

The Academy of Management and Administration in Opole

MODERN TECHNOLOGIES

IN ECONOMY AND MANAGEMENT

Collective Scientific Monograph

Edited by Oleksandr Nestorenko

Tadeusz Pokusa

Opole 2019

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11. Characteristics of the institutional environment in the agricultural sector of Ukraine's economy

The agrarian sphere is a priority and strategic sector of Ukraine's economy, and current trends of intensification of globalization processes and aggravation of the problems of food supply of the world population require its effective development and integration into the global food system.

Under the current scenario of development, agrarian production is becoming a raw materials' source losing its purpose, i.e. the production of a wide range of agricultural products, which may result in destroying the Ukrainian rural area, culture, etc. All this requires regulation of the capitalization process in the agrarian sector, its withdrawal from the space of market spontaneity (*Ostashko, 2003*).

In our opinion, institutional environment in the agrarian sector should be treated as the combination of the most important fundamental social, legal, political, economic, moral and ethical, cultural rules and norms that determine the behavior and interrelations of the agrarian business entities, including the relationships of agrarian enterprises and the state, which should be aimed at the enhancement of efficiency of the priority economy sector.

In modern conditions, institutional environment does not fulfill its main function, hence it does not ensure fair game directives for its main subjects, and it does not weaken the numerous antagonisms of the regional development caused by the property stratification of the population and structural imbalance in the agrarian sector of the economy.

In addition, institutional transformations in the agrarian sector of the economy are not free. They require significant transaction costs, both of the state and other subjects of agrarian and economic relations. For example, the process of real transformation of land ownership relations has required significant funds for land management services, maintenance of structures involved in providing and specifying cadastral characteristics, economic land evaluation, allocation and proper execution of

relevant legal acts of property “indivisible” funds of previous agrarian and economic institutional structures (*Meshcheriakova, 2016*).

Transaction costs may also include expenses for collecting, processing, passing information on the state of the markets for resources and markets for agricultural products to medium-sized and small producers. All these factors form a significant amount of transaction costs in the agrarian sector, which require a radical overview of the position and role of the state in the industry regulation and support.

Summarizing the tendencies of changes in the institutional environment of the agrarian sector of Ukraine’s economy from the point of view of the influence of state authorities on the development of the industry, it should be noted that:

- firstly, the whole history of transformations shows that the mechanism of market regulation was often replaced by the mechanism of state administration of the agrarian sector, and vice versa;

- secondly, each economic reform was based on the solution of the problem of combination of mechanisms of the state and market regulation of the agrarian sector;

- thirdly, the direction of reforms and the expected results of their implementation were determined depending on the depth of the problem solution;

- fourthly, the effectiveness of transformations in the institutional environment of the agrarian sector depended on the stability of the socio-political situation in the country (*Nepochatenko, 2016*).

The main inadvertence in conducting transformational reforms was an inadequate attention to institutional transformations and failure to take into account the institutional features of the country and its economy. There was not taken into consideration recombination potential of the economy, which can be treated as transformational opportunities of the economy that influence the terms of market transformations in the economy and determine the behavior of economic entities in the conditions of the transformation of the economic system. They are determined by a group of formal and informal institutions, including the availability of infrastructure, historical traditions, business culture, psychological readiness of the

population, type of thinking in the society, trust in the government, norms of behavior, etc.

The process of formation and development of the institutional environment as an integral part of the national economic system of the country, which provides mutually beneficial interaction of all participants, is the basis for the formation of the effective agricultural sector of the Ukraine's economy.

Today, fulfilment of economic interests of the participants in the institutional environment of the agrarian sector of Ukraine's economy, regardless of the ownership form, is the main determinant of its development, as the state must take into account the positions of all interested business entities, from a producer to a consumer, in order to ensure a fair distribution of income in the society.

