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STRATEGIC IMPERATIVES OF THE ECONOMIC DEVELOPMENT OF AGRICULTURE SECTOR OF UKRAINE

Summary

Agriculture is an important sector of the Ukrainian economy, which is accounted for a fifth of GDP and one-third of the employed population. There is the projected increase in demand for agricultural products in major export markets. However, to unlock the potential of this industry, it is necessary to solve a number of problems, namely: low productivity, poor quality of products, and poor infrastructure. Improving access to financing is a key to the successful solution of all these problems.

Introduction

For a long time, humanity explores and analyses a strategy as a phenomenon and as a tool to solve its own problems. In this context, all we want to know what we do tomorrow, the next day, in the long run, how to manage the processes occurring in the world. To solve this problem, the theory and practice of the modern management offer the use of strategic management.

The problem of the development strategy of economic entities in the agrarian sector of the economy and the formation of integrated structures are illuminated in scientific works of P.T. Sabluk, V.G. Andriyчук, V.I. Boyko, M.Yu. Kodenska, M.F. Krapivko, D.F. Krysanova, I.I. Lukinova, O.M. Onishchenko, V.V. Yurchishin, M.Y. Malik, V.Ya. Mesel-Veseljак, O.M. Borodina, M.A. Hvesik, B.Y. Paskhaver, S.I. Demyanenko, Yu.I. Basaev, V.M. Yatsenko, I.G. Khramova, etc. However, the formation of a market economy requires further in-depth study of strategic directions for activities of producers in terms of intersectoral integration [4].

Part 1. The strategy of the economic development of the agricultural sector of Ukraine

Agriculture is an important sector of the Ukrainian economy, which is accounted for a fifth of GDP and one-third of the employed population. There is the projected increase in demand for agricultural products in major export markets. However, to unlock the potential of this industry, it is necessary to solve a number of problems, namely: low productivity, poor quality of products, and poor infrastructure.

Improving access to financing is a key to the successful solution of all these problems.

Despite a significant increase in lending to agriculture by banks and microfinance institutions, the cost of borrowing remains high particularly for small agricultural enterprises. Microfinance institutions, which cater mostly to small farmers and provide 60% of external financing in agriculture, charge high interest rates. At the same time, bank loans, which accounted for only 40%, focused on large agricultural enterprises. Peasant (farmer's) economy can offer only limited or inadequate collateral to cover the risks involved, which further affects the possibility of obtaining a bank loan to finance productive activities and investment. At the disposal of banks, there are a number of tools that can remedy the situation: leasing, credit guarantees, and contract financing. However, it should be noted that with the exception of leasing, which has developed rapidly in recent years, the use of these tools is limited.

Presentation of the basic material. The strategy is seen as the objective, which seeks to approach the company. Most of the sample achieves this goal; we take a highly profitable enterprise, analyse the positive sides of the activities and try to benefit from the experience. In modern scientific literature, we can distinguish two main concepts of strategy – philosophical and organizational management.

Organizational management associated with specific actions, measures, and methods of the implementation of strategic activities at the enterprise.

The strategy defines the main directions and means to achieve the goals of strengthening, growth, and survival of the organization in the long term based on the concentration of efforts on certain priorities [6].

