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**ЕКОНОМІКА ТА УПРАВЛІННЯ НАЦІОНАЛЬНИМ ГОСПОДАРСТВОМ**

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**EFFICIENCY ESTIMATE OF THE STATE SUPPORT MECHANISM FOR UKRAINIAN AGRICULTURAL SECTOR**

**Abstract.** *The relative effectiveness of state support for domestic agriculture with all its direct and indirect mechanisms using the technique of Organization for Economic Cooperation and Development has been analyzed.*

**Keywords:** *state support for agricultural producers; producer support estimate; consumer support estimate; total support estimate.*

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**ОЦІНКА ЕФЕКТИВНОСТІ МЕХАНІЗМУ ДЕРЖАВНОЇ ПІДТРИМКИ АГРАРНОЇ СФЕРИ УКРАЇНИ**

**Анотація.** *Проаналізовано відносно ефективність державної підтримки вітчизняної аграрної сфери з урахуванням усіх прямих та опосередкованих її механізмів з використанням методики Організації економічної співпраці і розвитку.*

**Ключові слова:** *державна підтримка агровиробника; оцінка підтримки виробника; оцінка підтримки споживача; оцінка загальної підтримки.*

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**ОЦЕНКА ЭФФЕКТИВНОСТИ МЕХАНИЗМА ГОСУДАРСТВЕННОЙ ПОДДЕРЖКИ АГРАРНОЙ СФЕРЫ УКРАИНЫ**

**Аннотация.** *Проанализирована относительная эффективность государственной поддержки отечественной аграрной сферы с учетом всех прямых и опосредованных механизмов с использованием методики Организации экономического сотрудничества и развития.*

**Ключевые слова:** *государственная поддержка агропроизводителя; оценка поддержки производителя; оценка поддержки потребителя; оценка общей поддержки.*

**Actuality.** In an era of rapid globalization of world commodity and capital markets and, consequently, high dynamism of their parameters, the responsibility of national authorities to ensure proper, or at least more or less acceptable operating conditions of domestic agricultural production and compliance with at least a minimum level of country's food security increases significantly. Under conditions of limited budget resources the importance of providing their acceptable efficiency of usage increases including to support the agricultural sector, the ability to take advantage of the benefits that occasionally are given by the dynamics of world food markets. High acuity of the above issues for modern Ukraine causes quite a significant relevance of problems viewed in this article.

**Problem definition.** Each year only from the state budget of Ukraine billions of dollars are directed for direct and indirect support of domestic agricultural sphere. The question arises as to the effectiveness of this support and as to the place of Ukraine among the countries by indexes of state protectionism for national agricultural producers.

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**Analysis of recent studies and publications.** Agricultural sphere state support and country's food security issues are widely reflected in studies of such domestic and foreign scientists: Belsky V. I., Borschevsky P. P., Brown L., Vlasov V. I., Voloshin O. R., Hoychuk O. I., Gusakov V. G., Humerov R., Deyneko L. V., Ilyina Z. M., Kaletnik G. M., Kvasha S. M., Krysanov D. F., Lysak M. A., Moldovan L. V., Paskhaver B. J., Sabluk P. T., Holt Giménez E., Shubravska O. V. and others.

**Pointing out the unexplored aspects of the problem.** Despite the multiple and considerably thorough studies of the problem mentioned above, the volatility of world food markets and high dynamism of food policy of countries and international economic groups, competing Ukraine, lead to the necessity of constant tracking and analyzing the trends in agricultural sphere support indexes in real time mode.

**Setting objectives.** The article is a complex efficiency estimate of the existing mechanisms of state support for Ukraine's agricultural sector and a determination of the respective positions of our country among the OECD members.

**Main material.** Let us make a comparative estimate of state support for the agricultural sector of Ukraine using the technique of Organization for Economic Cooperation and Development (OECD). Despite the presence of conventions and assumptions in this technique (usage of the difference between domestic and world prices as a criterion for the presence and the level of agricultural sphere state support), its use seems to us quite reasonable. This technique allows not only to make time and inter-state comparisons, but also to estimate the domestic agricultural sector support dynamics, taking into account the consequences of spontaneous, "shadow" and latent influence of society's political elite on domestic agricultural production.

