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The budget financing for farms in Ukraine

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Abstract. *The purpose* of the article is to assess the current realities and areas of state support for farms, substantiation of recommendations for the formation of an effective system of budget funding for support programs in the future. *Methods.* General scientific and special scientific methods were used in the research process. Interpretation of basic categories and concepts is based on using methods of analysis and synthesis, induction and deduction, theoretical generalization. *Results.* For many countries agriculture is the most important industry in terms of contribution to GDP and employment, i.e. for both economic development and reduction of poverty. Farms are an important component of the agricultural sector of Ukraine's economy. They ensure the efficient use of agricultural resources, as the economic interest of the producers themselves, who are mainly the owners of the resources or use some of them on lease, is fully realized. The farm incomes are based on the sale of crop production and livestock products, products of its processing and other industrial products of own products and the provision of different services. *Practical contribution.* During 2014–2019, the structure of budget programs of the state budget changed annually. At the same time, the central executive bodies were responsible for implementing programs aimed at financing agriculture, fisheries, forestry and hunting. Thus, the structure of the main spending units of the state budget changed. In this context it is important to take specific measures intended for the improvement of production profile considering a market dynamic; to make changes in manufacturing processes; to use more efficient material resources that ensure the reduction of their costs in terms of value per unit of output; to improve management in production operation of an enterprise; to encourage employees to achieve higher production results. *Prospects for further research.*

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How are the proposed measures supported by the state? Why is it important to implement them? Which possibilities are for this? The response to these issues requires a reasonable agrarian policy and a creation of effective mechanisms of state support. In consideration of a significant number of methods and approaches to justify agrarian public financing this aspect is quite relevant and important.

Keywords: budget, budget financing, farms, budget programs, state support.

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Бюджетне фінансування фермерських господарств в Україні

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Анотація. Мета статті полягає в оцінці сучасного стану та напрямів державної підтримки фермерських господарств, а також обґрунтування рекомендацій щодо формування ефективної системи фінансування бюджетних програм. *Методи.* Методологічні та теоретичні принципи базуються на результатах досліджень, отриманих українськими та зарубіжними вченими у галузі управління державними фінансами, бюджетного фінансування та розвитку підприємств аграрного сектору української економіки. У статті використовуються методи економіко-статистичного аналізу для визначення системи взаємозв'язків у процесі бюджетного фінансування аграрного сектору. *Результати.* Для багатьох країн, аграрний сектор є найбільшим важливим сектором з точки зору його частки у ВВП та зайнятості, тобто як для економічного розвитку, так і зменшення бідності населення. Фермерські господарства є важливою складовою аграрної сфери економіки України і забезпечують ефективне використання ресурсів сільського господарства, оскільки повною мірою реалізується економічна зацікавленість самих виробників, які переважно і є власниками ресурсів, або на умовах оренди використовують окремі з них. Прибутки фермерських господарств формуються за результатами реалізації виробленої рослинницької та тваринницької продукції, продуктів її переробки та іншої промислової продукції власного виробництва, а також надання різних послуг. *Практичне значення.* За 2014–2019 роки структура бюджетних програм державного бюджету щорічно змінювалась. При цьому змінювались і центральні органи виконавчої влади відповідальні за виконання програм, які спрямовувались на фінансування сільського господарства, рибного господарства, лісового господарства та мисливства. Таким чином змінювалась структура головних розпорядників бюджетних коштів державного бюджету. В цих умовах

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важливим є здійснення певних заходів, що спрямовані на удосконалення структури виробництва з урахуванням динаміки ринкової кон'юнктури; внесення змін у технології виробництва; застосування більш продуктивних матеріальних ресурсів, які забезпечують зниження їх затрат у вартісному вираженні у розрахунку на одиницю виробленої продукції; поліпшення менеджменту виробничо-господарської діяльності підприємства; підвищення мотивації праці працівників підприємства у досягненні вищих виробничих результатів. *Перспективи подальших досліджень.* Якою мірою запропоновані заходи підтримуються державою і чому важливо це робити, які можливості для цього є? Відповіді на ці питання потребують виваженої аграрної політики та формування ефективних механізмів державної підтримки галузі. Враховуючи значну кількість методів та підходів до обґрунтування необхідності бюджетного фінансування аграрного сектору цей напрям є досить актуальним та важливим.

Ключові слова: бюджет, бюджетне фінансування, фермерські господарства, бюджетні програми, державна підтримка.

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1. Introduction.

The budget financing includes not only financing of budget services, but also funding of state programs (determined by own goals and implementation methods and requires specific approaches to evaluation of the budget efficiency) regarding livestock, crop production, compensation costs for production resources and favourable credit facilities. Meanwhile, in the lack of budget resources the state is facing the challenge how to spend them effectively in all aspects (*Halushko, Dibrova and Dibrova, 2006*).

2. Literature review.

The focus of scientists is always on the budget financing issue as while financing, the budget allocation and its orientation to the state functionality are disclosed, the efficiency of costs and strategic development of society are determined.