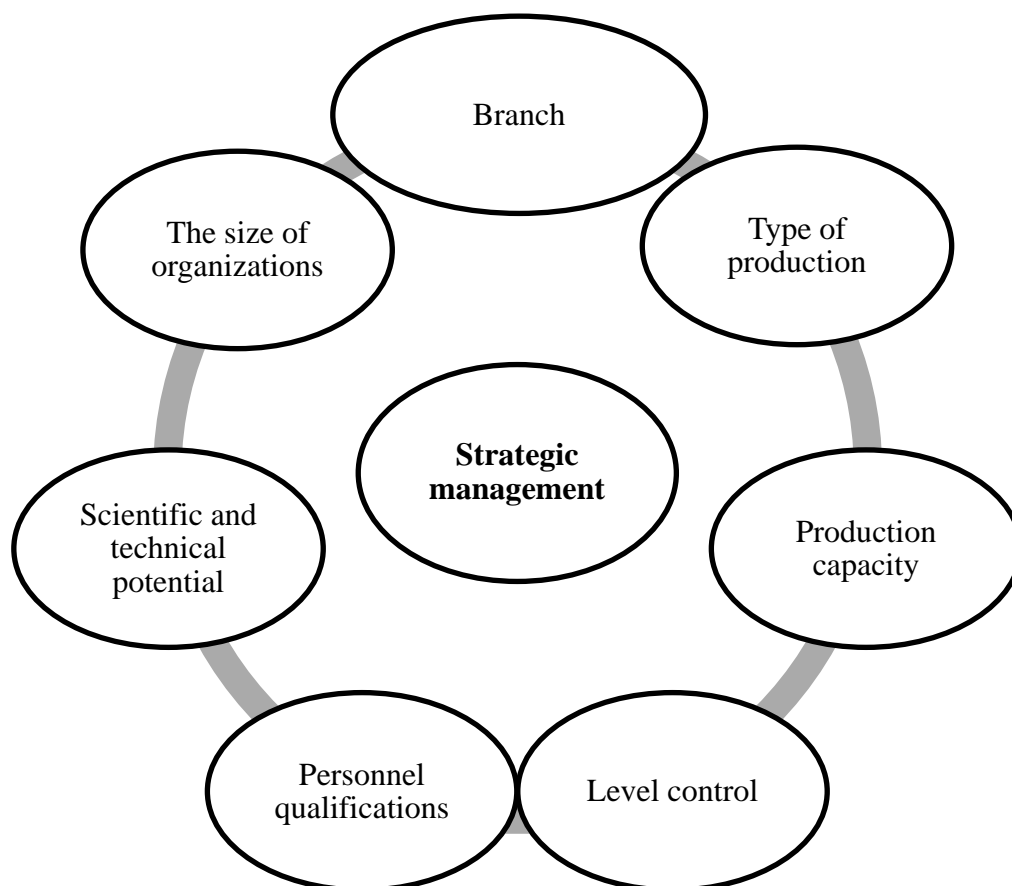


Fig. 1. The interaction of factors that shape strategic management

It is a way of establishing relationships between an enterprise and external environment and is based on very generalized, incomplete and insufficiently accurate information. The strategy is being continuously updated in the process activities, which should contribute to a well-established feedback [3].

Strategic management is the implementation of the concept, which combines targeted and integrated approach to the activities of the organization that gives the ability to set development goals, compare them with existing capabilities (potential) of the organization and bring them into compliance through the development and implementation of system strategies («strategic set»).

The concept of strategic management lies in the Foundation of strategic thinking and finds expression in the characteristic features of its application.

The characteristic features of the system of strategic management depend on the interaction of the following factors (Fig. 1).

This is especially true for the agricultural sector, the development of which an important feature is a rapidly progressing integration, which penetrates into the various aspects of modern life. In the context of globalization of agricultural markets and growing, demand for food in the world and in the agriculture of Ukraine, in particular, have begun the processes of concentration of capital and formation on this basis of the integrated structures.

Part 2. Analysis of agricultural development in Ukraine

Analyse the productivity of agricultural enterprises in the dynamics of Ukraine for 1990–2015 based on Table 1 [1].

After analysing the data of Table 1, it can be concluded that the productivity of agricultural enterprises has mixed trend due to the fact that agricultural production depends on uncontrollable factors (natural). Even with the rational use of resources, the right strategy and tactics, influenced by the natural conditions of the rationality of production and productivity, can be greatly reduced.

The Ukrainian agricultural sector with a production capacity that far exceeds the needs of the domestic market can contribute to the development of the national economy and its effective integration into the world economic space, and provide a multiplier effect for the development of other sectors of the national economy [3].

What is important now is building a strategy for the development of efficient, socially oriented agricultural sector. It needs to meet the needs of the internal market and ensure a leading position in the world on the basis of the diversity and priority of support of farms, whose owners live in rural areas, combine the right to land hard on it, as well as their own economic interests with the social responsibility to society.

The strategy is a long-term course of development of the company, the way of achieving the goals, which it defines for itself, according to its own considerations in their policies.

In market conditions for the development of the strategy, every company should realize such important elements of its activity: mission, competitive advantages, and peculiarities of business organization, markets and available resources [3].

It should be noted that not each strategy can be implemented in practice. This is especially true for the agricultural sector, where is a significant influence of the uncontrolled factors.

The analysis of the activity of enterprises of the agricultural sector in a market economy gave the opportunity to distinguish the factors that most significantly affect the content of their development strategies (Fig. 2).

