



## **INSTITUTIONAL ENVIRONMENT FOR FINANCIAL PROVISION OF SMALL AGRICULTURAL BUSINESS ENTITIES OF UKRAINE**

*Nataliia Vdovenko*

*National University of Life and Environmental Sciences of Ukraine, Ukraine*

*E-mail: nata0409@gmail.com*

*Alyona Piven*

*Kharkiv Petro Vasilenko National Technical University of Agriculture, Ukraine*

*E-mail: alenapiven2017@gmail.com*

*Oksana Radchenko*

*National Scientific Center "Institute of Agrarian Economics", Ukraine*

*E-mail: oxanarad@ukr.net*

*Ihor Sinenok*

*National University of Life and Environmental Sciences of Ukraine, Ukraine*

*E-mail: igor.sinenok@ukr.net*

*Solomiya Voskobiinyk*

*Stepan Gzhytskyi National University of Veterinary Medicine and*

*Biotechnologies, Ukraine*

*E-mail: solo2530@ukr.net*

*Submission: 8/14/2020*

*Revision: 8/26/2020*

*Accept: 9/08/2020*

### **ABSTRACT**

The purpose of the study is to assess the institutional environment and determine the need for financing small agricultural businesses in Ukraine in order to facilitate access to financial resources in accordance with the need. The information base of the study is the regulatory and legal framework of state support for the agricultural industry, analytical studies of information agencies, data from the State Statistics Service of Ukraine and Ministry for Development of Economy, Trade and Agriculture of Ukraine. The data on the planned and actual indicators of budget expenditures for agricultural development were obtained on the basis of an analysis of the reports posted on the official website of the State Budget of Ukraine. The study determined the market capacity by financing the activities of small agricultural enterprises by sources and state support.



An attempt has been made to outline the technology for a comprehensive assessment of the need for financing peasant and small farms in Ukraine through determining the capacity of financing the industry. As a result, it was established that the annual demand for resources for this type of entrepreneurship is at least UAH 370 billion, and in the near future it will grow at least UAH 26.5 billion annually. Particular attention is paid to the areas of micro crediting and state support for the development of small businesses in rural areas. The practical significance of the study lies in the fact that the implementation of the results of research work allows the implementation of technological support for the formation of a financing system for small agricultural entrepreneurship. This is necessary for the technical justification of state programs for the development of small business, strategies for the development of rural areas, state regulation of the development of the agricultural sector.

**Keywords:** Institutional environment; Small agricultural entrepreneurship; Financial resources; Funding capacity; Rural Development Fund; State regulation and support; Microcredit; Ukraine

## 1. INTRODUCTION

The stabilization and development of the Ukrainian economy depends on increasing the social activity of the population, by involving it in the sphere of entrepreneurial activity. The niche occupied by the subjects of small agricultural business (small and micro-enterprises) is quite capacious. Small agricultural entrepreneurship (hereinafter referred to as MAP) forms the economic basis for life in rural areas: employment, income, local food markets, payments to local budgets, contributions to maintain rural infrastructure.

It has a significant interest in environmental protection and sustainable development, a more responsible use of natural resources, and provides society with significant benefits. Thanks to him, a variety of forms of management, farming systems, the use of landscapes, the preservation of traditional technologies and agricultural knowledge, culture and folk traditions are ensured.

The study is based on conceptual ideas about: the importance of the activities of private peasant and small farms for sustainable rural development of Ukraine; dependence of the efficiency of small agricultural business on the organization, implementation of regulation and management by the state and the market, primarily financial and credit; the need to define and substantiate the theoretical and methodological foundations, due theoretical and technological support for a comprehensive assessment of the process of financing small businesses for



scientifically grounded and optimal formation of its system

## 2. METHODOLOGY

The methodological research toolkit involves the use of methods that contribute to the study of the conceptual and categorical apparatus, the analysis of the state of financing as a component of the financial market, as expected, it will allow formulating conclusions and proposals for the development of a financing system for small agricultural businesses. The research is based on a systematic method of understanding the processes of financing the MAP, the features of their integration into market relations, participation in the development of the economy.

In the course of the study, a set of methods was used: logical analysis of scientific literary sources, synthesis, generalization - to determine and substantiate the theoretical and methodological foundations, criteria for assessing the state of funding; comparative analysis - to study and compare foreign and domestic practical experience on the problem of researching financing of farmers; analysis, synthesis, design - to develop a supply-demand balance of financial resources of the agricultural sector; systematization methods, modelling - for the development of a theoretical model for building a financing system, a system of indicators and indicators for its assessment and monitoring; scientific generalization - to formulate conclusions.

The key points of the methodology in terms of analysing the needs of the amount of funding are: research of the state of the industry in which small business operates (synthesis of agricultural and rural development), the process of its formation, determination of the place and role of research subjects in ensuring food security and employment in rural areas, compliance with activities requirements of legislation in this area, diversification of activities; in terms of recommendations for the development of the financing system: taking into account the presence of a small agricultural business of its own niche in the market, the competitiveness of their goods (works / services), the level of economic autonomy; in terms of the quality of management at all levels of the formation of the financing system: indicators of financial and economic activity and their dynamics (the size of equity capital and assets of micro, small and medium-sized enterprises in agricultural business, capital structure, profitability); in terms of realizing the economic and social potential for the development of rural areas in the niche of small agricultural entrepreneurship: research on the implementation of support for research subjects through government, regional and local programs, taking into account the



requirements of the Concept (2017) and the Strategy for the Development of Agriculture (2012; 2014) on the prospects for the development of small agricultural entrepreneurship.

Determination of sources and volumes of consumption and supply of financial resources is based on the analysis of cash flows of the industry and MAP, financial statements of business entities, data from a sample survey of small enterprises by the State Statistics Service of Ukraine (2020), methodological tools recommended by the Ministry of Finance of Ukraine to determine the level of economic security, etc.

Determination of real and potential needs is based on the construction of a balance of supply and demand of resources for small agricultural entrepreneurship, formed on the basis of the procedure for analysing the environment, is aimed at forming a scheme for the movement of resources to support the development of small agricultural entrepreneurship, is of a computational and recommendatory nature.

Regulatory framework. The Law on the Development and State Support of Small and Medium-Sized Businesses in Ukraine, the Law on Farming; The Law on Personal Farming, the Law on State Support of Agriculture, the Concept for the Development of Farms and Agricultural Cooperation for 2018-2020, the Strategy for the Development of Small and Medium-Sized Businesses in Ukraine, the draft program of activities of the Rural Development Fund (2020), etc.

### **3. LITERATURE REVIEW**

Business in agriculture is carried out according to general principles, but the production technology is based on the use of natural resources. Therefore, it generates a certain relationship between the state, landowners and entrepreneurs about the distribution, appropriation and use of the income received.

