Activity of households plays an important role in the process of agricultural production. It is the resistance of individual farm to unfavorable changes in the environment, its flexibility and adaptability, focus on meeting own needs, makes it an integral part of the agricultural market. Its activity partially contributes to solving village social problems, establishing sustainable development of rural areas and supporting the income of rural population. A third of the total population lives in rural areas of Ukraine.

The main products, which are produced in households, are sold in small batches as agricultural raw materials at extremely low prices to intermediaries or directly to processors of agricultural products on the domestic market. This is due to the fragmentation of small farms and, as a result, the inability to compete with large agricultural producers.

After the invasion of Russian troops on the territory of Ukraine, households demonstrated their key role in preservation and development of local markets and food supply chains, thus proving the sustainability and possibility of ensuring the existence of small producers.

**Literature review.** The agricultural sector occupies an important place in the national economy, where the main areas of production significantly depend on natural conditions, resources and biological factors. The development of agricultural sector contributes to the following: growth of material well-being of the people, export potential of the country, strengthening the economic and food security of the state. The share of the agrarian industry in the consolidated budget of Ukraine in the pre-war years was on average 20%, and in the product structure of exports – it was more than a 25%, ensuring the leading positions in the world market of sunflower oil, the second place was – in the export of cereals. Ukraine confidently takes one of the leading places in the agrarian sector of the world economy, constantly increasing both the volumes of agricultural production and the volumes of its export in compliance with food safety standards.

The structure of agriculture of Ukraine includes: corporate sector consisting of large agricultural enterprises (including agricultural holdings) with a significant share of foreign capital, focused on the constant expansion of monoculture and export, and private (individual) sector, which is focused on traditional goods and the domestic consumer market, ensuring domestic food security.

Development of small business in the agrarian sector has become especially relevant with the start of economic reforms, changes in socio-economic orientations and the creation of conditions for entrepreneurship among active citizens. The problems of formation and functioning of small agribusiness were studied by such Ukrainian scientists as O. Amosov, D. Krysanov, P. Makarenko, M. Malik, V. Mesel-Veseliak, O. Shpychak, O. Onyshchenko, P. Sabluk, M. Sakhatskyi, V. Yurchyshyn and others.

Small and medium-sized businesses are structural element of the agricultural sector of the Ukrainian economy. Small agribusiness is households that usually independently determine the direction of their activity. The main features of the small business in the agrarian sector are: personal participation of the family or its members

in the implementation of the activity; small volumes of production or provision of services; intuitive nature of entrepreneurial activity, lack of strategy for the future; use of unskilled or low-skilled labor (low level of education, lack of professional skills); informal nature of relationships in the course of conducting their activities; high dependence on natural and climatic factors that determine the seasonality of production; high probability of risk, which complicates access to financial and credit resources; weak support or its absence from the state (Bondar, 2010).

**Research methodology.** For the research, it has been used data by State Statistics Service of Ukraine. In carrying out this study, general scientific and comparative methods were used.

**Main results.** *The place of small agribusiness in the food supply of Ukraine.* The agrarian transformations that have taken place in Ukraine in recent years have led to an increase in the gross production of agricultural products. However, this did not contribute to the socio-economic development of rural areas and raising the standard of living of the rural population. Nowadays, there is a need for a comprehensive approach to solving the problems of the rural areas development, which is based on the principles of sustainable development.

The Ukrainian authorities officially recognized that the agrarian sector of the economy (the basic component of which is agriculture) forms food, to a certain extent economic, ecological and energy security, ensuring the development of technologically related branches of the national economy and the creation of socio-economic conditions for rural development (Cabinet of Ministers of Ukraine, 2015).

Small farms are the least protected and competitive in the market, but at the same time they have a significant share in the production of certain types of agricultural products and are the main activity for many rural residents.

The main factors that significantly hinder the development of small agrarian business, as evidenced by practice, include: imperfection of the legislative framework; imperfection of the mechanism of interaction between the state and small business entities; low level of availability of credit resources; insufficient level of development of the innovation base, which makes it impossible to use modern technological equipment, etc.