A considerable contribution to the development of theoretic and practical issues of drafting and improvement of budget financing, contribution to the development of state agrarian policy, the efficiency of support for agricultural producers was made by I. Kischak and N. Kornieva (*2019*), L. Kostyrko and T. Solomatina (*2020*), A. Naumenko (*2019*), K. Zakhzhay and I. Kravchenko (*2019*).

3. Methodology.

The methodological and theoretical principles are based on the research results

obtained by the Ukrainian and foreign scientists from the field of public financial management, budget financing and the development of enterprises of the agricultural sector of the Ukrainian economy. Authors use the methods of economic and statistical analysis to determine the system of relationships in the process of budget financing of the agricultural sector.

4. Research objectives.

The purpose of the article is to assess the current state and areas of state support for farms and substantiate the recommendations for the formation of an effective system of financing budget programs.

5. Results and discussions.

The agricultural sector is of general economic and social importance and the provision of any aid, let alone non-refundable to support it, is a necessary condition for providing the population with the products that are consumed on a daily basis. As you know, support for agricultural producers is mainly organized by the state at the expense of budget funds (*Zakhzhay and Kravchenko, 2019, p. 85*).

For the coordinated growth of financial potential at the macro and micro levels, the goal of the budget program of a single budget manager must meet the strategic objectives of the agricultural sector of the economy, enshrined in national and sectoral regulations (*Kostyrko and Solomatina, 2020, p. 228*).

Companies are required to use potential production effectively in both domestic environment regarding manufacture of products and, for this purpose, the use of all economic resources involved in business processes and in external environment regarding its

implementation and establishment of effective relations with market entities, on which the existence and development of an enterprise depend, i.e. with consumers, suppliers, public regulatory authorities (*Pererva and Poberezhna, 2012*) (Table 1).

Table 1. The effectiveness of the potential production of enterprises in Ukraine

Index	Years						
	2013	2014	2015	2016	2017	2018	2019
Produced per 100 ha of arable land, thousand, UAH							
market products	7,535	9,990	16,858	19,095	21,915	25,222	25,617
profit	734	1,045	4,915	4,426	3,435	3,535	4,455
Produced per one average number employee, thousand, UAH							
market products	264.5	386.6	695.7	754.7	891.0	1,048.2	1,134.7
profit	25.8	40.4	202.9	175.0	139.7	146.9	197.3
Annual salary per one employee, UAH	25.4	28.1	35.4	43.4	61.2	78.6	n/d
Share in all production costs, %							
material expenses	79.3	81.9	83.6	83.4	81.6	81.4	n/d
depreciation	6.3	5.6	5.3	5.4	6.1	6.6	n/d
payroll expenses	9.8	8.2	6.8	7.2	8.1	8.2	n/d
social payments	3.6	3.0	2.3	1.6	1.7	1.8	n/d
other expenses	1.0	1.3	2.1	2.5	2.5	2.1	n/d
Level of profitability (profitability) of operational activity of enterprises	11.7	21.4	43.0	33.6	23.2	18.9	19.8
Level of profitability (profitability) of all activities of enterprises	8.3	9.2	30.4	25.6	16.5	14.2	16.6

Source: Formed by the authors (State Statistics Service of Ukraine, 2020).

Expenditures on state support of agricultural producers are represented by different types, but are directly related to the direct impact on the financial condition and development of agricultural producers (*Kischak and Kornieva, 2019, p. 63*)

A certain positive impact on the productivity growth of agricultural enterprises during the years under review was definitely made by the measures of state support intended for the improvement of economic conditions in rural regions (increase in sale prices for agricultural products, cheap credits for the acquisition of material resources, subsidies for livestock production, etc.), which improved their financial situation and allowed, in particular, to overcome the tendency to reduce the use of mineral

fertilizers and plant protection products against diseases and pests, which, in turn, increased crop yields and crop productivity

During the last years the budget support for farming entities was provided within framework of special budget program 2801460 "Farm Loans" (*Figure 1*).

Under this program credit money were mainly allocated for:

- the acquisition of equipment and machinery;
- refinancing of the working capital;
- production and processing of agricultural products;
- establishment of perennial plantings;
- development of credit and service cooperation.