The support of the agricultural sector through a financing mechanism is considered by many researchers, its foundations were formed by LUPENKO (2018), MALIK (2020), SABLUK (2012), DEMYANENKO (2014), their scientific school: TULUSH (2020; 2018), RADCHENKO (2020), SEMENYSHENA (2020), KROPIVKO (2016) and other researchers ZBARSKY (2017), OLEINIK (2015), GRUBINKO (2015) and suchlike. The basic methodological foundations of financing have already been formed, but modern problems require scientific substantiation. A significant role in the development of the mechanism is played by the works of OLEINIK (2014), who investigated conceptual approaches to building a microcrediting system for the agricultural sector of the economy and financing farms and



households in rural areas of Ukraine. BECHKO, BARABASH and NATALICH (2017) also worked on the problem. Possible directions for improving state support for credit provision of agricultural enterprises were investigated by GRUBINKO (2015). The issue of financing MAP farms is relevant from the point of view of stabilization and development of the Ukrainian economy, which depends on increasing the social activity of the population, by involving it in the sphere of entrepreneurial activity.

KIRILENKO, IVCHENKO (2016) analysed the role of small and small farms, as well as personal peasant farms in the national economy, proposed a number of measures to create appropriate conditions that will stimulate the development of small family farms, including specific bills to improve the legislative framework and programs to which attention should be paid to improve financial support from the state.

KROPIVKO (2016) proved that the transformation of household plots is possible only by: turning them into deeply specialized farms, stimulating the specialization of labour, improving the culture of farming and animal husbandry, by improving the system of agricultural education and science in the direction of focusing on scientific, consulting and information services for family forms agricultural activities, as well as changes in emphasis in the implementation of state agricultural policy.

ZBARSKY, ALEKSEEVA (2017) substantiated the need to increase the influence of market instruments and the state on the profitability and efficiency of the household plots. It has been established that without state support and identification in legislation, among other forms of management, household plots cannot form the necessary institutional mechanisms for a developed market and a socially oriented rural economy.

NEMISH et al. (2020) considered the dependence of income from the management of household plots on factors: social - available able-bodied members of the economy, the number of family members, age of owners, social status, degree of manifestation of economic activity; economic - directions of production activities, the size of land use, productivity, livestock productivity, the availability of its own equipment and the necessary means of production in the economy, the possibility of selling surplus products.

MALIK, SHPIKULYAK and MAMCHUR (2020) substantiated that the institutionalization of family farming into a market economy as an organizational and legal form, in addition to the growth of economic and social standards of the rural population, ensures the implementation of the Sustainable Development Goals of Ukraine until 2030.

The study of the balance of financial resources of the agricultural sector is presented by RADCHENKO (2018; 2018 a; 2018 b; 2020; 2020 a; 2020 b; 2020 c; 2020d), TULUSH (2020), KOVAL (2019). The authors managed to generalize theoretical approaches to determining the financial potential of the agricultural sector, substantiate its structure and components in the light of sustainable development strategies. The composition and dynamics of the financial potential of the agricultural sector of Ukraine are considered, its definition is given as the ability of the sector to ensure sustainable development due to the totality of available real and potential resources, as well as the conditions created by the state for their formation, distribution and redistribution. The scientific tasks of strengthening the typology of financial potential in terms of components: resources of financial-credit and budget systems, resources of enterprises, investment have been solved.

Foreign researchers also analyze the specifics of financing small agricultural businesses, in particular REZAEI-MOGHADDAM and IZADI (2019), NAKKU, et al. (2020), ZIN and IBRAHIM (2020), KAN, et al. (2018), DOBEŠ, et al. (2017) who and others.

REZAEI-MOGHADDAM and IZADI (2019) based on the results, management skills, knowledge management, business environment, self-managed training, and government policies are predictors of changes of entrepreneurship development in quick-impact enterprises. Additionally, factor analysis indicated five obstacles in development of entrepreneurship in quick-impact enterprises, including financial problems, market orientation, weakness of information, poor and inappropriate business environment and weakness in supportive government policies.

NAKKU, et al. (2020) the study finds preliminary evidence that both nonfinancial and financial GSPs have moderating effects that can magnify the impact of the EO dimensions of innovativeness, risk taking, autonomy, and competitive aggressiveness on performance. These findings offer guidance to small business policymakers in developing economies.

ZIN and IBRAHIM (2020) found that all entrepreneurial initiatives such as entrepreneurship training, marketing support, business networking and financial support were significantly related to business performance.

KAN et al. (2018) enhancing the entrepreneurial spirit of the entrepreneur, which is one of the factors of production in the optimization of agriculture, requires more support from the sector in this regard and more support for entrepreneurs. Support for small businesses and businesses that do not have sufficient funding production through grants alone will not push





this support beyond social assistance.

DOBEŠ et al. (2017) it was revealed that entrepreneurs were very critical to the state's role in the business environment; in particular, 60% of respondents disagree with the fact that the state creates favourable conditions for business in the Czech Republic. It was proved that the line of business of enterprises correlates with perception of the state's role within the business environment. The research into perception of a governmental financial support was proved to be dependent on a company size which may signal the support of certain company sizes and influencing their competitiveness.

DENDUP et al. (2018) overall, entrepreneurs' motivation and pecs contributed 20.7% to the success of saes in Bhutan. We recommend relevant authorities to continue supporting entrepreneurship education and training programs to motivate and build entrepreneurial competencies.

Thus, the development of small business and its financing is necessary in order to generalize the best European experience for Ukraine. The aim of this study is to analyse the state of the institutional environment and sources for financial support small agricultural enterprises of Ukraine.

*The purpose of the study* is to assess the institutional environment and determine the need for financing small agricultural businesses in Ukraine in order to facilitate access to financial resources in accordance with the need.

#### **4. RESULTS AND DISCUSSION**

Ukrainian legislation determines that entrepreneurial activity is conducted on the basis of private, communal, state and mixed forms of land ownership. The most common forms of enterprises in rural areas, in accordance with the Decree of the President of Ukraine "On urgent measures to accelerate the reform of the agrarian sector of the economy" dated 3.12.1999, No 1529/99, are: private (private-leased) enterprises, farms, business associations, agricultural cooperatives, as well as other business entities based on private property.

According to Part 3 of Article 55 of the Economic Code of Ukraine, business entities, depending on the number of employees and income from any activity for the year, may belong to small businesses, including micro-businesses.

According to the SFSU Letter (2016), small businesses are individuals-entrepreneurs and legal entities-economic entities of any organizational and legal form and form of



ownership, in which the average number of employees for the reporting period (calendar year) does not exceed 50 people and the annual income from any activity does not exceeds the equivalent of €10 million.

Micro entrepreneurs are individuals-entrepreneurs and legal entities-business entities of any organizational and legal form and form of ownership, in which the average number of employees for the reporting period (calendar year) does not exceed 10 people and the annual income from any activity does not exceed an amount equivalent to 2 million euros.

Practically small agricultural entrepreneurship in the countryside includes farms and peasant farms, which are family-labour associations of rural residents for the purpose of agricultural production, based on personal labour aimed at generating income and private subsidiary farms of citizens based on the private property of citizens and their personal labour and labour of their family members brings additional profit.