The period of existence of independent Ukrainian state has not been marked by the presence of some at least relatively stable approach to the state policy formation concerning domestic agricultural sector. The periods of relative support and protectionism had been periodically replaced by the periods of active squeezing funds from agricultural sphere (Table 1). The gradual improvement of the business climate in Ukraine, which has taken place since the second half of the 90s together with the continuation of the trends of making payments from the budget to agricultural producers allowed to change the practice of using domestic agriculture as a donor for "transformations", carried out in the country, into the reverse processes. The period from 1997 up to 2010 gives a reason to say about a certain, although sometimes purely nominal, state support of agriculture in Ukraine. Moreover, this support was provided primarily by means of direct budget payments to agricultural producers related to materials used in a sphere and production volumes. In the "best" in the context of state support for agricultural producers 2005 - 2006 years, the volume of resources reallocation from taxpayers and consumers to support farmers reached over 10% of their total income.

Table 1

**PSE dynamics in Ukraine (by the international methodology)**

Million UAH

Indexes	1995-1997	2008	2009	2010	2011	2012	2013	2014
1	2	3	4	5	6	7	8	9
<b>Producer Support Estimate (PSE)</b>	<b>-1775</b>	<b>8462</b>	<b>19505</b>	<b>16602</b>	<b>-13834</b>	<b>4472</b>	<b>-11157</b>	<b>-34294</b>
Support based on commodity output	-2850	1714	9979	4261	-27339	-12064	-28486	-52661
Market Price Support (MPS)	-2866	-2416	8604	2208	-27374	-13881	-30862	-53432
Payments based on output	16	4130	1375	2053	36	1817	2376	771

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1	2	3	4	5	6	7	8	9
Payments based on input use	551	4475	8695	9541	10373	12502	13257	14105
Payments based on Area planted, Animal numbers, Receipts, Income	525	2273	830	2801	3132	4034	4072	4262
Producer Support Estimates (PSE), %	-8,9	5	10	6,5	-4	1,5	-3,2	-8,2

**Source:** OECD «Producer and Consumer Support Estimates», OECD Agriculture Statistics (database), <http://dx.doi.org/10.1787>

However, with the beginning of the 2010s the situation around the national agricultural sphere changed again. Under the relative stability of budgetary payments to agricultural producers the main reason of drop in PSE was the change in price parity of internal and external prices for agricultural products.

In 2013 - 2014 years on the background of military-political crisis in the country, with a noticeable weakening of national currency, the situation with price parity for Ukrainian farmers became even worse. This led to a sharp drop of PSE index and its gaining a negative value, that is another transformation of the system of redistribution of financial resources towards their outflow from Ukraine's agricultural sector.

Thus, one can make a conclusion that some (and not so minor in absolute terms) amount of direct state support for domestic agricultural producers is largely offset by the lack of means of indirect support to agriculture through the mechanism of pricing. As a result the Ukrainian agricultural sphere continues to donate funds for proclaimed "reforms", losing because of price disparity sometimes up to 10% of total revenue in the form of a sort of indirect taxation.

The mentioned above situation puts domestic agricultural producers, *ceteris paribus*, in more difficult circumstances in comparison with producers from other OECD countries. The latter tend to have very substantial support due to certain state and sometimes interstate (European Union) protectionism. Although the whole level of this support in OECD countries has dropped considerably over the last decade, its average is more than 15% of agricultural producers' income and in such countries as Norway, Switzerland, Japan, and Korea - from 50 to 60%.

It should be noted that the main component of the agricultural sphere support mechanism in OECD countries is not direct budgetary payments, but market prices support. Such countries as Indonesia, China, and Kazakhstan are increasing the amounts of state preferences to agriculture, thus creating additional advantages for its competition with the producers from Ukraine in the world markets and in the future, perhaps, in our domestic market.

An important and in some periods of time a crucial component of the state support mechanism of the agro-food system of Ukraine is a general services support (GSSE), especially transfers to education, personnel training and research in agriculture (Table. 2). During 2008 - 2013 years the annual financial investments in this area reached from 5 to 7 billion UAH, which sometimes was more than 60% of the agricultural producers direct budget support.

Even compared to other OECD countries the state investments in providing services for agriculture is quite noticeable. Only during 2012 - 2014 years, they (according to OECD) reached 575.1 million USD. Consider that 45% of these state investments in 2014 were a funding in research and agricultural sphere innovation systems, against the 29% in the OECD countries. These support

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priorities concerning the domestic sector of providing services to agriculture could be viewed as very progressive, if there are proper grounds to speak about the relevant return of the specified government spending in the form of a noticeable increase in personnel and technological potential of the agricultural sector of Ukraine.