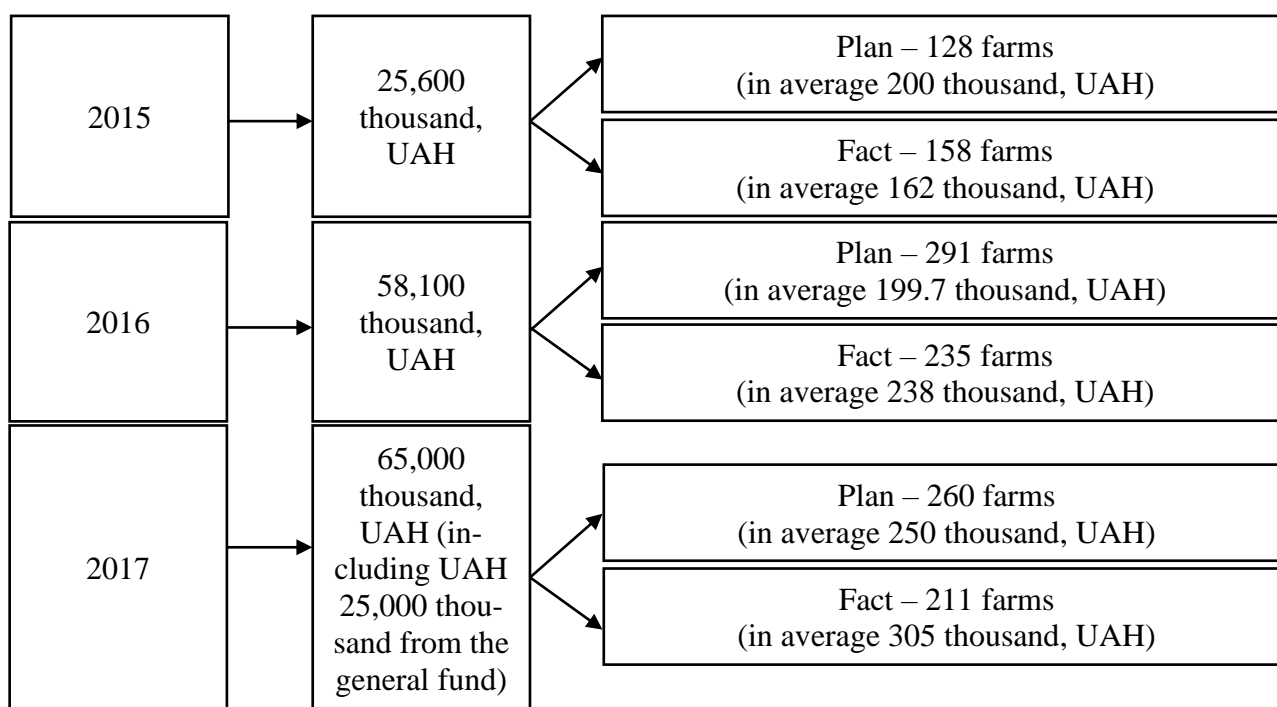


Fig. 1. Expenditures under the budget program 2801460 “Farm Loans” at the expense of the special fund of the State budget

Source: Formed by the authors (Ministry of Agrarian Policy and Food of Ukraine, 2019).

In addition to the special budget program – 2801460 “Farm Loans”, farmers were entitled to receive support under common state budget programs, namely:

2801030 “Financial Support for the Agricultural Sector by Reducing the Costs of Loans”;

2801350 “State support for the Development of Hop Growing, Establishment of Young Orchards, Vineyards and Berries and Supervision over Them”;

2801540 “State Support for Livestock”.

2801580 “Financial Support for Agricultural Producers” (intended for the compensation of the costs for agricultural equipment).

In 2015 177 farms received 27.9 mln UAH under the budget program 2801030 “Financial Support for the Agricultural Sector by Reducing the Costs of Loans”, or 9.6 % of the total amount of money for partial compensation of the interest rate for the use of loans. The number of the farms that received partial compensation of the interest rate for the use of loans was 177 borrowers (28.1% of the total

amount of the borrowers who made use of such support).

In 2016 187 farms received 61.3 mln UAH, namely:

1) the budget program 2801030 “Financial Support for the Agricultural Sector by Reducing the Costs of Loans” in 2016 allocated 285.0 mln UAH, 279.8 mln UAH of which were distributed among economic entities as compensation for the loans taken out.

The amount of the compensation granted to the farms with cheap loans was 59.1 mln UAH, or 21.2% of the total amount of the funds allocated for partial compensation of the interest rate for the use of loans.

The number of the farms that received partial compensation of the interest rate for the use of loans was 174 borrowers, or 26.2% of the total amount of the borrowers who made use of such support.

2) under the budget program 2801540 “State Support for Livestock” the Law of Ukraine “On the State Budget of Ukraine for 2016” (*The Verkhovna Rada of Ukraine, 2015*)

allocated 30,000.0 thousand UAH fully spent on partial compensation of the cost for the reproduction of heifers, cows of domestic origin and breeding heifers, dairy cows, dairy-meat and meat cows, breeding pigs and boars, breeding ewes, rams, lambs.

In fact, farms received 30,000.0 thousand UAH, 2,233.66 of them were distributed among 13 farms (59.53 % of the allocated funds).

In 2017 944 farms received 113.8 mln UAH, namely:

1) the budget program 2801030 "Financial Support for the Agricultural Sector by Reducing the Costs of Loans" in 2017 allocated 300.0 mln, UAH, 279.8 mln UAH of which were distributed among economic entities as compensation for the loans taken out.

The amount of the compensation granted to the farms with cheap loans was 34.4 mln UAH, or 11.7% of the total amount of the funds allocated for partial compensation of the interest rate for the use of loans.

The number of the farms that received partial compensation of the interest rate for the use of loans was 178 borrowers, or 28.4 % of the total amount of the borrowers who made use of such support.