Table 1

Dynamics of productivity of agricultural enterprises of Ukraine

Year	1 employed in agricultural production in constant prices of 2010, UAH			In % to the previous year		
	Agricultural production	Crop production	Animal	Agricultural production	Crop production	Animal
1990	50388,5	59554,9	41184,4	...	...	...
1991	42826,6	49187,9	36506,7	85	82,6	88,6
1992	36369,7	50510	25250,7	84,9	102,7	69,2
1993	36707,5	56794,3	21391,1	100,9	112,4	84,7
1994	31117,5	46943,3	19467,4	84,8	82,7	...
1995	30254,8	45822,2	17596	97,2	97,6	...
1996	26339,8	39573,6	15097,3	87,1	86,4	85,8
1997	28174,2	44012,2	12402	107	111,2	82,1
1998	25484,8	36203,6	14121,4	90,5	82,3	113,9
1999	24103,8	33461,2	13575,5	94,6	92,4	96,1
2000	27066,9	...	...	112,3	...	...
2001	34577,2	...	...	127,7	...	...
2002	40728,8	51315	23691,1	117,8	...	...
2003	38007	44266,3	27351,7	93,3	86,3	115,5
2004	63376,9	78074,1	36084	166,8	176,4	131,9
2005	72621,9	86198,1	47992,8	114,6	110,4	133
2006	83854,6	98033,7	58507,4	115,5	113,7	121,9
2007	88571,3	94905,2	75970,2	105,6	96,8	129,8
2008	127372,5	142513,5	92722,8	143,8	150,2	122,1
2009	131332	138741,7	113976,7	103,1	97,4	122,9
2010	132680,4	133603	130473,7	101	96,3	114,5
2011	165229	171142,8	148840,3	124,5	128,1	114,1
2012	159679	155543,8	171798,3	96,6	90,9	115,4
2013	201216,9	202220,5	198185,6	126	130	115,4
2014	227753,4	228884,7	224105,1	109,1	108,2	111,6
2015	223309,9	218768	237990	98	95,6	106,2

Typical features of a modern agricultural sector are [2]:

- The uneven development of different forms of management, with a simultaneous weakening of small and medium agricultural producers as a result of activities of agricultural holdings;
- A lack of motivation for the cooperation and consolidation of small agricultural producers within rural areas;
- The weakening of the economic basis for the development of rural communities; the instability of the competitive position of domestic agricultural products in foreign markets due to non-completion of the processes of adaptation to European standards regarding quality and food safety;
- The slow pace of technical and technological renovation of production;
- Product losses due to imperfections in the logistics system and storage infrastructure of the agrarian market.

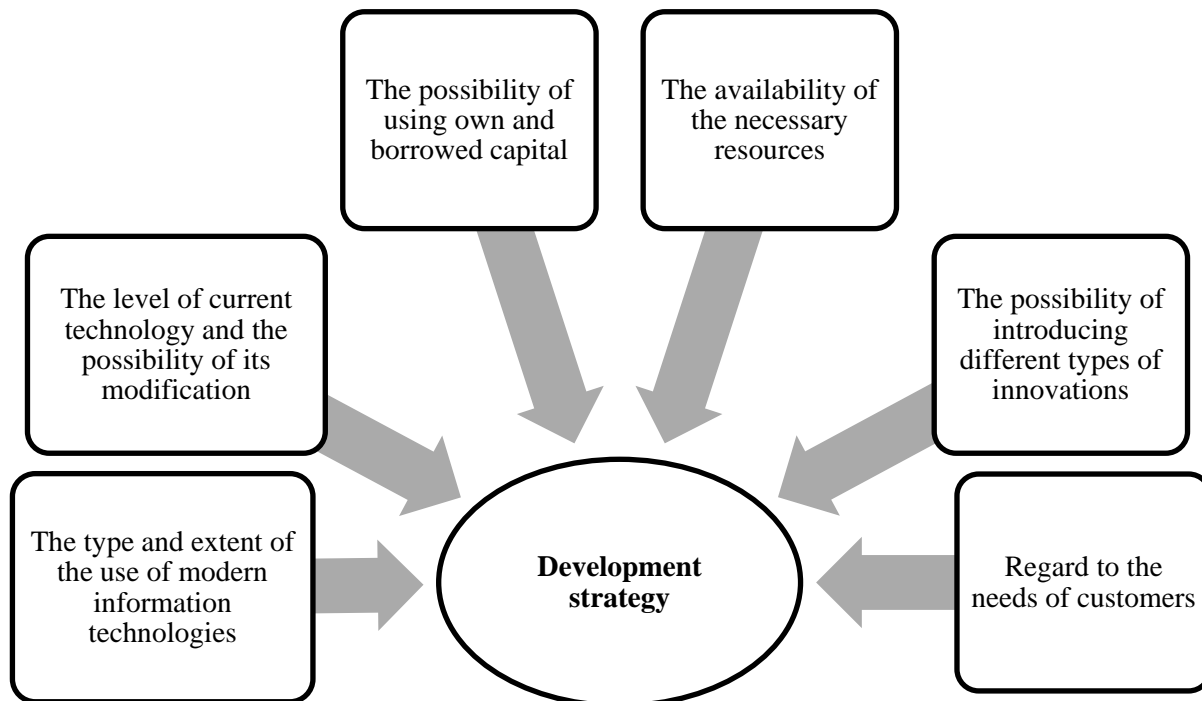


Fig. 2. Factors influencing the content of development strategy of agricultural enterprises

Strategic role in the market economy is the creation of organizational-economic conditions for the effective development of the agricultural sector by ensuring the unity of economic, social, and environmental interests of society for the stable provision of the population with quality, safe, and affordable domestic agricultural products and raw materials.

Priority areas for the achievement of the strategic goals in the development of agriculture of Ukraine are shown in Figure 3.