According to the Concept for the Development of Farms and Agricultural Cooperation for 2018-2020 (2017), important factors in the long-term sustainability of the development of the agricultural sector of the economy in terms of economic and social indicators are the economic, organizational and sectoral structure, in which the main place is occupied by small forms of entrepreneurship.

That is, small agricultural entrepreneurship should be considered as a special type of economic activity aimed at effective activities and profits based on independent initiative, responsibility and original entrepreneurial idea of agricultural producers and rural residents (TULUSH, 2018).

According to the State Statistics Service, there are 40.7 thousand private farms in Ukraine (of which 20%, or 8.1 thousand with an area of up to 10 hectares) and 4,200,000. Personal peasant farms with an average land area of 1.5 hectares ensure the production of more than 50% of gross agricultural products, including 97% of potatoes, 82-86% of vegetables, fruits and berries, almost 80% of milk, more than 40% of meat.

By satisfying the domestic market's demand for labour-intensive and commercially unattractive food products for other producers, they also allow enterprises in the corporate sector to increase the production of export-oriented agricultural products.

Farming and personal peasant holdings are a place of employment for 80% of people employed in agriculture. In agriculture, the number of small businesses in the structure of their total number is 17% for small and 12% for micro enterprises (Table 1).





The niche occupied by the subjects of small agricultural business (small and micro-enterprises) is quite capacious.

Table 1: Number of agricultural enterprises in Ukraine by type of economic activity with distribution to large, medium, small and micro enterprises in 2018

	Total	large		medium		small		of which micro-	
		units	%	units	%	units	%	units	%
<b>Total</b>	<b>355877</b>	<b>446</b>	<b>0.1</b>	<b>16057</b>	<b>4.5</b>	<b>339374</b>	<b>95.4</b>	<b>292772</b>	<b>82.3</b>
Agriculture	50504	23	0.0	2298	4.6	48183	95.4	42907	85.05

Source: authors' calculations based on: State Statistics Service of Ukraine (<http://ukrstat.gov.ua>)

According to the studies carried out on the dynamics and structure of the value added of agricultural enterprises (Table 2), it was found that in 2012 their share was 28.1%, and in 2018 - already 37.7%, and the created added value increased by 3.4 times.

Reproduction costs in 2011 were 25%, in 2016 - 20%. This is a calculated value for balancing financial resources, as well as the actual indicator of gross value added. The difference between the added value of products and the cost of its reproduction ultimately reflects net income (a positive value in balance sheet calculations); there has been a significant increase since 2014.

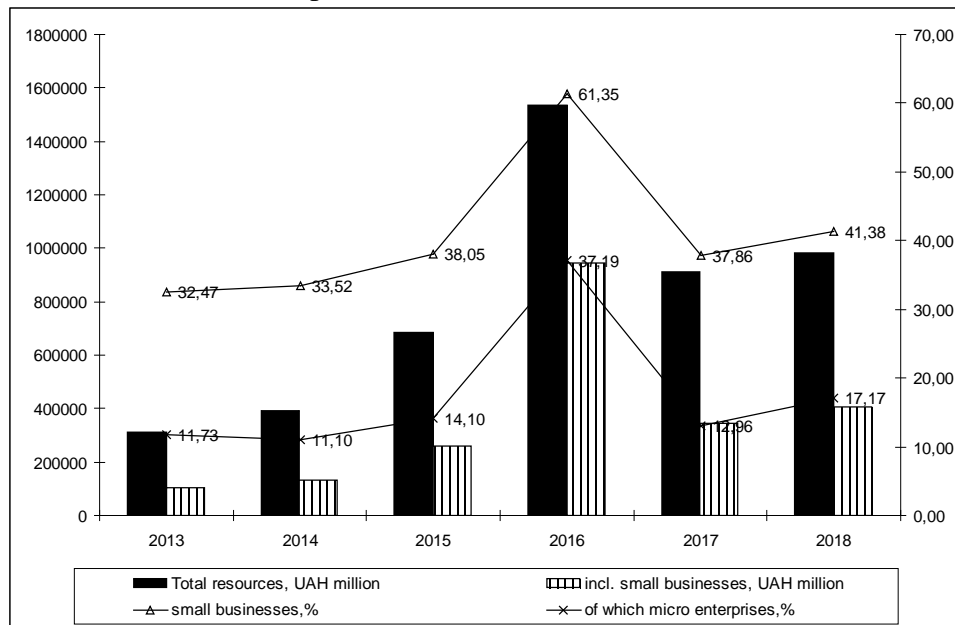
Table 2: Dynamics and structure of value added of agricultural enterprises in Ukraine for 2012-2018, UAH million

Years	large		medium		small		of which micro-	
	million UAH	%	million UAH	%	million UAH	%	million UAH	%
2012	10491.4	14.1	43007.4	57.8	20908.4	28.1	4910.9	6.6
2013	9893.1	14.2	34207.9	49.1	25568.9	36.7	7803.0	11.2
2014	15683.0	12.5	59846.4	47.7	49934.7	39.8	20325.2	16.2
2015	32361.9	17.6	94143.7	51.2	57368.8	31.2	15445.4	8.4
2016	19814.9	10.6	96644.4	51.7	70473.8	37.7	21871.2	11.7
2017	8780.8	4.5	91920.6	47.0	94746.4	48.5	37310.3	19.1
2018	5912.9	2.9	105103.4	52.1	90921.5	45.0	31055.3	15.4

Source: authors' calculations based on: State Statistics Service of Ukraine (<http://ukrstat.gov.ua>)

The volume of consumed financial resources of the industry, including small and micro enterprises for the period 2013-2018, is shown in Figure 1.

Figure 1: Dynamics of financial resources for the activities of agricultural, including small and micro-enterprises in Ukraine for 2013-2018, UAH million; %



Source: authors' calculations based on: State Statistics Service of Ukraine (<http://ukrstat.gov.ua>)

On average, for the year under consideration, the resources of the agricultural sector amounted to UAH 803.68 billion and for small enterprises - UAH 364.80 billion, or 45.5%. According to the trend line, estimated until 2016, in the next five years, the annual increase in financial resources of small agricultural enterprises should be UAH 26.5 billion, with an R2 reliability of 75%.

However, this trend is not confirmed in practice, since in 2016 there was an inflationary increase in resources, and in subsequent years, through the efforts of the Government to coordinate the exchange rate of the national currency, this factor became less significant.

The upward trend in the share of added value and financial resources of the IAP not least of all depends on the government's policy aimed at supporting it, primarily in the agricultural sector, manifests itself in direct and indirect government support, credit programs, international assistance, etc.

Table 3 shows the structure of the balance of agricultural enterprises, with the help of which the added value for the analysed period is formed.

If in 2012 non-current assets of small enterprises accounted for 45.3% of the balance sheet, then in 2018 the assets accounted only 37.1%. The share of current assets in accordance with increased in 2018 to 43.4%.