2) under the budget program 2801350 "State support for the Development of Hop Growing, Establishment of Young Orchards, Vineyards and Berries and Supervision over Them" in the budget year 2017 the funds were allocated:

- to repay 172.48 mln UAH (245 economic entities of different forms of ownership), 23.9 mln UAH of which are directly granted to farms (91 entities that make up 37.1 % of the total amount of economic entities that were recipients of budgetary funds under the program);

- to finance the costs for viticulture and horticulture incurred by the economic entities in the budget year 2017 in the amount of 115.62 mln UAH (66 economic entities of different forms of ownership), 39.3 mln UAH of

which are directly granted to farms (15 entities that make up 22.7 % of the total amount of economic entities that were recipients of budgetary funds under the program);

3) the budget program 2801540 "State Support for Livestock" includes the costs in the amount 170 000.0 thousand, UAH.

The Ordinance of the Cabinet of Ministers of Ukraine as of September 20, 2017, no. 651 (*Cabinet of Ministers of Ukraine, 2017*) distributes the funds allocated in the state budget under the program 2801540 "State Support for Livestock for 2017", according to which the costs are distributed as follows:

- to repay the indebtedness registered in the Treasury authorities in the amount 158,345 thousand UAH;

- to partially repay the costs for the reproduction of heifers, cows of domestic origin and breeding heifers, dairy cows, dairy-meat and meat cows, breeding pigs and boars, breeding ewes, rams, lambs in the amount 11,655 thousand UAH.

To partially repay the costs for the reproduction of heifers, cows of domestic origin and breeding heifers, dairy cows, dairy-meat and meat cows, breeding pigs and boars, breeding ewes, rams, lambs, the economic entities received 11,655 thousand UAH, 3,527.06 thousand UAH of them were granted to 13 farms (20.7% of the accrued).

4) the budget program 2801580 "Financial Support for Agricultural Producers" compensates partially for the acquisition of the machinery and equipment included into the List of domestic equipment and machinery for the agrarian and industrial complex, the cost of which is partially repaid by the state budget approved by the commission of the Ministry for Development of Economy, Trade and Agriculture of Ukraine for the formation of list of domestic equipment and machinery for the agrarian and industrial complex. The List includes 60 Ukrainian producers, almost 2094 names of equipment and machinery.

In 2017 the partial compensation was

granted on a non-repayable basis in the amount of 20% of the cost of equipment and machinery (without VAT) to agricultural producers who acquired the equipment and machinery prior to December 1, 2017 and paid via state bank or the bank with the authorized capital shares, 75% and more of which is owned by the state.

The development of material and technical basis of more agricultural units depends on the finances, starting from the deficit of

own funds and the limitation and high value of external financial resources. However, except state enterprises, the companies of different forms of ownership, having the similar conditions, resolves the problem of their own technical security in different ways. The careful attention is focused on the search of financial sources to renew material resources for agricultural production on a systematic basis (Table 2).

Table 2. Sources for domestic agricultural machinery purchase, mln UAH

Year	Domestic, total	State support programs, including			at own expenses	On the terms of futures contracts
		Credits, leasing and costs	Under the regional programs	Farm Support Program		
2014	927.9	69.0	0.4	-	858.5	0.013
2015	1,174.7	35.9	-	-	1,136.5	2.347
2016	1,503.0	106.2	6.3	-	1,385.3	5.2
2017	1,913.9	127.6	0.3	-	1,786.0	-
2018	6,092.9	3,809.5	14.7	117.0	2,151.7	-
%, in total	927.9	69.0	0.4	-	858.5	0.013

Source: Formed by the authors (State Statistics Service of Ukraine, 2020).

Therefore, in 2017 the purchasing power of farms increased, and the equipment and machinery were renewed by reducing the costs of the domestic equipment and machinery acquired under the budget program “Financial Support for Agricultural Producers”, the sub-program “Partial Compensation for Agricultural Machinery and Equipment of Domestic Production”.

The enterprises that can maintain their own equipment in operational condition, seek to improve its quantitative and qualitative composition (Table 3).

The resumption of agrarian production mainly depends on the increase in production of domestic machinery and the improvement of its qualities, the introduction of technical means that ensure reasonable and effective implementation of all technological operations.

The machinery park described in the table above is based on the requirements of an enterprise manufacturing these or those products, subject to the service life and costs for repair and maintenance materials, the number and frequency of technical inspections, fuel and lubricant costs, etc. As mentioned in the table, sophisticated equipment is used by enterprises, the share of households in possessing harvesters is 2.3%, cultivators – 15.8%, seeders 13.9%.

The farm machinery industry makes up 4.7% of the added value of the machine-building industry of Ukraine. It includes 545 economic entities (including 326 enterprises) that employ more than 20 thousand employees. The sale of domestic products at the domestic market in 2019 is 252 mln USD, which is 39 million US dollars less than in 2015 and almost 100 million dollars less than in 2018 (Table 4).