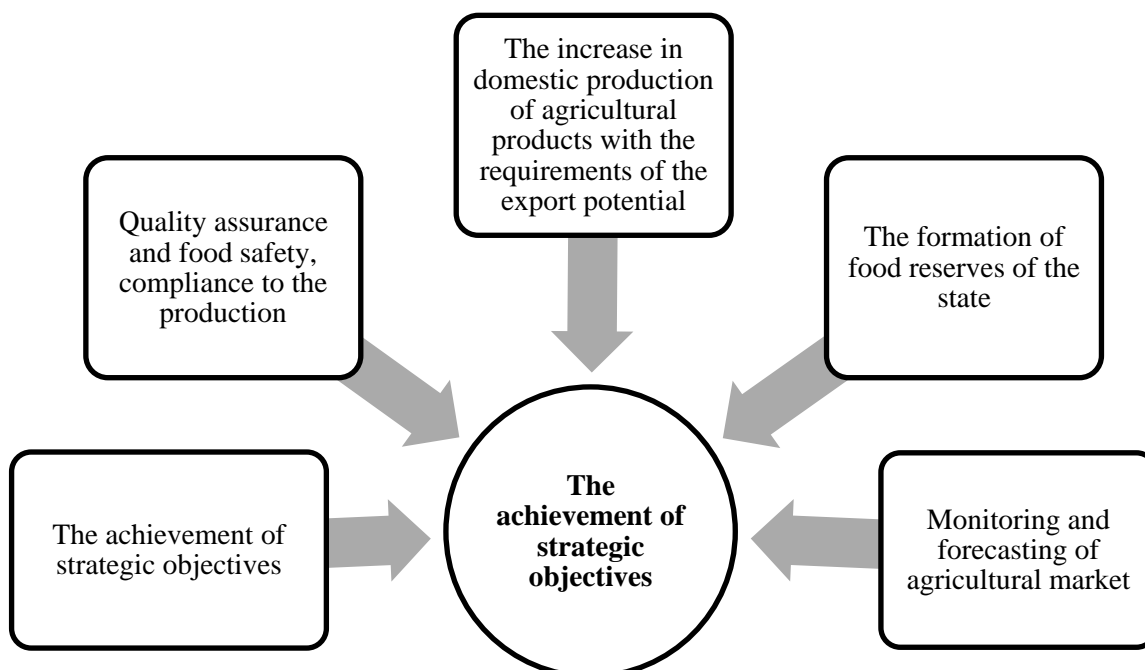


Fig. 3. Priority areas for the achievement of strategic goals in the development of agriculture of Ukraine

A significant place in the strategy of development of the agrarian sector of the economy should be inter-sectoral integration to ensure closed production cycle. At the expense of inter-industry, integration can provide a competitive production of grain and technical crops integrated farm – based sustainable foreign economic relations and integration grain and oil-extraction enterprises [8].

To increase the availability of bank loans are capable of credit on goods in the form of financing against pledge of warehouse receipts. This will solve the problem of lack of traditional collateral and help to mitigate some of the risks associated with agricultural activities. International experience shows that several countries have appreciated the advantages of this tool as a support mechanism, which contributes to improving the access of agricultural enterprises to capital.

Warehouse receipts enable farmers to obtain a loan on the security of inventory, i.e. agricultural products. Delivering goods to the warehouse and issued warehouse receipts can serve as collateral to obtain a Bank loan. Thus, the loan is a tripartite agreement between the Bank, the borrower, and the warehouse operator. The main advantage of this tool is that farmers the opportunity to obtain funding for working capital, not selling agricultural products. At the same time, this allows the goods at any time and, therefore, gives the farmers an opportunity to establish more favourable prices.

In the near future, to create a trial system of financing against the pledge of warehouse receipts, you can take the following measures:

- definition of the scope of the pilot project and focusing the work on one or two types of products that are considered most promising in terms of the development of a system of financing against pledge of warehouse receipts. In the Kyrgyz Republic, it can be goods with long shelf life such as grain, sugar or even potatoes.

- the choice of partners for the implementation of the pilot project by identifying reliable warehouses in areas of strategic importance. You may need additional technical modernization of the involved warehouses.

- strengthening the capacity of participating in the pilot project of producer associations with the aim to give them an opportunity to manage its own storage facilities, as well as the distribution and marketing of products. It is, therefore, proposed to carry out the appropriate consultations, to provide the necessary technical assistance, and disseminate information on the financial opportunities provided by warehouse receipts. It is necessary to develop a special program of financial literacy that would help farmers to understand the driving mechanisms of financing against pledge of warehouse receipts. The provision involved in the pilot project, farmers, and agricultural union of free access to information on market prices for agricultural products through the dissemination of magazines and brochures that contain only relevant information. It is necessary to achieve maximum transparency of the system and reduce the risk of speculation and abuse.

- drafting with banks, warehouse operators, and associations of agricultural producers the agreement on financing against pledge of warehouse receipts.