Table 3: Structure of the balance of agricultural enterprises in Ukraine, %

Years	Assets				Liabilities					
	irreversible		reversible		capital		Long-term obligation		current obligation	
	total (to balance)	small (to all)	total (to balance)	small (to all)	total (to balance)	small (to all)	total (to balance)	small (to all)	total (to balance)	small (to all)
2012	36.8	45.3	63.2	54.7	53.6	56.8	12.7	15.0	33.7	28.1
2013	37.7	39.6	62.3	60.4	50.1	52.0	13.7	27.9	36.2	35.4
2014	31.5	31.3	68.5	68.7	42.0	42.5	16.1	27.4	41.9	44.8
2015	25.0	21.1	75.0	78.9	40.2	36.0	9.9	30.9	49.9	55.9
2016	14.2	34.8	85.8	92.0	24.1	13.9	4.0	27.8	71.9	84.2
2017	29.8	38.1	70.1	38.0	47.8	37.2	6.0	28.8	45.6	39.6
2018	33.4	37.1	66.5	43.4	49.0	34.9	8.0	51.2	42.5	46.9

Source: authors' calculations based on: State Statistics Service of Ukraine (<http://ukrstat.gov.ua>)

The share of equity capital decreased from 56.8% to 34.9%, long-term liabilities increased from 15% to 51.2%, current liabilities increased from 28.1% to 46.9%. Mostly, financial resources were generated from outside sources, but the share of short-term loans does not exceed 16% of current liabilities for this period. If for large agricultural enterprises for 2013-2018 the share of loans is stable at 12% in the structure of current liabilities, for medium - from 15% in 2013 it decreased to 10% in 2018, then for small ones the decline is significant - from 13% in 2013 to 4% in 2018.

At the same time, the sources of financial resources used are not reflected in the profitability indicators. According to the Table 4, if in 2013 the profitability of microenterprises was 7%, then the same in 2018.

Table 4: Profitability of agricultural enterprises in Ukraine by their size, %

Years	Operating activities				All activities			
	large	medium	small	of which micro-	large	medium	small	of which micro-
2012	29.7	19.6	22.7	19.4	24.6	13.1	16.7	13.6
2013	20.0	8.4	12.9	13.0	15.3	6.3	8.1	7.0
2014	23.8	20.8	18.5	14.4	14.9	6.9	9.8	6.6
2015	54.3	37.8	41.4	36.2	45.4	23.4	32.4	30.9
2016	29.3	30.4	37.2	33.0	24.7	21.6	30.0	26.5
2017	24.6	20.8	24.1	24.2	20.5	15.4	15.6	7.7
2018	22.9	17.1	18.6	16.4	21.2	14.3	10.9	7.9

Source: authors' calculations based on: State Statistics Service of Ukraine (<http://ukrstat.gov.ua>)

Ensuring profitable production of agricultural products depends on the price environment and curbing the growth of production costs, including inflation.

The legislation provides for a number of measures that directly relate to the support of small farms:

- attracting small and self-employed forms of farming (personal peasant farms) to the organized agricultural market;
- legislative consolidation of the family type of farming (family farms) with the provision of such farms with the status of agricultural producers;
- development of small and family farms on the basis of their cooperation and association; reform of state support;
- state support for farms, small and medium-sized agricultural producers by providing soft loans (including long-term loans to finance projects aimed at the production (with possible subsequent processing) of agricultural products, and to reduce the cost of insurance payments (premiums) under agricultural insurance contracts from the risk of death

The proposals are consistent with the areas of cooperation in the field of agriculture and rural development within the framework of the Association Agreement between Ukraine and the EU (Section V "Economic and sectoral cooperation", Chapter 17 "Agriculture and Rural Development", Art. 403, art.404) (2014).

According to the law "On the development and state support of small and medium-sized enterprises in Ukraine" (2012), financial state support is provided at the expense of state and local budgets. Among the main types of financial state support, clause 4 provides for the provision of loans for starting and running your own business. There are also several directions and support programs for MAP in the State budget.

Accordingly, in recent years, MAPs had very limited access to short-term loans to replenish working capital and had virtually no access to long-term financing. The reasons for these problems are varied: from lack of funds to the unstable state policy, the main of which are shown in Table 5.

An analysis of the financial resources of agricultural enterprises indicates that they mainly work at their own expense, the share of which is still insufficient for expanded reproduction. The limitedness of its own financial resources necessitates expanded access to external resources, the development of both banking and partner forms of lending.



Table 5: Problems of access of small agricultural businesses of Ukraine to financial resources

<b>Institutional</b>	<b>Organizational</b>
Unfavourable institutional environment: - lack of understanding of the social and economic importance of small agricultural producers for agricultural and rural development; - non-observance of the declared principle of equality of various forms of management	Economic discrimination: - disunity of the MAP, inability to influence the formation of state policy; - limited access to effective mechanisms of state support for the agricultural sector; - difficult access to the markets of finance, land and material and technical resources, product sales
Lack of full-fledged legislative support for rural development: - lack of state, regional and local rural development programs; - uncertainty of the legal status of family forms of agricultural farming; - legislative unresolved issues of employment and social protection of members of the OCG	Organizational restrictions: - low efficiency of management and production; - insufficient level of professional accounting and financial literacy of farmers; - lack of collateral assets; - impossibility of using land as security
Limited access to agricultural financing, through: - lack of creditworthy borrowers, especially in the segment of microcredits: - general macroeconomic and financial risks, - risks of the agricultural sector; - risks of small agricultural business	Socio-demographic restrictions: - low educational and professional level of the rural population; - depletion of the labour potential of rural areas; - social isolation of the village, lack of programs for the formation of human and social capital; - lack of motivation of young people for family management
Restricting the possibility of providing agricultural financing to the MAP of the non-banking system: - credit unions; - pledge certificates; - promissory notes; - low level of demand for agricultural insurance	

Source: according to technical documents of the Ministry of Economic Development (2020)

Against the background of reasons constraining the development of small business, such as the underdeveloped legislation, the uncertain nature of the tax burden, the absence of an effective state mechanism for promoting the development of small business, and the limitation of technical means, the issue of access to financial resources, including credit, is especially acute.

For the period 2017-2019 State support programs for agricultural producers have been relatively constant. Now programs are in place: support for activities in the agro-industrial complex by reducing the cost of loans; support for the development of farms; support for the development of hop growing, the establishment of young orchards, vineyards and berry fields; providing loans to farms; support for the livestock industry, storage and processing of agricultural products, aquaculture; financial support for agricultural producers.

Within the framework of these programs, targeted areas of support are targeted, for example, financial support for farmers provides for the following measures: partial compensation for the cost of seeds, compensation for expenses related to the provided



agricultural advisory services, support for agricultural service cooperatives, partial compensation for the cost of purchased agricultural machinery and equipment of domestic production, budget subsidies per unit of cultivated land (1 hectare) - again and to other farms, cheaper loans, repayment of accounts payable. The state of financing of state support for the development of enterprises in the agricultural sector at the expense of the general fund of the state budget is shown in Table. 6.