Table 2

### **GSSE dynamics in Ukraine (by the international methodology)**

Million UAH

Indexes	1995-1997	2008	2009	2010	2011	2012	2013	2014
<b>General Services Support Estimate (GSSE)</b>	<b>521</b>	<b>6121</b>	<b>6883</b>	<b>4867</b>	<b>5384</b>	<b>6191</b>	<b>5253</b>	<b>3487</b>
Agricultural knowledge and innovation systems	131	1935	1915	2097	2412	2837	1995	1951
Development and maintenance of infrastructure	329	843	904	1012	997	1296	293	9
Marketing and promotion	5	25	51	49	214	37	56	16
Cost of public stockholding	0	2432	3239	193	237	305	1168	180
GSSE, % of TSE	...	42,0	26,1	22,7	...	58,1	...	...

**Source:** OECD «Producer and Consumer Support Estimates», OECD Agriculture Statistics (database), <http://dx.doi.org/10.1787>

Thus, the overall dynamics of TSE index was determined, above all, by the MPS index for the product, which was not usually favorable for domestic agricultural producers. Accordingly, transfers from taxpayers, received in various forms of budget support, generally could not compensate reverse transfers to consumers from producers of agricultural products (Table 3).

Table 3

### **TSE dynamics in Ukraine (by the international methodology)**

Million UAH

Indexes	1995-1997	2008	2009	2010	2011	2012	2013	2014
<b>Total Support Estimate (TSE)</b>	<b>-1253</b>	<b>14583</b>	<b>26388</b>	<b>21469</b>	<b>-8449</b>	<b>10663</b>	<b>-5904</b>	<b>-30807</b>
Transfers from consumers	-3454	9687	15140	3589	-21541	-11911	-18107	-39429
Transfers from taxpayers	1957	9611	15987	19032	13450	23521	14369	8591
Budget revenues	245	-4716	-4740	-1152	-358	-947	-2166	32
TSE, of GDP	...	1,54	2,89	1,98	-0,64	0,8	...	...

**Source:** OECD «Producer and Consumer Support Estimates», OECD Agriculture Statistics (database), <http://dx.doi.org/10.1787>

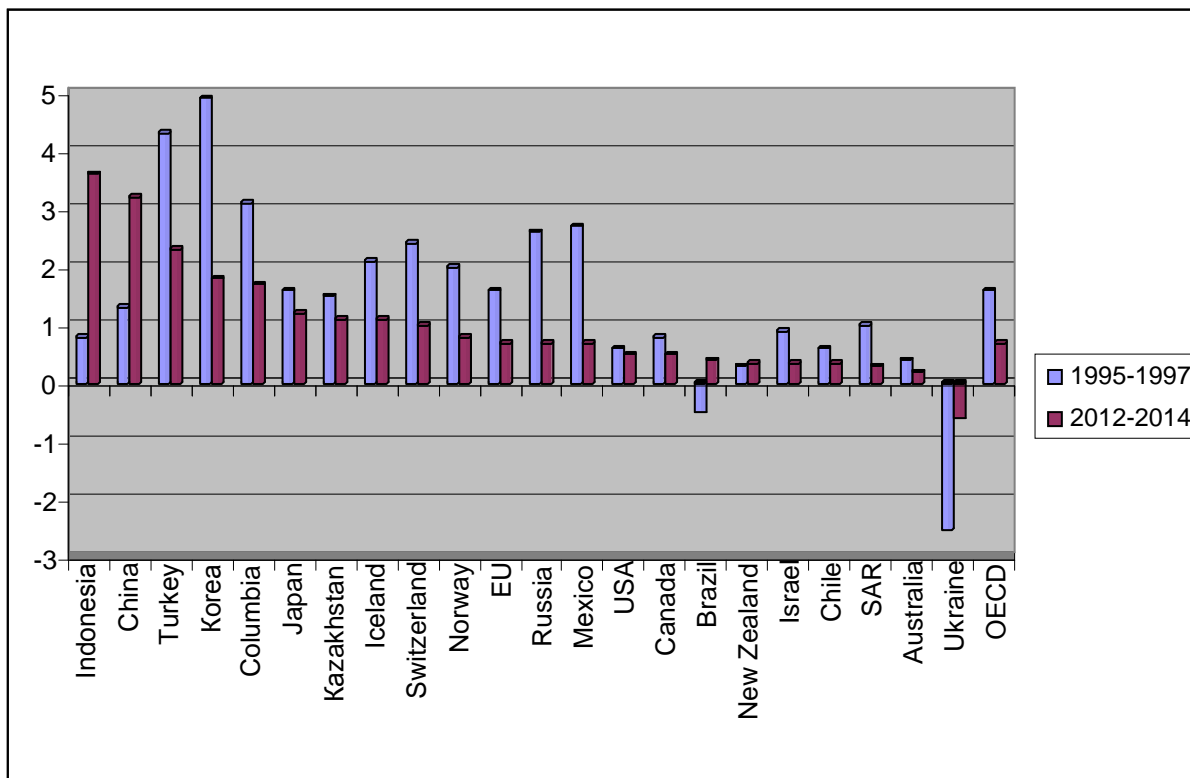
As a legacy of the Soviet Union, the Ukraine inherited a situation when the PSE index reached an average of 72%, which means that about  $\frac{3}{4}$  of agricultural producers' gross income was formed by means of state support [1, p. 95]. Isolation breach of domestic agricultural producers as to the external markets, liberalization of the economy with the sharp rise in the prices of material and technical resources required for agriculture, reduction of direct state support led to a sharp drop of TSE index. With a certain fluctuations of TSE index during the 90 s, its negative value became commonplace, which is difficult to interpret otherwise than the lack of real support of national agricultural sphere from the state with all its direct and indirect mechanisms.