Table 3. Agricultural machinery at enterprises

Index	Years					
	2014	2015	2016	2017	2018	2019
Tractors						
thousand, units	130.8	127.9	132.7	129.3	128.7	130.5
per 10 000 ha of arable land, unit	70	68	72	71	71	69
Harvester-threshers						
thousand, units	27.2	26.7	27.4	26.8	26.3	26.5
per 10 000 ha of cultivated ares for crops (without corns), units	39	35	38	38	36	37
Corn harvesters						
thousand, units	1.8	1.6	1.5	1.5	1.5	1.5
per 10 000 ha of cultivated ares for corns, units	5	5	5	4	4	4
Potato harvesters						
thousand, units	1.3	1.2	1.2	1.1	0.9	1
per 10 000 ha of cultivated ares for potatoes, units	425	531	553	612	585	592
Beet harvesters and machinery						
thousand, units	2.7	2.4	2.3	2	1.6	1.6
per 10 000 ha of cultivated ares for sugarbeet, units	92	114	84	68	63	77
Flax harvesters						
thousand, units	0.2	0.2	0.2	0.1	0.1	0.1
per 10 000 ha of cultivated ares for flax, units	64	31	28	32	33	57
Installations and units for milking cows, thousand, units	10.5	10.2	10.3	9.5	10	10.1

Source: Formed by the authors on the basis (State Statistics Service of Ukraine, 2020).

Table 4. The characteristics of farm machinery in 2015–2019

Index	Years				
	2015	2016	2017	2018	2019
Products sold, mln UAH	6,539	9,191	11,569	12,101	8,629*
Products sold, mln USD	299	360	435	445	334
including					
Export sales, mln USD	86	84	105	95	82
export ratio in sales, %	28.8	23.2	24.3	21.5	24.5
sales of domestic products in the domestic market, mln USD	213	276	330	349	252

* preliminary data.

Source: Formed by the authors on the basis (State Statistics Service of Ukraine, 2020).

According to the data, the sale of products in 2019 was 334 mln USD, 24.5% of which accounted for export sales (Figure 2).

Enterprises of the industry are located in 24 regions, the most important are Mykolaiv, Kharkiv and Zaporizhzhia regions, which

together account for over 56% output (Figure 3).

The Kirovograd, Zaporizhzhia and Kharkiv regions are the most important regarding the number of employees (total ~ 44% of employees) (Figure 4).

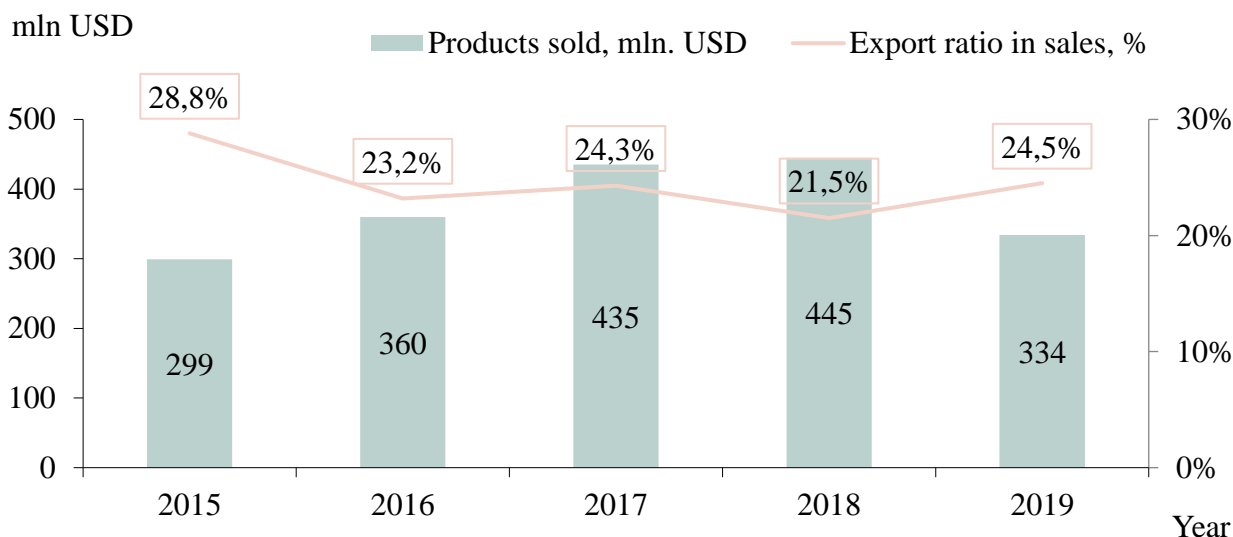


Fig. 2. The sales growth for farm machinery in Ukraine in 2015-2019, mln. USD
Source: Formed by the authors on the basis (State Statistics Service of Ukraine, 2020).