Small business entities in the agrarian sphere have a number of significant advantages along with more powerful forms of management, namely: quick response to changes in the market; main source of innovative ideas in production; certain advantages in marketing and sales conditions due to personal contact with the consumer; combination of an entrepreneur (owner), a manager and an employee in one person, which ensures the best alignment of interests and maximum motivation in achieving the goals of activity (Boyko, Krupa, 2019), and also focus on organic production; observance of agriculture culture and ecological production; exert a positive impact on the development of rural areas, etc. (Samoylik, 2015).

Large farms retain leadership in the production of cereals (wheat, barley, corn) and industrial crops (sunflower), whereas small agribusiness is engaged in the cultivation of labor-intensive crop products, which require partial involvement of special equipment and production technologies, namely potatoes, vegetables, fruits and berries. Before the full-scale war, small commodity producers produced about 40% of the total volume of Ukrainian agricultural products, including more than 3/4

of all potatoes, vegetables, fruits and berries, as well as 2/3 of dairy raw materials without participating in state support programs.

The majority of vegetables and melon food crops are grown by small producers. If in 1990 their share in crops was 26.4%, in 2021 it was 93.5%. In Ukraine, the further development of vegetable growing in households will be carried out on small areas, but in a wider range than at present. The production of vegetables by large producers will be reduced to the cultivation of the required number of the most technological vegetable crops for sale to harvesting and distribution organizations, on spontaneous and organized markets and supply of raw materials to the industry.

In addition, the advantage of households in the production of livestock products is indispensable. In 2021, according to the State Statistics Service of Ukraine, they produced 67,873 tons of honey (or 99.0% of the total volume), 5,946,200 tons of milk (68.2%), and 7,058.5 million eggs (50.2%), 717.9 thousand tons of meat (or 29.4% of the total volume), etc.

Dairy farming is one of the strategic branches of animal husbandry in Ukraine, which determines the food security of the state and the quality of food for the population. Its main importance in the national economy is determined by the fact that dairy products are one of the sources of high-calorie food, as well as raw materials for the food industry. Milk and dairy products occupy a significant part in the diet of the vast majority of the Ukrainian population and belong to the basic necessities. Thus, a stable supply of these products to consumers is an important condition for achieving food security.

In recent years, the situation in the field of dairy cattle breeding is characterized by a reduction in the number of dairy cows and the production of dairy raw materials mainly by households. Currently, the problems of increasing milk production and improving its quality in order to fully meet the needs of the population of Ukraine are being actualized.

*Agriculture under martial law.* The war started after February 24, 2022, after the attack of the Russian Federation on the territory of Ukraine. Currently, active military operations are being conducted on a large territory of the country with the involvement of a large amount of material and human resources. As a result of the full-scale invasion of Russian troops on the territory of Ukraine, farmers found themselves in difficult and sometimes critical conditions. Agricultural production is not possible in temporarily occupied territories and in areas where hostilities are taking place.

The Russian invasion led to colossal direct losses: damage and destruction of agricultural machinery, mining of a certain part of agricultural land, migration of the rural population, all of this currently cannot be finally assessed. Even greater losses are of a collateral nature: destruction of logistics, supply chains, partial blocking of ports led to huge losses in the agricultural sector.

In 2022, there will be a decline in production volumes of almost all types of agricultural products due to the lack of physical ability to conduct agricultural activities in the regions affected and suffering from hostilities; temporary absence of the possibility of restoring the work of destroyed and damaged factories; lack of and limited access to material and technical resources; changes in the structure and reduction of cultivated areas of agricultural crops; damage to plantations and crops;

increasing risks of loss of means of production, harvest, livestock and finished products, etc. It is predicted that the harvest of 2022 may be 40% lower compared to 2021 (Ucab, 2022).

Military actions and limited access of producers to resources will have a negative impact on the production of agricultural products in all regions of the country, but those areas where hostilities are taking place will be the most affected. The production of grain crops will decrease the most in Kharkiv, Sumy, and Chernihiv regions, and of vegetables, fruits, berries, melon crops, poultry products, and oil crops in Mykolaiv, Kherson, and Zaporizhzhia regions. The war significantly complicated the functioning of large-scale agricultural production due to the blocking of agricultural product sales markets, environmental disasters on livestock complexes, etc.