While implementing economic interests, a kind of multiplier effect arises and always reproduces, which provides optimal limits for the realization of specific interests, for example, when the national interests cannot be realized within the optimum limits without the same implementation of the branch interests, etc. Without such an approach in modern economic conditions, when Ukraine is gradually emerging from the crisis, we will not be able to achieve optimally effective results of the functioning of the national economy in the short run (*Unkovska, 2017*).

The state should regulate support for the realization of interests of economic agents through the provision of conditions for the institutional development of reproductive potential of the agrarian sector of Ukraine's economy.

In the course of the study of economic differentiation, which is referred to as the system of economic relations in the agrarian sector of the economy that expresses their structure, patterns of formation and development prospects, as the basis of the institutional environment in the agrarian sector of the Ukraine's economy, first of all, it is necessary to study the ownership institution.

Today, the current state of the ownership institution is directly characterized by the availability of various organizational and legal forms of management of domestic enterprises, which determine the features of development and other formal

and informal institutions, in particular, regarding the implementation of entrepreneurial activity, level of the competition development in the industry, redistribution of investment resources, etc.

Analyzing the structure of agrarian enterprises by organizational and legal forms of economic activity during 2000-2017, there can be observed the trends in reducing their total number by 15,620 farms, including farms by 1.2 thousand (from 3,480 units in 2000 to 34,137 units in 2017); state enterprises from 385 units in 2000 to 199 units in 2017; an increase in the number of cooperatives from 3,136 units in 2000 to 448 in 2017 (*State Statistics Service of Ukraine*).

Today, farms are a major form of management in the agrarian sector of the economy of Ukraine by the number of business entities. Since 2000 their share in the total number of active agricultural enterprises ranged within 70-75%, but their share by agricultural land areas ranged within 18-20%, and their share by the volume of gross agricultural products was only 3-7%. Enterprises of this organizational-legal form of management still remain small-scale. In our opinion, it is not a positive factor in the context of raising the capital stock of production, introduction of new machinery and innovative technologies, enhancement of the efficiency and competitiveness of the industry.

In the corporate sector of agriculture of Ukraine, the priority organizational and legal forms of management among farmers are the farming partnerships with the share that varies within 55-60% of the total number of businesses, and private enterprises with the share of 25-30%.

At the beginning of 2016, agrarian enterprises occupied 20,746.9 thousand hectares of agricultural land, which amounted to 48.5% of all agricultural lands in Ukraine. At the same time, 50.3% of these lands were used by farming partnerships, 20.1% by private farms, 20.4% by private enterprises, 3.8% by production cooperatives, 4.7% by state enterprises, and 0.7% by other business forms.

In 2016, 44.9 thousand of agrarian enterprises, out of the total number, possessed agricultural lands, among them 57.5% of enterprises possessed land area of up to 100 hectares, 13.5% – 100-500 hectares, 4.8% – 500-1000 hectares, 4.6% –

1,000-2,000 hectares, 5.2% – over 2,000 hectares. The average size of the enterprise, including farms, was 1,085 hectares of agricultural land. The operation of large-scale agroindustrial formations, so-called agroholdings, due to consolidation of land areas, provides effective activities due to the effect of the scale of agricultural production.

It should be noted that at the end of the investigated period, there were 7.5 thousand agricultural enterprises (14.4% of their total number) that do not possess agricultural land at all. So, they may lease the land, or it can be assumed that they have available land on the informal ownership basis. The area of the farmers' land is expanded both through the consolidation of the farms, and the lease of land shares. Of course, in addition to resource factors, the development of certain categories of farms in the agrarian sector as a whole is influenced by a number of other factors.

Weak points are also observed in the co-operation processes in the segment of households, i.e. representatives of the individual agrarian sector. Supply with land resources determines the level and nature of the relationship between farms of different sizes. We agree that the lease has somewhat deformed influence on the competitiveness of small farms. The features of the national lease relations between large and small business entities are determined by the fact that large agribusinesses have political power, relatively better access to high-quality legal services, and they use these resources to protect their rights. Reduction of long-term investments in the improvement of the quality of agricultural lands is associated with a low level of rational land use, which in its turn is associated with the uncompleted land reform in Ukraine and prolongation of the moratorium. Land supply of agricultural commodity producers by land relations has a significant impact on the results of their activities, so let's consider the volumes of agricultural production by different categories of farms in the dynamics.