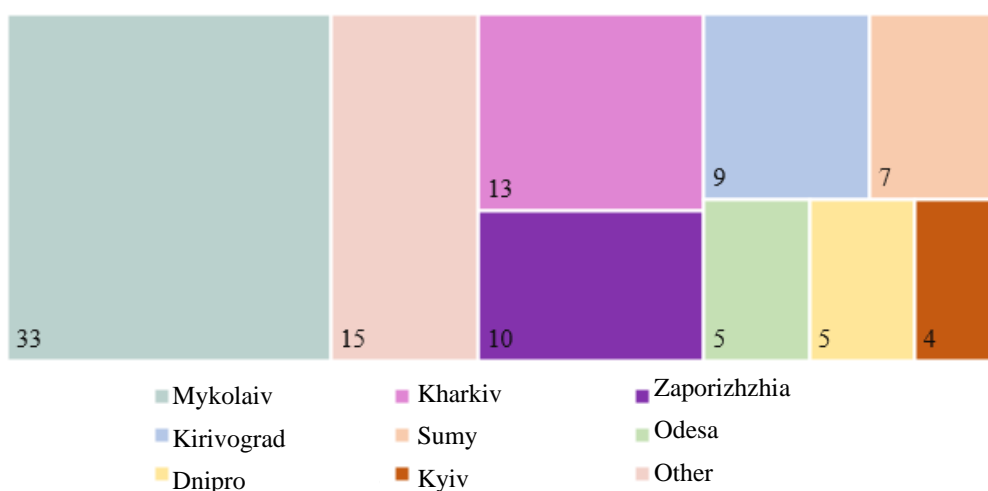


Fig 3. The regional structure of farm machinery production in Ukraine in 2017, %
Source: Formed by the authors (State Statistics Service of Ukraine, 2020).

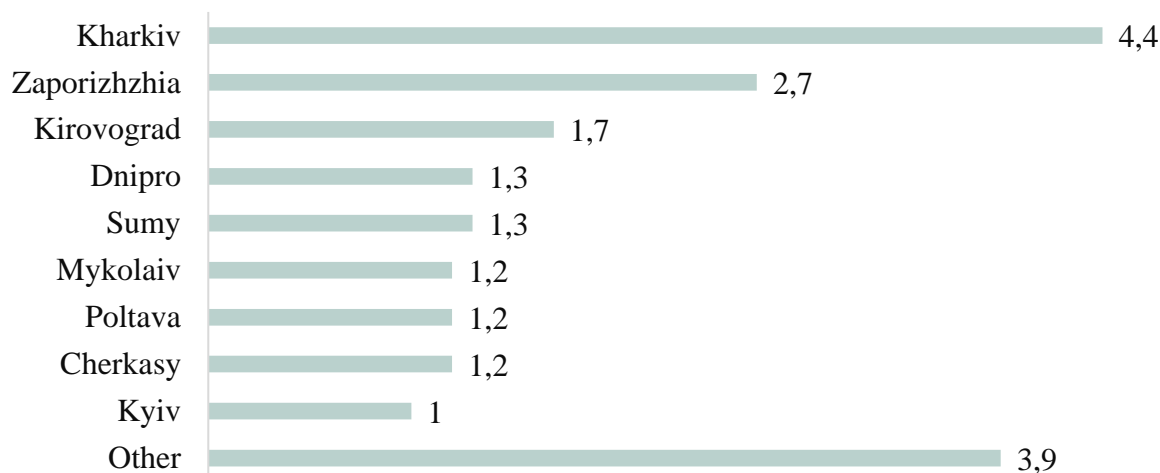


Fig. 4. The regional structure of human resources in farm machinery production in Ukraine in 2017, thousand persons
Source: Formed by the authors (State Statistics Service of Ukraine, 2020).

The biggest producers are “Elvorti” JSC, “Kharkiv Tractor Plant” JSC, “Factory Kobzarenko” LLC, “Lozova Forging-Mechanical Plant” LLC, Veles Agro LTD, “Berdianski zhnyvarky” CJSC, “Romenskyi zavod “Traktorzapchastyna” CJSC.

Optimal interaction between the mechanism of state and market regulation is important, but it should depend on the ratio of supply and demand in the agri-food market, taking into account the interests of both

producers and consumers of agricultural products (Naumenko, 2019, p. 229).

The budget program “Financial Support for the Development of Farms” was firstly approved by the Ministry of Agriculture in 2018. It was planned to allocate 1.0 billion UAH for its implementation.

However, at the end of the year its funding decreased almost five-fold up to 210.0 mln UAH. The actual execution amounted to 203.3 million UAH (Figure 5).