In the medium term, to expand the scale of the system of financing against pledge of warehouse receipts, it is recommended to implement the following activities:

- streamline a regulatory framework of commercial lending through the establishment of reliable systems of collecting and disseminating relevant information and assisting in the development of a wide range of insurance products for agriculture.

- develop a regulatory framework for registration, certification, and inspection of warehouses by the institution or the allocation of a special body supervising a compliance with the technical and financial norms in the field of production.

- ensuring long-term confidence in the system through the creation of a compensation fund that would guarantee the protection of the parties in case of default by the warehouse operators of their obligations and would keep participants from other risks. The creation of an appropriate mechanism of insurance will have a big impact on the efficiency of the new system. Need to conduct additional analysis of the costs together with banks and government agencies, to determine the size of the fund, which depending on what the scale of this funding system will take at the national level, can range from 2 to 5 million dollars.

- attracting investment in warehousing and development warehouse activities through the establishment of public-private partnerships in this area.

Improved access to loan capital is a long and complex process. Financing against pledge of warehouse receipts will help to eliminate some of the shortcomings of the credit system under the condition of strengthening cooperation between the public and private sector, especially in the part concerning the modernization of storage facilities.

For the further development of the domestic economy, it is necessary to direct the agrarian policy of the state to support social development in rural areas, improving the quality of life and economic well-being of people living in rural areas. The development of agriculture in Ukraine depends on effective funding. But recall that the financing of enterprises of the agricultural sector is carried out taking into account the specifics of functioning of this sector, which is determined by the seasonality of production; the long period of reproduction of fixed assets; the presence of a significant time interval between the implementation costs and obtain the final results; the continuity of production processes; using as means and objects of labour of living organisms that are subject primarily to the biological laws of reproduction; the dependence of the results of enterprises' activities and, accordingly, sources of financing from the influence of climatic conditions; need for credit guarantee operations and the further successful development of business entities as a consequence of the influence of previously mentioned factors [2, p. 89].

In the context of globalization significantly tense situation with the development of rural areas and providing the population with quality food products.

The main problems in the food chain «producer – consumer» are [17]:

- the inability to prolonged storage without the necessary refrigeration and processing equipment, the continuity of the production process, small amounts of the implementation;

- the concentration of the main income from intermediaries.

This more necessitated the establishment of permanent contacts between producers and processors. However, in the process of cooperation of conflict between them is especially obvious and tangible.

The existing disparity of prices for agricultural products leads to loss of manufacturers. All these problems point to the unsettled and unbalanced inter-industry linkages.

The disparity is a violation of cost relationships and, therefore, prices for agricultural products, on the one hand, and industrial goods and services bought for the needs of the village, on the other, the disparity manifests itself in a faster growth of price indices for industrial goods and services compared with the price index for agricultural products [17].

Table 2

**The volume of sold products (goods, services) of the enterprises
of agriculture according to their size, million UAH [1]**

Sale	Total, million UAH	Including							
		Large enterprises		Medium-sized enterprises		Small enterprises		of them Microenterprises	
		m UAH	in % to total volume of sales of the corresponding activity	m UAH	in % to total volume of sales of the corresponding activity	m UAH.	in % to total volume of sales of the corresponding activity	m UAH	in % to total volume of sales of the corresponding activity
Total in 2010	3366228,2	1401596,8	41,6	1396364,3	41,5	568267,1	16,9	181903,1	5,4
Agriculture	99891,4	11664,5	11,7	65553,5	65,6	22673,4	22,7	9985,0	10,0
Total in 2011	3991239,4	1775829,0	44,5	1607628,0	40,3	607782,4	15,2	189799,1	4,8
Agriculture	126961,2	12553,1	9,9	79064,4	62,3	35343,7	27,8	11007,8	8,7
Total in 2012	4203169,6	1761086,0	41,9	1769430,2	42,1	672653,4	16,0	212651,2	5,1
Agriculture	162611,1	19473,2	12,0	93979,4	57,8	49158,5	30,2	14927,7	9,2
Total in 2013	4050215,0	1717391,3	42,4	1662565,2	41,0	670258,5	16,6	216111,4	5,3
Agriculture	161130,3	23440,6	14,6	88851,3	55,1	48838,4	30,3	14439,8	9,0
Total in 2014	4170659,9	1742507,9	41,8	1723151,5	41,3	705000,5	16,9	230729,3	5,5
Agriculture	213929,8	31584,6	14,8	117041,3	54,7	65303,9	30,5	19273,6	9,0
Total in 2015	5159067,1	2053189,5	39,8	2168764,8	42	937113	18,2	307450	6
Agriculture	362310	61214,8	16,9	183213,8	50,6	117881	32,5	34057,5	9,4

The main causes of the disparity of the penetration of transport and processing monopolies in the agro-industrial sector, the establishment of their inflated prices for its products and reduced on the farm are considered. In Ukraine, the main reason for the disparity is the presence of many commercial intermediaries between the producers of industrial products intended for the village, and consumers, tax pressure, lack of subsidies on agricultural products, the fair guaranteed prices, which are provided through government contracts.