In 2017, business entities of the agrarian sector received 249.1 billion UAH of the gross agricultural output (at constant prices of 2010). The research has revealed a

slight increase in production by households and farms, but in general, in 2017 agrarian production in all categories of farms reached 90% of the levels of 1990.

During 2009-2017, there was observed a slight decrease in gross agricultural output in the individual sector to the rate of 43.5%. In our opinion, that situation was caused by the problems associated with sales of agricultural produce and cultivated crops due to small production volumes that did not attract large processing enterprises and traders. There were observed the cases of price undercutting to the rate that did not cover household expenses, which caused loss-making activity of some of them.

In Ukraine, according to the level of the agrarian sector development, the regions are heterogeneous, which causes and determines the nature of interregional cooperation of all participants in the institutional environment of the industry. During 2014-2017, the lowest gross agricultural output was observed in the Transcarpathian region (4,095.9 mln UAH in 2015, 3,964.9 mln UAH in 2016 and 3,872.6 mln UAH in 2017), the highest one – in Vinnytsia region (18,221.4 mln UAH in 2015, 2,1319.1 mln UAH in 2016 and 20,423.1 mln UAH in 2017).

Differences in the development of the agrarian sector of the economy in the regions of Ukraine are caused not only by the difference in the natural and climatic conditions, but also by the characteristics of the influence of socio-economic factors on the interaction of participants of the institutional environment in the agricultural sector of the economy. Thus, enterprises located in the regions with a high level of development and administrative units that are close to large cities have, in comparison with peripheral regions, better stock capital, labor productivity, social infrastructure, and hence higher profitability, interest and possibility of comparatively more effective cooperation with all business entities. At the same time, agricultural producers from peripheral regions are less interesting for investors, and this affects the efficiency of the agrarian sector of the economy of the regions as a whole.

In the structure of investments into the agrarian sector of Ukraine's economy, direct foreign investments are of great value. Today, the agriculture of Kyiv region and Ivano-Frankivsk region remains the most attractive for foreign investors. In these

regions, nearly half (47.8%) of the industry investments are allocated, including Kiev that attracted 20% of investments, Kiev region – 15.8%, and Ivano-Frankivsk region – 12%. The leaders are followed, though with a significant gap, by a group of regions with the volumes of attracted investments ranging within 3-7% of the total amount. Agrarians of Dnipropetrovsk region have attracted 6.3% of foreign investments, Kharkiv region – 5.7%, Lviv region – 5.0%. The volumes of investments attracted in the agrarian sector of Cherkasy and Donetsk oblasts make up 3.7% and 3.5%, respectively. Vinnytsia and Khmelnytskyi regions have attracted 3.1%. The rest of the regions have attracted only about 22% of foreign investment.

Investments in the fixed assets are growing in significance, as they evidence the growth of material and technical base of the country's economy.

Fluctuations in volumes of investments, their substantial decrease during the years of deepening economic crisis reflect the sensitivity of the investment microclimate to the negative phenomena in the society, which occur under the influence of the crisis and the uncertainty of investors in returning investment resources. The increase of capital investments in 2017 compared to 2016 is explained by the state measures on the intensification of the domestic investment market.

Another instrument of state support for the agrarian sector is the provision of state guarantees for credits and loans attracted to finance investment projects in the field of agriculture. Such guarantees are supposed to provide up to 31.68 billion UAH to secure the fulfillment of debt obligations of economic entities for loans attracted to finance investment projects in the field of agriculture.