Table 6: The state of financing of state support for the development of the agricultural sector of Ukraine, UAH million

Program / direction	Fact 2018	Plan 2019	Fact 2019
2801030 Financial support for activities in the agro-industrial complex by reducing the cost of loans	266	127	104
2801230 Financial support for the development of farms	203	800	230
2801350 State support for the development of hop growing, the establishment of young orchards, vineyards and berry fields	394	400	120
2801460 Providing loans to farms	-	200	140
2801540 State support for the livestock industry, storage and processing of agricultural products, aquaculture	2390	3500	1600
2801580 Financial support for agricultural producers	912	882	640
<b>Together:</b>	<b>4166</b>	<b>5909</b>	<b>2835</b>

Source: according to technical documents of the Ministry of Economic Development (2020)

In 2019, UAH 5.9 billion is provided for state support programs for the agro-industrial complex, which is UAH 1.7 billion more than in 2018. As of 11/13/2019, financing of state support programs was completed at 48% of the annual plan and 60% of the plan for the period.

The state of funding, as in 2018, is unsatisfactory. Despite the fact that there are clearly not enough funds planned, even within the minimum 1% of the gross output of the industry initiated by the former Ministry of Agrarian Policy, the allocated funding is not being used properly. According to the given data, the plan was fulfilled only under the program of granting loans to farms.

Agrarians received UAH 104 million to compensate for interest on loans, the largest amounts of which were received by agrarians of Vinnitsa, Cherkassy and Kiev regions. Concessional loans were attracted in the amount of more than UAH 4 billion.

For the most significant program, state support for the animal husbandry industry, storage and processing of agricultural products, aquaculture (fish farming), the budget for 2019 provides UAH 350 million, completed by 46% (UAH 2,390,000,000 was spent in 2018). In the livestock sector, according to the Ministry, the acceptance of documents for receiving subsidies for the maintenance of cows, which received more than 1000 applications, has been completed,



the total amount of funding for which is set at UAH 700.0 million. The subsidy is provided twice a year and 885 economic entities have already used it for keeping 307 thousand cows.

During this period, UAH 640 million was allocated as part of the program of partial compensation from the state budget for the cost of purchased agricultural machinery and equipment of domestic production. If earlier the program included less than 800 items of machinery and equipment, now there are more than 12.5 thousand. By September 2019, almost 3 thousand agricultural producers took advantage of the program, who purchased 5104 units of machinery and equipment with a total value of UAH 1.6 billion.

In addition, for 2019, in accordance with the adopted regional programs to support the development of enterprises in the agro-industrial complex, it is planned to allocate funds in the amount of UAH 262.5 million, which is UAH 54.6 million more than in 2018 (UAH 207.9 million). For the first quarter of this year, UAH 34.3 million was actually financed, only 13.1% of the need.

Thus, the presented state programs for supporting agriculture at the end of 2019 are characterized by significant underfunding. Although the manager of budgetary funds guarantees that by the end of the year the situation with state support will be resolved, the budget will receive the necessary revenues and the programs announced by the government will be financed, state support not only in terms of volumes, directions, but also in terms of delivery does not fulfil its main function - maintaining the level effective demand of consumers of products and prevention of profitability of producers.

For 2020, the government retains funding for small producers, because the focus of the state agricultural policy is precisely on supporting small and medium-sized businesses. Also the government provided for reimbursement of loans for livestock and the purchase of agricultural land. The state budget for 2020 provides for the amount of UAH 4.2 billion to support the agro-industrial complex, of which UAH 1.2 billion is expected to be allocated for a program to reduce the cost of loans. In particular, the program includes: compensation of interest on loans for agricultural enterprises with an annual turnover of up to UAH 20 million.

According to the relevant ministry, this direction will not have restrictions on the targeted use of loans. The state will compensate up to 1.5% of the NBU discount rate, the final cost of a loan for an agricultural producer will not exceed 5%; compensation of interest on loans attracted for the development of animal husbandry, including "niche" areas - sheep breeding, goat breeding, beekeeping, fur farming and others. It is assumed that the amount of



loans should not exceed UAH 10-15 million; compensation of interest on loans attracted for the purchase of agricultural land. The direction will apply to agricultural producers of various forms of management. The amount of compensation interest will not exceed UAH 5 million per year. Today in Ukraine there are 38 authorized banks, through which the program of state support for agricultural producers is being implemented.

The Ministry of Economic Development, Trade and Agriculture of Ukraine has approved the distribution of funds in the amount of UAH 124.9 million to compensate agricultural entities for actually paid interest on loans for January-June 2020. As of now, the funds have been directed to authorized banks, which, in turn, will direct them to manufacturers. The funds will be received by 696 borrowers who have applied to authorized banks.

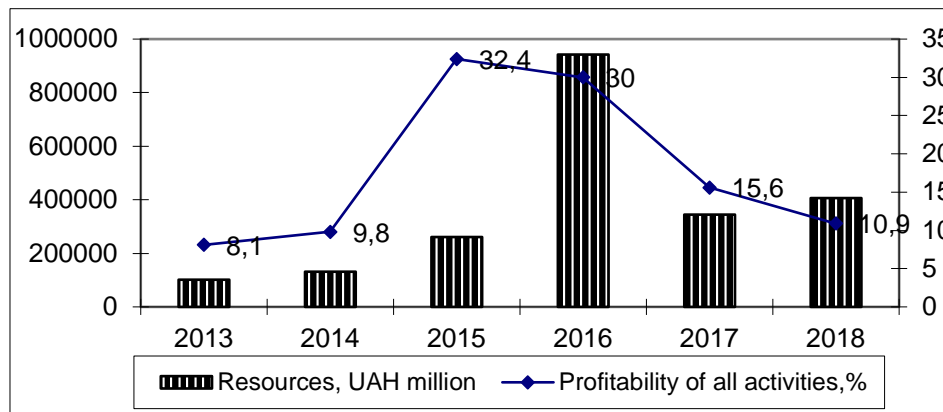
The total volume of loans attracted by enterprises is UAH 5 billion, of which concessional (subject to compensation) - UAH 3.4 billion, including: a) by types of loans: short-term - UAH 1.3 billion (37.9%); medium-term - UAH 1.5 billion (44%); long-term - UAH 0.6 billion (18.1%); c) by the types of activities of borrowers: livestock industry - UAH 0.7 billion (19.6%); other industries - UAH 2.7 billion (80.4%). The average interest rates of banks, under which economic entities of the agro-industrial complex attracted loans, amounted to 14-16% per annum. Out of the total number of authorized banks that signed a Memorandum on general principles of cooperation with the Ministry of Economy (33 banks), 19 banks took part in providing compensation for loans.