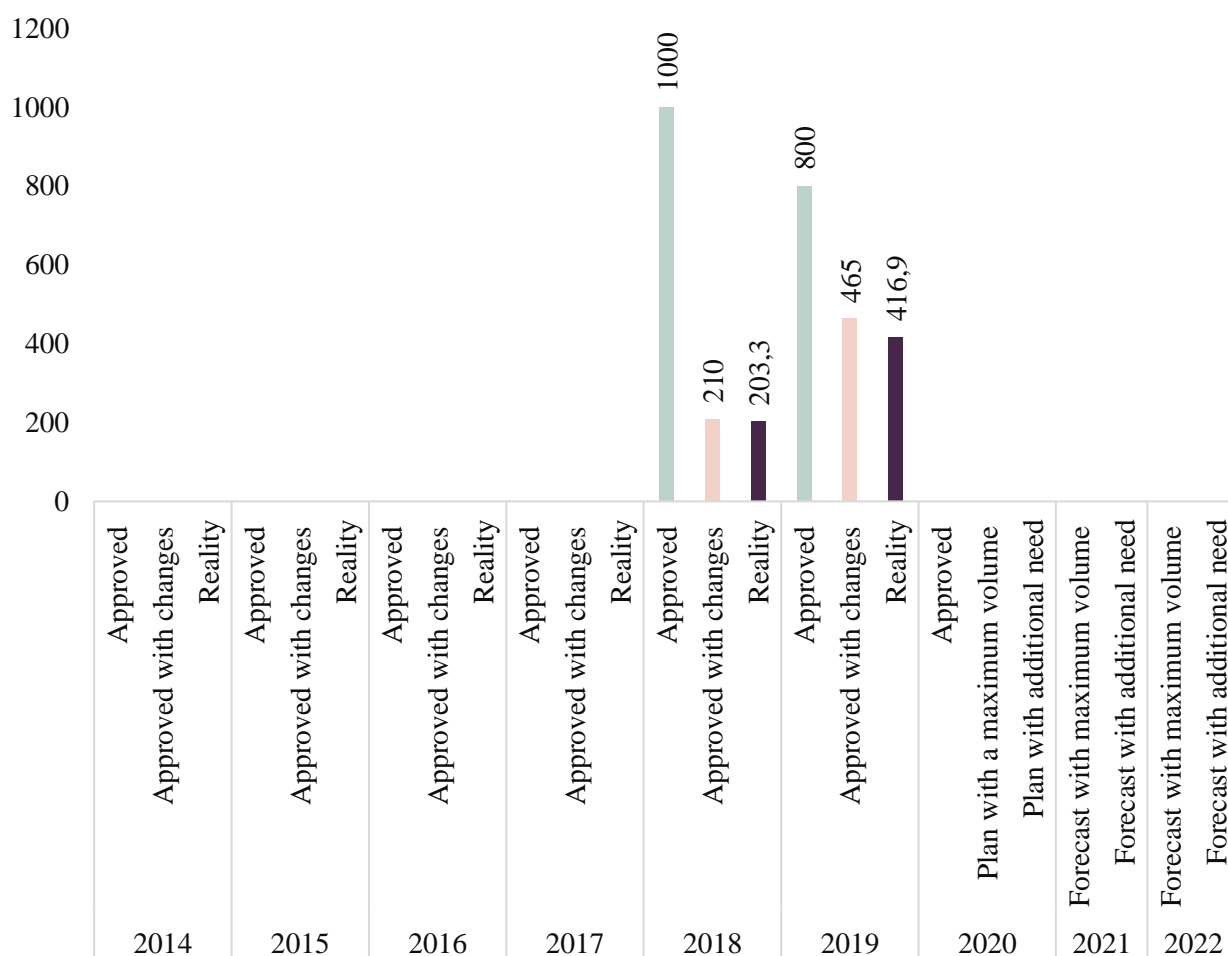


Fig. 5. Financial support for the development of farms for 2014–2022, mln UAH

Source: (Livingstone, Kornienko and Tytarchuk, 2019).

The funds of this program were used pursuant to the approved Order (Cabinet of Ministers of Ukraine, 2018). The first version of this Order was approved at the beginning of 2018, but in October considerable amendments were made to this document, and they changed the eligibility criteria for the recipients of such support and increased the number of ways to spend the funds.

The monthly review of the implementation of the program providing support for the development of farms demonstrates that the terms and conditions described in the first version of the order were difficult to be performed, and by August the program was not financed (Figure 6).