As for the share of foreign capital attracted by agriculture, it remains rather low, and it is only 1.5% of total foreign investment at the macro level and, as mentioned above, 9.2% at the micro level. Such rather insignificant percentage of investment attraction is a consequence of crisis phenomena that occurs under the influence of internal and external factors. These factors include a decline in production, high capital and material resources, low productivity at numerous domestic enterprises, transformational changes in the structure of the economy, deterioration of the price

situation on the world markets for many types of products exported from Ukraine, political events.

Further prospects and changes in the national institutional environment in the agrarian sector of the economy are related to the adoption of the State Target Program for the Development of the Ukrainian Rural Area 2015, Strategy for the Development of the Agrarian Sector of the Economy 2020, Concept for the Development of Public and Private Partnership in Ukraine 2013-2018, etc.

Thus, at this stage of agrarian development, the institutional mechanism has come to the final phase of functioning, i.e. preparation of the institutional environment for new transformations. A qualitatively new period of integration of the institutional environment in the agrarian sector of the economy into the international space is extremely important for the development of the institutional environment. On January 1, 2016, the European Union and Ukraine began to apply the provisions of an in-depth and comprehensive free trade area. It became a significant step towards the development of the agrarian sector, thus opening up prospects for further development of the EU market by domestic companies, improvement of the quality, characteristics of eco-friendliness and safety of Ukrainian agricultural products, and improvement of food security of the state. According to Customs Statistics, in 2017, the volume of foreign agricultural trade amounted to 22.2 billion USD, which grew by 14% compared to the previous year. At the same time, the volumes of imports increased by 10% to 4.3 billion USD, exports – by 15% up to 17.9 billion USD and exceeded imports 4 times [6] (*Anysenko & Vakar, 2018*).

Consequently, under conditions of new transformations of the institutional environment in the agrarian sector that are connected with the integration of Ukraine into the international space, the system of managing agricultural production and rural territories, development of local self-government in the rural areas, and support for the development of small and medium-sized businesses in the rural areas are required to be reformed. The principles of the system of strategic management of integrated development, changes in the institute of rent and lease relations in the agrarian sector of the economy are to be changed. The uncertainty of the state agricultural policy, the

increased interference of controlling bodies in the activities of business entities, low level of attraction of investments into the agrarian sector of the country's economy are dispiriting entrepreneurs to take active measures to develop their businesses.

Therefore, the need for effective activities and arrangements of the state policy aimed at implementation of the optimistic scenario for further development of the agrarian sector of the country's economy involving the formation of the appropriate institutional environment in the future is growing in importance.

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the efficiency of agricultural production. Innovative potential forms the ability of agrarian enterprises to compete in the domestic and foreign markets and helps to avoid the economic crisis.

10. **Igor Smyrnov. Overtourism and urban tourism sustainable development: logistical approach.** Considered issues of "overtourism" and urban tourism from the logistic point of view in the aspect of tourism sustainable development. The problem of urban tourism logistics as a way of solving the problem of "overtourism" in cities is substantiated. Practical examples of "overtourism" problems in urban tourism development and logistic approaches to their solution are given on the example of Ukrainian cities of Lviv and Kyiv. These problems include: excessive crowds of tourists in the cities central districts; increasing the amount of urban waste, including tourist one; appearance of sex tourists; the exacerbation of the tourists safety, especially when they live in private apartments and participate in mass events in the city center, in particular, during street meals and entertainment.

11. **Larysa Vdovenko, Nadiya Hryshchuk. Characteristics of the institutional environment in the agricultural sector of Ukraine's economy.** Institutional environment as an integral part of the national economic system of the country and a basis for effective development of the agrarian sector of the Ukraine's economy is examined. It is concluded that under current conditions the institutional environment does not fulfil its main function, so that it does not provide fair game directives for the main business entities, and institutional transformations require significant transaction costs both of the state and other subjects of agrarian and economic relations. It has been established that the state should regulate the support for realization of interests of economic agents through the provision of conditions for the institutional support of the reproductive potential development in the agrarian sector of Ukraine's economy.

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