Summing up the stated statistical data on the resources and results of the activities of the Ministry of Aviation Industry of Ukraine over the past 5 years, it can be predicted that in the next 3 years for the annual growth of the profitability of all activities by 5 pp. it is necessary to simultaneously increase financial resources by UAH 8 billion (Fig. 2), with a very low correlation significance by the power function  $R = 0.6364$ .

The reliability of the forecast made on the basis of Excel instruments, however, is not high. If we consider that the real financial resources of the MAP in 2018 amounted to UAH 410 billion, then their growth over a three-year period is almost two times possible only on the basis of speculative financial factors. The higher the reliability of the forecast and balance of the financial potential of the MAP of Ukraine requires a more perfect mathematical apparatus, which is the object of further research.



Figure 2: Dynamics of financial resources and profitability of all activities of small agricultural enterprises of Ukraine in 2013-2018, thousand UAH; %



Source: authors' calculations based on: State Statistics Service of Ukraine. Retrieved from: <http://ukrstat.gov.ua>

The Agrarian Committee of Ukraine presented the program of activities of the Fund for the Development of Rural Areas (2020), the funds of which in the amount of UAH 2.50 billion will be focused on such important areas as: infrastructure, Internet, energy conservation, education and medicine in rural areas, rural tourism. In addition, through the Fund, state programs for the development of small and medium-sized agricultural producers will be implemented, in particular, in the field of organic production.

The fund is designed to finance the implementation of state programs for the development of small and medium agricultural producers, in particular, in the field of organic production. Development of small and medium-sized entrepreneurship in the agricultural sector and related industries, in particular, green tourism. The sources for the formation of the Fund for the Development of Rural Areas are planned: deductions from the special fund of the State Budget - 1%; special fund of the local budget - deductions of 20% from the lease of land plots of state and municipal property; income from international technical assistance programs; in the absence of a source of filling the special fund of local budgets, programs and projects are co-financed at the level of at least 10% from the local budget.

The revenues of the special fund of the State Budget in 2020 amount to UAH 119 billion, of which 1% is UAH 1.190 billion should go to the Rural Development Fund. Also, 1 million 633 thousand hectares of leased land of state and municipal property, of which 20% - 326.6 thousand hectares with an average cost of 3667 UAH/ha will give another UAH 1,198 billion.

In the absence of a source of filling, 60% of the funds are planned to be distributed taking into account the area of the community (proposal of the committee), 40% - taking into account the number of registered business entities in the State Agrarian Register.

To accelerate the growth of the agro-industrial complex and increase the inflow of foreign currency into the country, it is necessary to return the summer state support of at least 1-2% of the country's GDP. Therefore, it is necessary to correlate funds of state support for the agricultural sector and the development of rural areas.

For developed countries, including almost all European countries, a typical model is that within the executive branch of government there are separate ministries with the primary function of promoting sustainable rural development. Thus, the proposal is not sufficiently substantiated and requires further development.

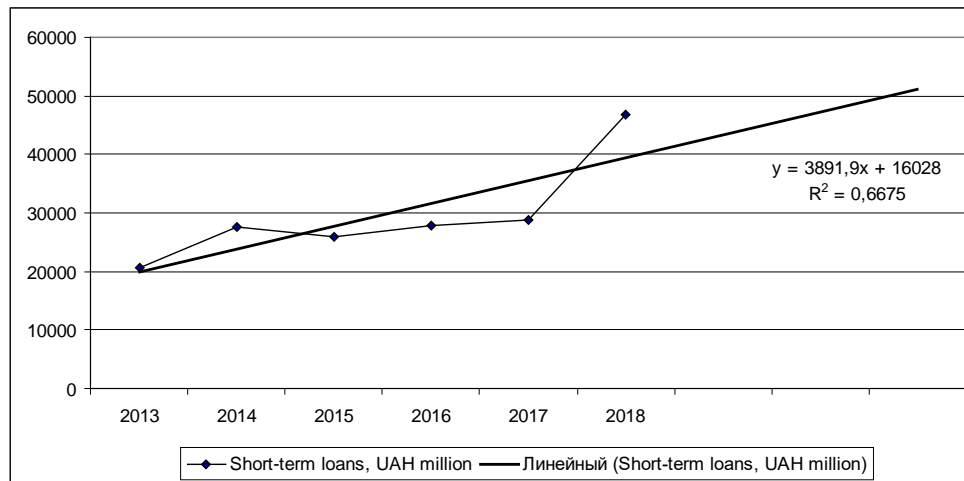
At the panel discussion "Land Market 2020" within the framework of GRAIN UKRAINE (2020), it was emphasized that farms have a preferential taxation system, compensation for ERUs, and will not be taxed per hectare. It is expected that this will contribute to the development of small and medium-sized entrepreneurship in rural areas in the agrarian sector and related industries.

Against the background of the reasons hindering the development of small business, such as the underdeveloped legislation, the uncertain nature of the tax burden, the absence of an effective state mechanism for promoting the development of small business, the issue of access to financial resources, including credit, is especially acute.

Organization and management of the process of business development in rural areas is possible by supporting its financial support, one of the manifestations of which is the microcredit system. Microcredit is one of the elements of financing, which involves the provision of a small amount of debt by a bank or other financial institution. This is a specific form of lending to small businesses, which is: limited in size, does not require collateral, is provided for a short period (up to a year), to entrepreneurs who do not have a credit history. Actually, micro crediting appeared in developing countries as assistance to the poor rural population, but in the CIS, micro crediting immediately acquired the features of supporting small businesses. In Ukraine, these processes since 2010 were accompanied by the support of the government and international credit organizations (RADCHENKO, 2020).

Analysis of the dynamics of the volume of short-term loans (Fig. 3) shows a certain growth. With a reliability of 67%, it can be predicted that their annual growth in the coming years will amount to UAH 4 billion, with an actual average annual volume of UAH 30 billion for 2013-2018.

Figure 3: Dynamics of the volume of short-term bank loans for agricultural enterprises in 2013-2018, thousand UAH



Source: authors' calculations based on: State Statistics Service of Ukraine. Retrieved from: <http://ukrstat.gov.ua>

The most active loans are attracted by medium-sized enterprises, while the share of small and micro-enterprises is very insignificant. And if the low level of loans for large enterprises can be explained by sufficient collateral with their own funds or attracting long-term loans, including through foreign banks, small and micro-enterprises face the difficulty of obtaining bank loans.

An analysis of the financial condition of small businesses shows that they mainly work at their own expense, the share of which is still insufficient for expanded reproduction. The positive dynamics of attracting loans to small and micro-enterprises was predicted with great certainty, even in the existing conditions and resources. Thus, the annual increase in volumes for small businesses is possible within the range of UAH 1.7 billion ( $y = 1696.9x + 4136.2$   $R^2 = 0.905$ ), and for micro - UAH 1.1 billion for the next three years ( $y = 1108.8x + 1625.1$   $R^2 = 0.8818$ ).

For the development of small business in rural areas, micro crediting can act as a guaranteed state source of attracting credit resources, the conditions of which are small, even entrepreneurs without start-up capital can get it, it does not require a credit history, as well as loan security.