To overcome the disparity in the developed world, the government provides direct subsidy to agricultural producers (for help purpose), subsidies (share of various state grants, which receives direct farmer in the EU is 50% of agricultural production value, in Japan – 75%, U.S. – 35%), preferential loans, leasing is widely used [7].

Analyse the volume of sold products (goods, services) of the enterprises of the agricultural industry of Ukraine according to their size based on Table 2.

After analysing the data of Table 2, it can be concluded that the volume of sold products (goods, services) are dominated by large enterprises in the industry of agriculture. This is because large enterprises have more capacity to produce, they are more securely cemented its position in the markets through effective marketing activities. Medium-sized enterprises are not inferior to the much larger volume of sales.

The reason for this may be that medium-sized enterprises are not focused on quantity but on quality products. Small businesses according to the volume of sales are much inferior to large and medium-sized enterprises through the small capacity, lack of funds for advertising etc. But in practice, it is possible to observe that the products of small enterprises are in high demand. The reason for this may be the fact that small businesses, seeking to consolidate its position in the market, produce high-quality products at an affordable price. According to the table, construct a graph (Fig. 4).

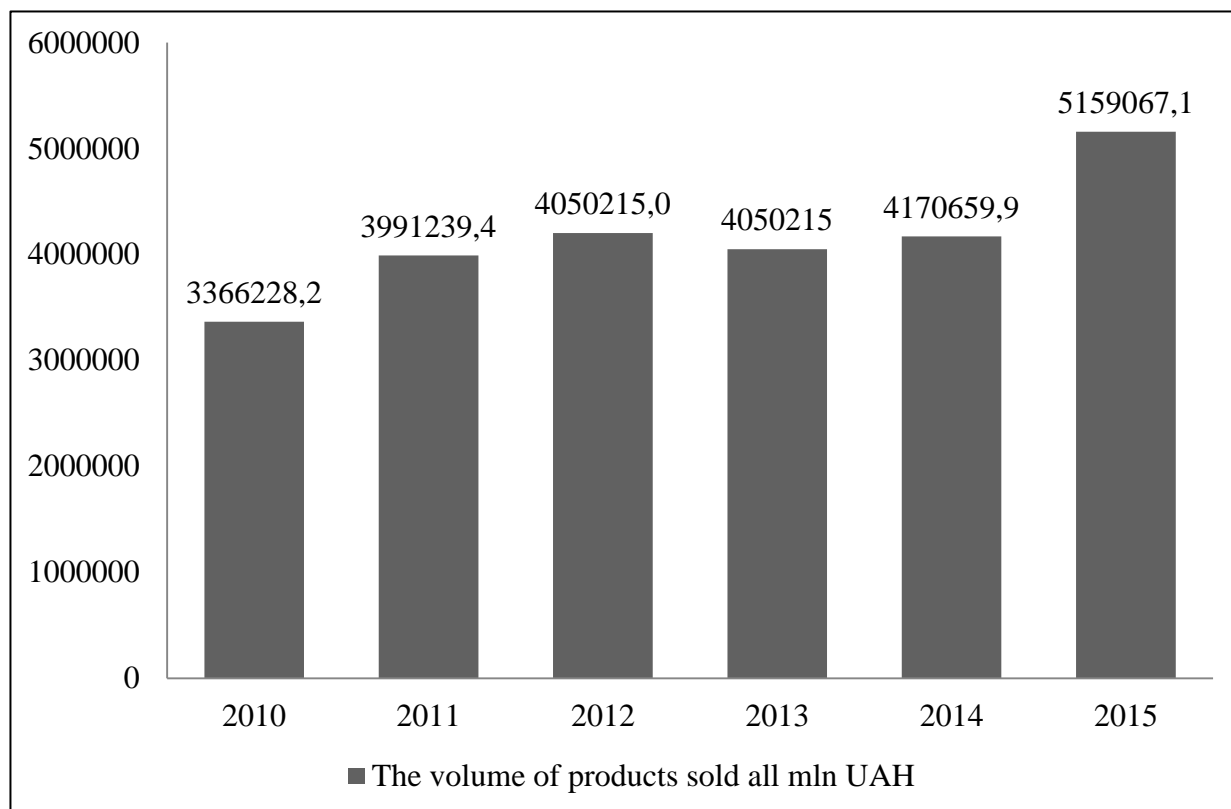


Fig. 4. Dynamics of volumes of sold products (goods, services) for 2010–2015, million UAH

Profit contributes to the stable development of agricultural enterprises; ensure the interest of labour collective in labour productivity growth, increased volumes, and effective production.