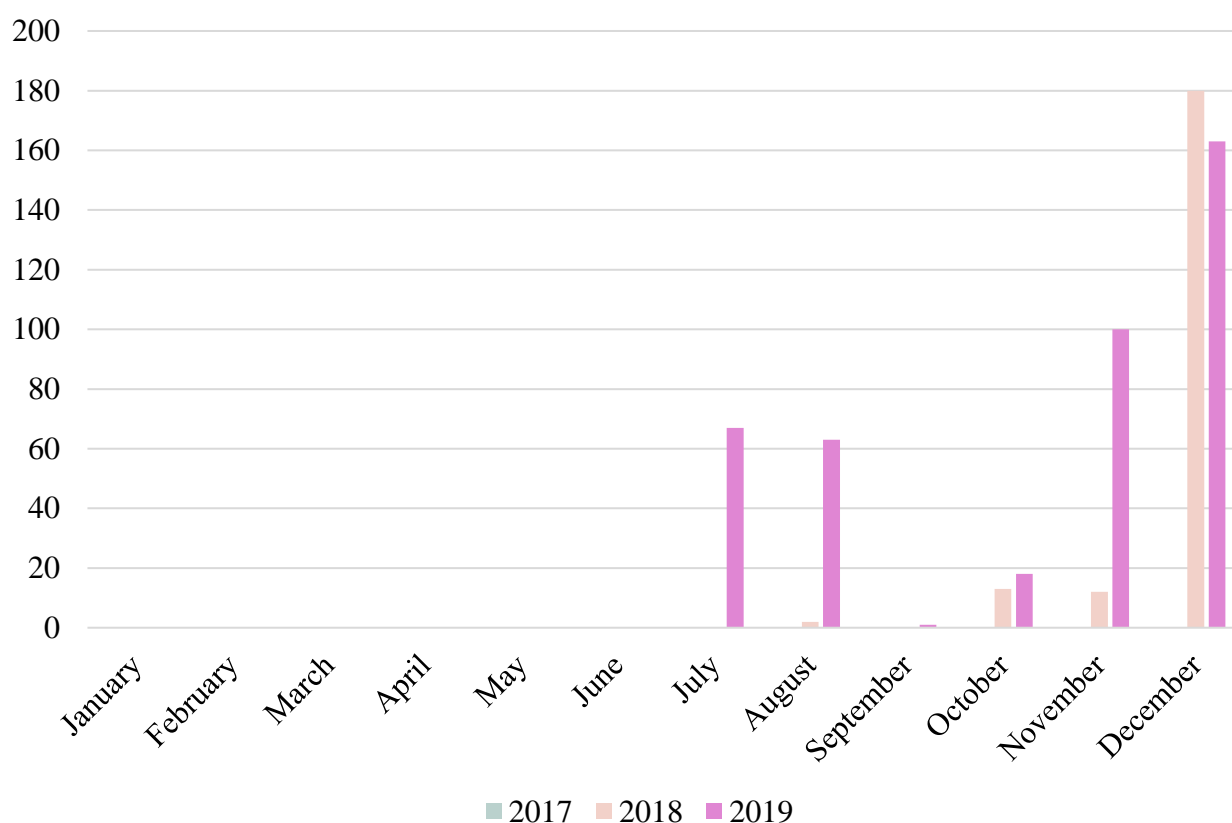


Fig. 6. The monthly dynamics of financial support for the development of farms for 2017–2019, mln UAH

Source: (Livingstone, Kornienko and Tytarchuk, 2019).

The dynamics of financing budget programs by the largest volumes at the end of the year is primarily due to the lack of a quality system of medium-term budget planning and imperfect methodology for assessing the implementation of budget programs (Tytarchuk, 2020, p. 87).

According to the detailed Order under this program financial support is provided through the Ukrainian State Fund for Support of Farms to:

1. A Farm:

- that has net income (revenue) from sales of products (goods, works, services) for the last year up to 20 million UAH and owns and / or uses agricultural lands;

- registered in the current year, which owns and / or uses agricultural land, regardless of the amount of net income (revenue);

- an agricultural service cooperative:

- engaged in producing dairy and meat products, consisting of not less than 20

members, among of which there must be one or more farms, and the remaining members are individuals who possess and / or use agricultural land and animals identified and registered pursuant to law;

- engaged in producing berries and vegetables and collecting and processing wild berries, mushrooms and plants, consisting not less than 7 members, among which there must be one or more farms, and the remaining members are individuals who possess and / or use not less than 100 ha agricultural land.

Financial support is provided to the recipients as follows:

- partial compensation of the costs for domestically produced agricultural seeds acquired from individual entrepreneurs and legal entities that are engaged in manufacturing or selling;

- partial compensation of the costs related to consulting services;

- financial support for agricultural service cooperatives;
- partial compensation of the costs for locally produced farm machinery and equipment;
- budget subsidy per unit of arable land (1 ha) – newly created farms;
- decrease in the costs of credits.

At the end of January 2019, the Order of the Use of Funds was considerably changed, and the ways of using funds of the program was reviewed (*Cabinet of Ministers of Ukraine, 2019*).

Constant amendments to the Order, unclear eligibility criteria and distribution of funds, a complicated mechanism of the receipt and a big list of necessary documents are the factors that create considerable problems which preventing from receiving funds under this program. This leads to the non-use of funds, and consequently, the reduction of planned volumes.

This program is new and necessary to support the development of farms. At the same time, to increase the efficiency of using the funds of this state support program, it is necessary to eliminate the shortcomings mentioned above and conduct a strong explanatory and educational campaign for recipients in all regions of Ukraine.

6. Conclusions.

The specificity of budget financing is that it includes not only the financing of budget

services, but also the financing of support programs (determined by its own goals and implementation methods and requires special approaches to assessing the effectiveness of budget expenditures) livestock, crop production, compensation lending. Meanwhile, in conditions of limited budget funds, the state faces the task of their effective use in all areas.

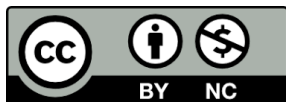
Thus, today a network of institutions has been formed and operate that direct their activities to support of the agricultural sector and allow for the implementation of national policies related to agriculture and rural development. At the same time, the changes that have taken place in recent years in the structure of the responsible executors of the state budget should have a positive impact on the efficiency of using budget resources and increase the predictability of the results of their use,

This review shows that state support for farms is important and required for Ukraine. At the same time, it requires some improvements and increase of efficiency, the program is often modified, and the funds allocated for its financing are not fully used. This practice does not allow to establish transparent and clear rules, creates distrust in government support programs and does not promote the efficient use of budget funds. Therefore, to improve the situation it is necessary to ensure stable, clear and definite eligibility criteria and the distribution of funds under this program.

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