Since the guarantor, as expected, will be the state, then, first of all, the loan funds are directed to socially significant projects, support of certain strategically important industries, types of products, primarily organic, stimulation of self-employment, expansion of the network

of services for the rural population, business for export, in terms of its cooperation in order to improve quality, certification and standard batches of products and the like.

## 5. CONCLUSIONS

Measures for the implementation of the MAP financing system are developed on the basis of analysis and assessment of the current and future state of the development of small agricultural entrepreneurship and its financial support. At the first stage, it is advisable to determine the priority sectors and the most prepared enterprises that are able to attract additional financial resources. The policy in the field of formation of the financing system should be aimed at creating conditions for expanded access to external financing, encouraging the creation and support of the development of small agricultural entrepreneurship.

1. In order to activate the formation of a financing system, it is necessary at the state level to support MAP enterprises by compensating part of their costs through targeted lending and other sources of financing, stimulating the market to issue such loans, and creating an appropriate state guarantee fund.

Activities are carried out with such a degree of detail that the developers of the financing system consider appropriate, taking into account the priority areas of activity of small agricultural enterprises, proposals of the domestic and foreign markets.

2. When determining the timing of the implementation of measures to create a financing system for the MAP, it is necessary to take into account that this system is being developed for several years and should provide for periodic reporting on the progress of its implementation, as well as the formation of indicators for the monitoring system of information on the service market, funding entities, the effectiveness of the use of funds and their impact rural development.

3. Financial, credit and investment support for the implementation and improvement of systems for expanding access to financing for the Ministry of Aviation Industry of Ukraine is the most important task of forming the system. Measures are being developed to introduce mechanisms to simplify the access of enterprises to financial and credit resources and measures to develop the infrastructure of financial and credit support for systems implementation facilities, including specialized banking and non-bank financial institutions, investment companies and funds, regional credit guarantee institutions, microcredit funds, credit unions.

4. The task of the developers of the financing system is to combine the financial capabilities of all suppliers of resources to expand access to sources of financing for small





agricultural enterprises, to create an optimal mechanism for using financial and investment opportunities, to attract foreign loans and investments. This includes the following main activities: provision of loans by commercial banks and other financial institutions, including microcredit; creation of regional financial funds for the development and implementation of microcredit systems, expanding their provision of consulting and financial support to small agricultural businesses; attracting domestic and foreign investments to the region's economy; formation of a list and data bank of investors (domestic, foreign, sponsorship and donor organizations, private investors).

5. On the formation of the MAP financing system, it is necessary to note the main expected results and the effectiveness of the implementation and implementation of the main measures: an increase in the number of small agricultural enterprises using state support (units); quality indicators of financing (form of provision of resources, term of service, conditions of provision, service); creation of new jobs (units) and achievement of the planned indicators of employment of the rural population of the region (persons); economic effect (growth in the volume of proceeds from the sale of competitive products (goods, works, services) (percent), the share of small business in the GDP of agriculture; dynamics of changes in indicators of the state of the financial potential of small agricultural enterprises (annual) (units, percent), the volume of attracted investments, which are formed through the financing system.

## REFERENCES

ASSOCIATION AGREEMENT BETWEEN UKRAINE, on the one hand, and the European Union, the European Atomic Energy Community and their Member States, on the other hand {Agreement ratified by a statement of Law 1678-VII of 16.09.2014}. Available: <https://euroua.com/association/>. Access: 15 March 2020. (in Ukrainian).

BECHKO, P. K.; BARABASH, L.V.; NATALICH, O. S. (2017) Directions of optimization of crediting of subjects of managing of agrarian branch. **Financial Services**, n. 3, p. 38-42. (in Ukrainian).

COMMITTEE OF THE VERKHOVNA RADA OF UKRAINE ON AGRARIAN AND LAND POLICY. Available: <http://komagropolit.rada.gov.ua/>. Access: 20 March 2020. (in Ukrainian).

CONCEPT OF THE RURAL DEVELOPMENT FUND (2020) Available: <https://uteka.ua/publication/news-14-delovye-novosti-36-v-minekonomiki-predstavili-koncepciyu-fonda-razvitiya-selskix-territorij>. Access: 15 March 2020. (in Ukrainian).

DEMYANENKO, M. Ya. (2014) Credit factor of sustainable development of the agricultural sector of Ukraine. **Economics of agro-industrial complex**, n. 11, p. 5–14. (in Ukrainian).



DENDUP, T.; DORJ, P.; GYELTSHEN, T.; PENJOR, L. (2018) Relationship between Entrepreneurial Factors and Small Agro-enterprises' Success: Evidence from Bhutan. **Journal of Economics, Management and Trade**, p. 1-9. DOI: 10.9734 / JEMT / 2018/41089.

DOBEŠ, K.; KOT, S.; KRAMOLIŠ, J.; SOPKOVA, G. (2017) The perception of governmental support in the context of competitiveness of SMEs in the Czech Republic. **Journal of Competitiveness**, v. 9, n. 3, p. 34-50. DOI: <https://doi.org/10.7441/joc.2017.03.03>

GRUBINKA, I. (2015) Possible directions for improving state support for credit support of agricultural enterprises. Bulletin of Lviv National Agrarian University. Series: **Economics of agro-industrial complex**, v. 22, n. 1, p. 115-118. (in Ukrainian).

GULA, A. S. (2016) Technology of diagnostics of creditworthiness of agrarian enterprises by methods of multidimensional modeling. **Financial and credit activities: problems of theory and practice**, v. 2, p. 189-201. (in Ukrainian).

KAN, A.; KAN, M.; DOĞAN, H. G.; TOSUN, F.; UCUM, I.; SOLMAZ, C. (2018) Evaluation of young farmers project support program in terms of agri-entrepreneurship in Turkey. **Pakistan Journal of Agricultural Sciences**, v. 55, n. 4. Available: [http://www.medsci.cn/sci/show\\_paper.asp?id=387f41166ea41680](http://www.medsci.cn/sci/show_paper.asp?id=387f41166ea41680)

KIRILENKO, I. G.; IVCHENKO, V. E. (2016) Structural reforms in the countryside: world experience, Ukrainian realities. **Economics of agro-industrial complex**, n. 2, p. 5. (in Ukrainian).

KOVAL, N. I.; RADCHENKO, O. D. (2019) Determinants of the state of financial resources of small agricultural enterprises. **Bulletin of VNAU. Economics series**, n. 3, p. 100-116. (in Ukrainian).

KROPIVKO, M. M. (2016) The main directions of increasing the productivity of farms. **Economics of agro-industrial complex**, n. 12, p. 51. (in Ukrainian).

"LAND MARKET 2020" in the framework of Grain Ukraine 2020. Limited Edition Available: <https://bit.ly/37W2SGB>. Access: 15 March 2020.

LAW "On Development and State Support of Small and Medium Enterprises in Ukraine" of March 22, 2012 № 4618-VI. Available: <https://zakon.rada.gov.ua/laws/show/4618-17#Text>. Access: 15 March 2020. (in Ukrainian).