Based on the data of Table 3, let us analyse the amounts of net profit (loss) of companies in the industry of agriculture.

Table 3

Net income (loss) of the enterprises of the agricultural sector, million UAH [1]

	Net income (loss)	Businesses that made a profit		Businesses that received a loss	
		in % to total number of enterprises	the financial result	in % to total number of enterprises	The financial result
Total in 2008	-41025,1	61,3	144460,1	38,7	185485,2
Agriculture	5789,2	71,4	11822,6	28,6	6033,4
Total in 2009	-37131,1	58,9	108853,4	41,1	145984,5
Agriculture	7584,8	69,5	14012,2	30,5	6427,4
Total in 2010	13906,1	57,3	155197,6	42,7	141291,5
Agriculture	17170,5	69,2	22196,5	30,8	5026,0
Total in 2011	67797,9	63,5	208896,3	36,5	141098,4
Agriculture	25341,3	82,9	30418,9	17,1	5077,6
Total in 2012	35067,3	63,0	210607,6	37,0	175540,3
Agriculture	26787,2	78,2	33731,6	21,8	6944,4
Total in 2013	-22839,7	65,0	179259,6	35,0	202099,3
Agriculture	14984,5	79,8	26356,3	20,2	11371,8
Total in 2014	-590066,9	65,5	202704,5	34,5	792771,4
Agriculture	21481,3	84,1	51982,4	15,9	30501,1
Total in 2015	-373516	73,3	352980	26,7	726496
Agriculture	102849,1	88,4	128592	11,6	25743,2

After analysing the data of Table 3, we can conclude that the enterprises of the agricultural sector for the period of 2009–2012 years received income and from 2012 to 2015 the enterprises received a loss. This is due to the economic crisis in the country, high inflation, and decline in real income of the population, the disparity of product prices, the tax pressure from the state and other factors.

According to the table, construct a graph (Fig. 5):

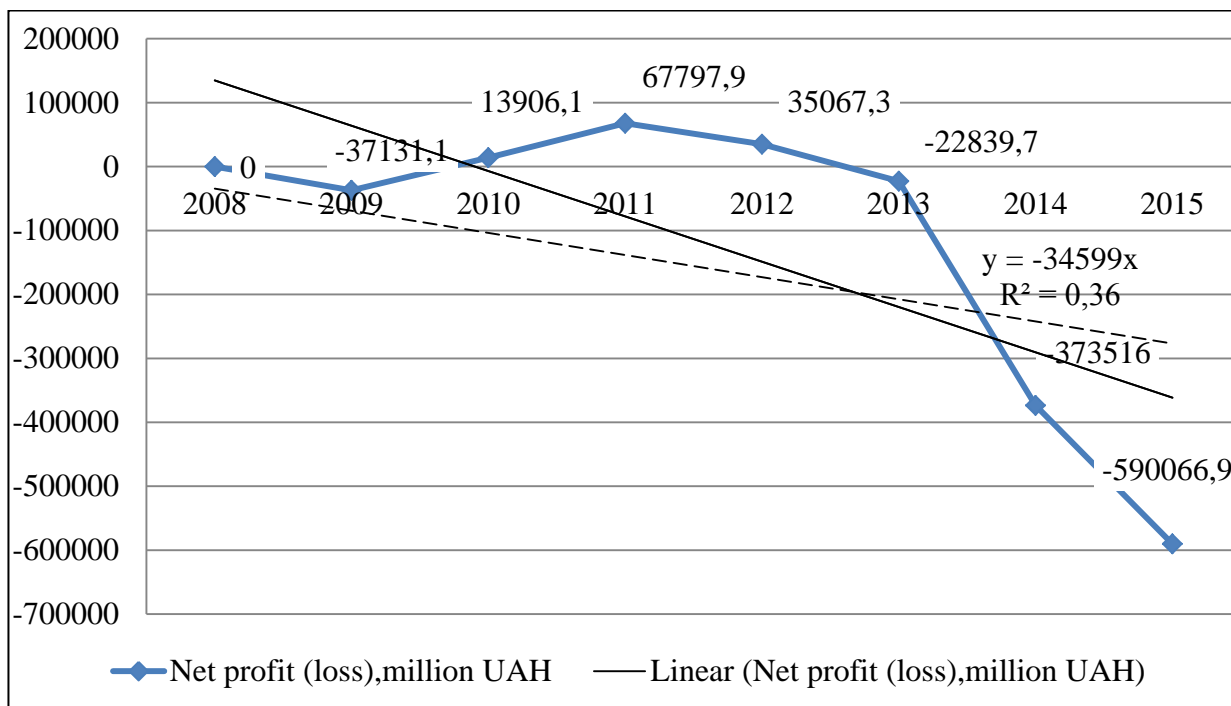


Fig. 5. Dynamics of net profit (loss) of companies in the industry of agriculture, million UAH

To increase profits, businesses need [3, p. 23]:

1. To expand the range and improve product quality. The consumer market offers a wide range of products, so to increase sales volume is important to improve the quality of the products that will enable manufacturers to raise the price of their products;
2. To increase the volume of production and realization of goods, works, services, this is the main source of income;
3. To introduce stimulating measures to increase the productivity of the staff. This has the effect of enhancing production performance;
4. To reduce production costs, the purpose of which is to reduce cost, reduce wastage;
5. Implementation of a cost management system.