In the conditions of hostilities, the primary task of the Ukrainian agricultural sector was to provide the population with agricultural products and food. Farmers and households provided food for both their own families and internally displaced persons, thus proving the sustainability and possibility of ensuring the existence of small producers. During the introduction of martial law, when store shelves were empty, urban retail food markets did not work, households became almost the only supplier of vegetable and dairy products for the local population.

In 2022, the decline in production of small producers in rural areas where the population was not completely displaced as a result of military actions, will be insignificant, which partially compensates for the loss of production by large agricultural enterprises.

Household activities are tied to a specific rural area, and work in the field or on the farm cannot be postponed indefinitely or delayed. However, production volumes will decrease in some regions as a result of the internal and external displacement of rural residents from areas under full or partial control of the occupiers. In Ukraine, in the spring and early summer, the issue of providing vegetables has already arisen. Before the full-scale war, this function was performed by the southern regions. Due to the occupation of Kherson region, Ukrainians experienced a shortage of vegetable products and high prices for radish, potato, tomato, cucumber, and cabbage.

One of the positive examples of the dairy industry development in the realities of war is the creation of a network of mini milk processing workshops, as well as cluster associations of milk producers and processors in the communities of Sumy region. To implement ideas in the region it is planned to transfer 500 Simmental cows to private peasant farms and attract UAH 73.9 million (1.8 thousand USD) within international and state aid. Attracting grant funds will make it possible to increase competitiveness and increase the volume of dairy processing products, in particular due to the active implementation of innovative technologies, improving the safety and quality of food products, increasing their range and creating conditions for healthy competition in the food market (Milkua, 2022).

*State support for agriculture in Ukraine.* State support of the agrarian sector of the economy is one of the forms of state regulation, as well as the main mechanism for the implementation of state policy in the agrarian sphere, which is accompanied by the creation of favorable economic, organizational, legal and other conditions for

the development of agrarian production, which is provided by financial and material resources (Petlyuk, Medvedkova, 2021).

The purpose of state support is to promote the economic efficiency of agricultural enterprises, the development of agricultural product markets, the creation of jobs in rural areas, the observance of ecological production standards, and the representation of national producers on world markets.

Agricultural production in the majority of developed countries is subsidized. Providing subsidies to the agricultural sector contributes not only to maintaining competitiveness, but also to ensuring the sustainable development of rural areas and creating conditions for comfortable living and working of rural residents.

To ensure state support of Ukrainian agricultural producers, the Law "On the State Budget of Ukraine" annually provides a certain amount of funds for a number of budget programs, the implementation of which is carried out in accordance with the Procedures for the use of funds, approved by resolutions of the Cabinet of Ministers of Ukraine (Government).

In particular, the Procedure for the use of funds allocated in the state budget for financial support of agricultural producers, approved by Resolution No. 77 of the Cabinet of Ministers of Ukraine dated 08.02.2017 (with amendments), establishes a list of areas of state support that can be implemented during the budget year under the budget program "Financial Support to agricultural producers". The allocation of funds between specified areas is established by the order of the chief administrator of budget funds and may change during the budget year depending on the actual volumes of their use.

In 2021, the adoption of amendments to the Law of Ukraine "On State Support for Agriculture in Ukraine" made it possible to declare at the legislative level the principles of transparency, predictability and fairness of state support for agricultural producers, to determine its priorities and to introduce support for a number of new directions (sheep breeding, goat breeding, aquaculture, organic production, irrigation, drainage restoration, agricultural advisory activities, etc.), and also to establish the priority of providing state support to small farms, including family farms that own and/or use no more than 100 hectares of agricultural land and whose annual income from the sale of products does not exceed UAH 5 million (125 thousand USD).

At the current stage, state support for agriculture takes place in the following directions: partial compensation of the cost of agricultural machinery; financial support for activities in the agricultural sector by making loans cheaper; financial support of farms; financial support the fields of animal husbandry, potato growing, horticulture, viticulture and hops, purchase of domestically produced equipment; state support for niche cultures, state support for the use of reclaimed land; state support for organic production (Agropolit, 2022).