LETTER of the SFSU dated November 8, 2016 №24033 / 6 / 99-99-14-03-03-15 On providing tax advice. Available: <http://sfs.gov.ua/baneryi/podatkovi-konsultatsii/konsultatsii-dlya-yuridichnih-osib/70278.html>. Access: 15 March 2020. (in Ukrainian).

LUPENKO, YU. O.; MESEL-VESELIAK, V. I. (2012) **Strategic directions of development of agriculture of Ukraine for the period till 2020**. Kyiv: National Research Centre "Institute of Agrarian Economics" (in Ukrainian).

MALIK, N. I.; SHPIKULYAK, A. G.; MAMCHUR, V. A. (2020) Realization of the purposes of sustainable development of Ukraine in the context of transformation of personal farms into family farms. **Economics of nature management and sustainable development**, v. 7, n. 26, p. 21-31. (in Ukrainian).

MINISTRY OF ECONOMIC DEVELOPMENT, TRADE AND AGRICULTURE OF UKRAINE. Available: <https://www.me.gov.ua/?lang=uk-UA>. Access: 15 March 2020. (in Ukrainian).



NAKKU, V. B.; AGBOLA, F. W.; MILES, M. P.; MAHMOOD, A. (2020) The interrelationship between SME government support programs, entrepreneurial orientation, and performance: A developing economy perspective. **Journal of Small Business Management**, v. 58, n. 1, p. 2-31. DOI: <https://doi.org/10.1080/00472778.2019.1659671>.

NEMISH, D. V.; SAVKA, M. V. (2020) Development of personal farms and their transformation into family farms. **Economics of agro-industrial complex**, n. 2, p. 54. (in Ukrainian).

OLIYNYK, O. O. (2014) Conceptual approaches to building a system of microcredit in the agricultural sector of the economy. **Scientific Bulletin of the National University of Life and Environmental Sciences of Ukraine. Series: Economics, agricultural management, business**, v. 200, n. 3, p. 40-47. (in Ukrainian).

PORTOVARAS, T.; HARBAR, Z. H.; SOKURENKO, I.; SAMOILYK, Iu. (2020) Management of small business entities. **Independent Journal of Management & Production**, 11(8), 680-694. DOI: [dx.doi.org/10.14807/ijmp.v11i8.1226](https://doi.org/10.14807/ijmp.v11i8.1226).

RADCHENKO, O.; LEONTOVICH, S. (2020) The Role of State Financial Regulation in Strengthening the National Security of Ukraine. **Gesellschaftsrechtliche Transformationen von wirtschaftlichen Systemen in den Zeiten der Neo-Industrialisierung**.

KORNIEIEV, V.; PASICHNYK, YU.; RADCHENKO, O.; KHODZHAIAN, A. und andere: Collective monograph. Verlag SWG imex GmbH, Nuremberg, Germany.

RADCHENKO, O.; TSVIHUN, I.; YASINETSKA, I.; BUDNIAK, L. (2020) Financial resource balance of the agricultural sector: case of Ukraine. **Independent Journal of Management & Production**, v. 11, n. 8. p. 615-625. DOI: 10.14807/ijmp.v11i8.1221

RADCHENKO, O.; SEMENYSHENA, N.; SADOVSKA, I.; NAHIRSKA, K.; POKOTYLSKA, N. (2020) Foresight Development Strategy of the Financial Capacity: Comparative Study of the Ukrainian Agricultural Sector. **Engineering Economics**, v. 31, 178-187. DOI: 10.5755 / j01.ee.31.2.24340.

RADCHENKO, O. D. (2018) Support of the agricultural sector through preferential lending mechanisms. **Collection of scientific works of the University of the State Fiscal Service of Ukraine: electronic scientific publication**. Goal. ed. M.O. Kuzhelev, n. 1, p. 161-177. (in Ukrainian).

RADCHENKO, O. D. (2020) Formation of the system of agrarian microcredit Entrepreneurship in the agrarian sphere: global challenges and effective management: **Proceedings of the I International scientific-practical conference** (February 12-13, 2020): at 2 o'clock Zaporozhye: ZNU, Part 1, p. 232-235. (in Ukrainian).

RADCHENKO, O. D.; ALESKEROVA, YU. V.; TODOSIYCHUK, V. L. (2018) Credit aspects of state support for the development of the agricultural sector of Ukraine. **Bulletin of VNAU. Economy. Finances. Management: current issues of science and practice**, v. 11, n. 39, p. 84-94. (in Ukrainian).

RADCHENKO, O. D.; LAZUTINA, L. A. (2018) Methodological approaches to assessing the financial potential of rural development in Ukraine. **Agrarian Economics**, n. 12, p. 52-58. (in Belarus).

REZAEI-MOGHADDAM, K.; IZADI, H. (2019). Entrepreneurship in small agricultural quick-impact enterprises in Iran: Development of an index, effective factors and obstacles. **Journal of Global Entrepreneurship Research**, v. 9, n. 1, p. 17. DOI: 10.1186 / s40497-018-0133-3.



THE CABINET OF MINISTERS sent 125 million to farmers for compensation of interest for the use of loans: Available: <https://biz.censor.net.ua/n3212089>. Access: 15 March 2020. (in Ukrainian).

THE CONCEPT OF DEVELOPMENT OF FARMS AND AGRICULTURAL COOPERATION FOR 2018-2020. Order of the Cabinet of Ministers of Ukraine dated 13.09.2017 № 664-r. Access: 15 March 2020. (in Ukrainian).

THE ONLY COMPREHENSIVE STRATEGY FOR THE DEVELOPMENT OF AGRICULTURE AND RURAL AREAS FOR 2015-2020 URL: <http://minagro.gov.ua/node/16025> (accessed September 18, 2018). (in Ukrainian).

TULUSH, L. D.; HRYSHCHENKO, O. YU. (2018) Transformation of high-commodity private households into entrepreneurship subjects: tax and budget aspects. **Ekonomika APK**, n. 1, p. 40-52. (in Ukrainian).

TULUSH, L. D.; RADCHENKO, O. D. (2020) Financial support for sustainable development of villages and rural areas of Ukraine. **Improving the financial and credit mechanism to ensure the innovative development of the economy**: a collection of abstracts of the All-Ukrainian scientific-practical Internet conference. Part 1. Dubliani, p. 262-265. (in Ukrainian).

ZBARSKY, V. K.; ALEKSEEVA, Yu. Yu. (2017) Features of transformation of rural households into family farms. **Economics of agro-industrial complex**, n. 7, p. 23 (in Ukrainian).

ZIN, M. L. M.; IBRAHIM, H. (2020) The Influence of Entrepreneurial Supports on Business Performance among Rural Entrepreneurs. **Annals of Contemporary Developments in Management & HR**, v. 2, n. 1, p. 31-41. DOI: 10.33166 / ACDMHR.2020.01.004.