Ukrainian banks are reluctant to extend credit for agricultural enterprises due to the number of risks associated with agricultural activities: seasonality, dependence on external factors such as weather conditions, and sensitivity to international factors. Agriculture is limited to provide coverage of such risks resources, making banks less likely to fund such operations and investments. Banks have several tools at their disposal for overcoming the lack of collateral, such as leasing, credit guarantee scheme and the funding contracts. However, in addition to leasing, which has grown considerably in recent years, their use remains limited.

Consequently, when the financing of agriculture must focus on the following four areas:

- 1) the segment of small farmers and identifying their financial needs. Smallholder farmers are heterogeneous and have different needs. It is important to identify various small, subsegment, assess their needs and challenges before developing solutions and products. In addition, smallholder farmers need a credit not only for agricultural activities but they also need a credit for other household needs/activities, savings, payment systems, and insurance premiums.

2) find ways to reduce the risk of financing agriculture by addressing how specific (or individual) risks, as well as the important systemic risks. Individual risks are often associated with credit risk evaluation and support systems and information. Information can help financial institutions in assessing credit risk in advancing credit services and linkages with value chain of agricultural enterprises, etc. to find a good bail, for example, the pledge of movable property and not just rely on land ownership that can also help. On systemic risks, agricultural insurance program, catastrophic risk, and hedge prices through commodity exchanges, can also provide some solutions.

3) identification of relevant institutions and delivery channels that will reduce the cost of maintenance of agricultural enterprises. Different agencies can provide funding for the agriculture, depending on the types of customers they serve. Interbank financial organizations and cooperatives can serve sub-segments of the smallholder farms due to their presence. Commercial banks can also provide solutions in value chains and better-organized groups of smallholders. There are new technologies and achievements in the field of mobile banking solutions, as well as to strengthen the integration of farmers in more organized value chains for the promotion of solutions and delivery channels, reducing the cost of maintenance of the population in rural areas.

4) issues in creating an enabling environment and specific government policies that may restrict the flow of financial services to smallholders. Government policies can limit lending but also can improve it in the private sector.

So, future needs, financial security and financial analysis in the agriculture include:

- long-term financing of agriculture required for long-term investment, such as the best storage conditions, food/processing facilities and equipment/mechanization. Most of the current assets long-term financing are trade and working capital.

- financing of agriculture is related infrastructure such as rural roads, freight terminals, etc. needed in most rural areas. Currently, transport costs are often too high and become practically impossible due to the poor supply and high costs.

- climate change is the greatest danger to agriculture and food security. You need to invest in agriculture (e.g. irrigation, drought-resistant technologies, flood control, etc.), to be able to adapt to climate change. You must also use insurance and other mechanisms to mitigate the effects of climatic phenomena that cause losses in the agricultural production and assets. Investments in adaptation to climate change and the development of insurance and other capital markets to compensate for losses of underdeveloped markets that require further development.

- focus on youth and women. It is necessary to make agriculture more attractive to young people and the empowerment of women to enable them to make a greater contribution. The average age of farmers is increasing worldwide, as agriculture is not attractive to young people. Women in agriculture do not have the same access to technology, finance, and extension, as do men, leading to lower yields and revenues.

- advances in technology can also lead to lower cost financial services for agricultural enterprises. Solutions using information and communication technologies can become one of the most important in reducing the cost of frequent small transactions to improve agriculture. The use of mobile phones, electronic payment platforms, mobile agents, etc. increases the number of similar apps.

Conclusions

On the basis of conducted research, we can draw the following conclusions:

1. The strategy is a long-term course of development of the company, the way of achieving the goals, which it defines for itself, according to its own considerations in their policies.

2. Development strategy of inter-sectoral integration in the agricultural sector must be long-term and provide for the improvement of land legislation, settlement of ownership relations and promote the revival of rural infrastructure.

3. Strategic role in the market economy is the creation of organizational-economic conditions for the effective development of the agricultural sector by ensuring the unity of economic, social, and environmental interests of the society for a stable provision of the population with quality, safe, and affordable domestic agricultural products, and raw materials.

4. The development of the strategic vectors of development of integrated units will ensure rational, efficient use of agricultural land, the conservation and enhancement of their productivity and will allow realizing the export potential of the country, will contribute to the development of all sectors of the agricultural sector, rural areas, and infrastructure, create new jobs, and increase the investment attractiveness of agricultural production.

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