The situation has changed since the year of 2000. The reason was a significant increase in direct budget expenditures to support the agricultural sector of Ukraine. In particular, in 2004 the corresponding budget expenditures amounted to 2.7 billion UAH, which was 3.5 times more than the

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figures of 2000, and in 2006 their amount increased to 6.6 billion UAH. [1, p. 97]. In addition, debt restructuring on overdue tax obligations, partial write-offs for delivered by state material and technical resources, introduction of tax exemptions on VAT and so on had a positive effect. However it is difficult to disagree with the conclusions that there was no significant improvement in domestic agricultural sphere [1, p. 97]. This, among other things, causes a number of questions about the compliance of agricultural sector budget support mechanisms, with a predominance of payments based on material and technical resources consumed by sphere, with modern Ukrainian realities.

It was already noted about the transformation of real parameters of state support for domestic agricultural sphere in 2011 - 2014 and its main reasons. The result of these changes was not a quite usual among OECD countries situation "around the agricultural sphere" in Ukraine in the context of state assistance to the flow/outflow of financial resources in the sphere (Fig. 1). Back in 2001 - 2006s, when there were all reasons to speak about the real state participation in solving many (including financial) problems of domestic agriculture, Ukraine was a part of the group of countries with the lowest level of its state support [1, p. 101]. In 2013 - 2014s Ukraine had become almost the only OECD country with a negative TSE index. In such circumstances, domestic agricultural producers under the competition have to rely except on the availability of large amounts of suitable and even favorable (yet) for agricultural production farmlands and cheap but still high-quality workforce.



**Figure 1. TSE dynamics in OECD countries (% of GDP).**  
 Indonesia, China, Turkey, Korea, Columbia, Japan, Kazakhstan, Iceland, Switzerland, Norway, EU, Mexico, Canada, Brazil, New Zealand, Israel, Chile, SAR, Australia, Ukraine, OECD.  
**Source:** OECD (2015a) «Producer and Consumer Support Estimates», OECD Agriculture Statistics (database), <http://dx.doi.org/10.1787/agr-pcse-data-en>.

**Conclusions.** Thus, we believe there is every reason to affirm far from optimal efficiency of a current state agrarian policy of Ukraine, as well as the mentioned policy for the entire period of independence of our country in general. The mechanisms used, which are based primarily on direct budget payments to agricultural producers at the expense of taxpayers, are not well-judged and not



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properly adapted to the specific conditions of Ukraine with all its peculiarities and peculiarities of its population. The interrelation of significant amounts of budget financial resources to support agriculture with a very limited effect from their use does not allow to speak about the effectiveness of the current mechanism of agro-food system state support. With no overall more or less clear strategic line, the state financial policy for domestic agriculture (including the use of budgetary mechanisms) is focused on trying to solve some tactical problems, and therefore the mechanisms used are unsystematic, inconsistent and often incompatible with the principle of saving and more efficient use of very limited in today's Ukraine budget resources.

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