Military aggression by the Russian Federation significantly affected the development of the agricultural sector of Ukraine. All branches of the legislative and executive authorities promptly combined efforts to review approaches to the formation and implementation of state agrarian policy, state policy in the areas of food security and land relations.

The state budget of Ukraine for 2022 provides subsidies to farmers in the amount of UAH 4.4 billion. Every spring, farmers need additional financing for the

sowing period. In addition, this year, farmers still do not have the opportunity to sell the harvest collected last year for export. As a result, farmers have a lack of working capital to carry out agricultural activities.

In March 2022, the state introduced additional measures to support farmers under martial law. According to the Ministry of Agrarian Policy of Ukraine, the Resolution "On Amendments to Certain Acts of the Cabinet of Ministers of Ukraine on Providing Credit Support to Agricultural Producers" was adopted. State support is provided in the form of interest rate compensation for borrowed loans. Credits provided for the implementation of agricultural activities (sowing) during the period of martial law exclusively to small and medium-sized agricultural producers with a turnover of no more than 20 million euros per year, which is the equivalent of an enterprise that cultivates up to 10,000 hectares (the maximum amount of credit to which interest rate compensation applied is UAH 50 million) (Rada, 2022).

The Ministry of Agrarian Policy and Food of Ukraine developed programs of non-refundable grants for farmers to create gardens and greenhouses as part of the "eRobota" project (in June 2022, the programs were approved at a government meeting). The programs are designed to support business entities, agricultural producers, create jobs and ensure the food security of the state.

According to the program of partial compensation for the cost of creating greenhouses, the amount of the grant is from UAH 5 to 7 million (the total budget of the program is UAH 7 billion). The expected number of grants is 1,000 per year. Participants of the program can be both private entrepreneurs and agricultural companies and farms that own or lease land for a period of at least 25 years (Agropolit, 2022).

Funds from the grant can be spent on the direct construction of the complex, the purchase of technical equipment for its operation, the purchase of seed material and fertilizers. The principle of co-financing will be introduced: for the first thousand of participants, 70% of the cost of the project will be financed by the state and 30% by the agrarian. In addition, according to the Ministry of Agrarian Policy of Ukraine, the state will allocate a total of UAH 4 billion for the program to support horticulture, berry growing and viticulture for partial compensation of the cost of gardens. Farmers will receive from 150,000 to 400,000 UAH per hectare of gardens - this is about 70% of the average cost of planting. These are grants for planting 10,000 hectares of new gardens. In total, the state will allocate UAH 16 billion for three programs (development of horticulture, berry growing, and viticulture) of the "eRobota" project. Part of the funds for support will be allocated by foreign partners (KMU, 2022).

In Ukrainian legislation, there are many obstacles for small agricultural producers to receive the financial support they need. In fact, farms that use up to 50 hectares of agricultural land remain outside the system of state support. In the near future, it is necessary to include small agricultural producers in state support programs, as it has long been implemented in EU member states, where small farms are the dominant organizational and legal form of the agricultural sector.

**Discussion and conclusions.** The degree of development of small farms in the agricultural sector affects the saturation of the market with goods, the level of employment, the social development of the village and contributes to the increase of the economic efficiency of agricultural production. Households play a significant role

in the production of agricultural products, food security of the state, their activity partially contributes to solving social problems of the village, establishing sustainable development of rural areas and supporting the income of the rural population.

In the in future, the households should, carry out the primary processing of agricultural products using low-capacity equipment (oil press, grain mill, etc.) by joining groups or associations of producers for joint management. It is also worth creating conditions for the transformation and development of small farms as subjects of entrepreneurial activity, the creation of family farms on their basis.

Small business is the least protected on the market, taking a significant share of the production of certain types of products in the country in general and it is the main activity for many rural inhabitants. Instruments of state support should be provided long-term and correspond to the peculiarities of the functioning of various categories of agricultural producers. In the near future, it is necessary to include small agricultural producers in state support programs, as it has long been implemented in EU member states, where small farms are the dominant organizational and legal form of the agricultural sector.

In the conditions of hostilities, farmers and households provided food for the local population and internally displaced people, thus proving the stability and possibility of ensuring the existence of small producers. The consequences of the war will be felt in the agricultural sector for years to come.

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