



**VOL 6, No 55 (55) (2020)**

**The scientific heritage**

(Budapest, Hungary)

The journal is registered and published in Hungary.

The journal publishes scientific studies, reports and reports about achievements in different scientific fields.

Journal is published in English, Hungarian, Polish, Russian, Ukrainian, German and French.

Articles are accepted each month.

Frequency: 24 issues per year.

Format - A4

**ISSN 9215 — 0365**

All articles are reviewed

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**EFFICIENCY OF THE MODEL OF SUBSIDIZING THE AGRARIAN SECTOR OF UKRAINE****Yaremchuk N.***Candidate of Economic Sciences,  
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Vinnytsia, Ukraine***Abstract**

Observations of the implementation of state support programs for the agricultural sector give us the opportunity to conclude that their usefulness for agricultural producers and the state is undoubtedly present, but how effective is this process and how it has an impact on the revival of economic activity of economic entities. The article analyzes the situation in the agricultural sector of Ukraine, when the distribution of subsidies is carried out depending on the number of livestock or production, which in turn leads to an increase in market concentration and additional export advantages. The models of state support of agrarian commodity producers of economically developed countries are compared. The positive and negative consequences of the influence of state subsidizing on the market of agrarian production are analyzed. The conclusions are made, concerning the most optimal model of state support for Ukrainian agricultural sector.

**Keywords:** agricultural production, state subsidies, animal husbandry, production volume, state programs, credit.

The agro-industrial complex of Ukraine is a legislatively defined priority sphere of the national economy. The efficiency of its functioning is reflected in the level of food security of the country and improvement of export opportunities and prospects of the industry. The principles of agrarian policy implementation should be aimed, first of all, at stable development of competitive agricultural production and food products.

The complicated geopolitical and economic situation of the state requires balanced steps of the implemented agrarian policy. In the conditions of intensive development of globalization processes, the urgent issues in the sphere of state regulation of agriculture are the issues of increasing the efficiency of state support to agricultural producers. National policy in the field of agricultural support should not only be effective in terms of economic and social performance, but also stimulate the formation of Ukraine as an agrarian state. That is why, now more and more important role is played by such an instrument of influence on the development of economic entities as an effective policy of agricultural support [10].

Today the financing of most agricultural enterprises can be considered unsatisfactory. Many agricultural enterprises are unable to realize the principle of self-financing not only of the expanded, but also of the simple reconstruction, which makes the industry investment unattractive. State support at the state and regional levels is one of the factors of successful development of agriculture.

According to the law of Ukraine "On state support of agriculture in Ukraine" its main purpose is to support the level of solvent consumer demand and protection of livestock enterprises from bankruptcy. From an economic point of view, this means an increase in domestic supply of consumer goods and productivity, which provides real protection from bankruptcy.

Therefore, state support is a component of the system of state regulation of agriculture and is a set of legal, financial, economic and organizational measures of the state that relatively stimulates the development of

both agricultural production and rural areas in the direction necessary for society [2].

That is, it is a way to protect the interests of agricultural producers, which is considered not only as a tactical method, but also as a strategic resource, aimed at solving priority, perspective tasks of agricultural development, including reducing unemployment in rural areas, increasing wages, creating new jobs, development of social and engineering infrastructure [12].

The main problems of state support of agriculture in Ukraine should be attributed to: - lack of trust to the state in this sphere from agricultural producers; - insufficient level of influence of budgetary support measures on development of domestic agriculture. This is due to the fact that budget support programs in Ukraine suffer from constant underfunding. The rules for allocation of budget funds behind the corresponding program support are usually approved on an annual basis and often change from year to year (i.e. agricultural producers often do not receive support when they urgently need it). It is also necessary to take into account corruption, limitations and complications in accessing budget support programs for agricultural producers [6].

Formation of effective regulatory mechanisms of the agricultural sector of the economy provides for the definition of clear objectives, justification and use of a system of relevant criteria. Recently, the main content of agrarian foreign trade policy of the majority of economically developed countries is the state support of the agrarian sector through various subsidies, grants and benefits. In some countries, state financial injections into agriculture are 1.5-2 times higher than the market value of its products. The state support of agriculture and food industry has contributed to a significant increase in food production in the countries, which today have become its largest exporters - in the U.S., Canada and EU countries [11].

Among the priorities of the Government and the Ministry of Economic Development, Trade and Agriculture is the stimulation of the farm movement and the creation of a successful model of farming in Ukraine -

the formation of an effective and socially responsible owner.

In recent years, domestic state support for the agro-industrial complex in Ukraine has experienced significant changes. The state support of agriculture was characterized by small amounts of direct state support and preferential VAT payment regime, which was quite significant after the amount of preferences. However, it was decided to abolish this norm from January 1, 2017, replacing it with direct resource subsidies. This model of support for agricultural producers is actively used in the European Commonwealth countries. It is clear that the desire to achieve an appropriate level of economic development prompts the country to use similar development scenarios and tools to achieve them.

However, such support has long been considered ineffective and outdated in the European Union itself. It is also worth noting that due to the need to adapt to the new international economic realities, the EU's general agricultural policy is increasingly reducing agricul-

tural subsidies and directing these funds to rural development and support of social and environmental aspects. The newest agrarian policy of the European states is to promote agricultural evolution and ensure gradual rural development, based on the development of human capital [5].

The EU countries have started to implement subsidy mechanisms that are not directly related to the volume of production (decoupled subsidies). These are mainly direct payments for the use of resources and payments that depend on the area of land and the like. They are paid regardless of whether or not production has taken place. Until now, the mechanism of subsidies remains in operation only because the distortion of competitive pressure caused by it makes their cancellation very painful for farmers.

It is quite appropriate to compare the volume of state subsidies to the agro-industrial complex of Ukraine and the volume of support to the agrarian sector of the European Union countries (table 1).

Table 1

Support area	Volume, billion euros	Percentage
Direct and marketing costs	281,8	72,8
Rural development	89,9	23,2
Research and innovation in food security, bio-economics and sustainable agriculture Formation of crisis food reserves in the agricultural sector	4,4	1,2
Food safety	3,5	0,9
Food aid to the poorest sections of the EU population (payments from the European Social Fund)	2,2	0,6
EU Globalization Adaptation Fund	2,5	0,65
Total .	2,5	0,65
State support (all directions) Ukraine in 2020	<b>386,9</b>	<b>100</b>
Support area	0,1	0,02

[6]

For the third year in a row, the government has been investing large sums of money, according to Ukrainian standards, into the state budget for the state support of the agrarians. The reason for this is the norm of the Budget Code, for which the state support of the agricultural sector should be directed at least 1% of the output in agriculture, or the so-called "agricultural GDP". Crop production was compensated by VAT refund for agricultural raw materials export, which led to the reduction of the difference between prices on the

domestic and international markets and, consequently, to an increases in purchase prices.

This, in turn, had a negative impact on the livestock industry.

The impact of government support always has a mixed impact on aggregate development. The tables present the main positive and negative consequences of the influence of the functioning of the "state hand" in the form of state subsidies (table 2).

Table 2

	Positive consequences	Negative consequences	
Subsidized companies	Increase technical efficiency and research costs if subsidies are invested in research and development. Lower prices resulting from larger-scale production make goods more attractive in international markets and increase export opportunities.	Decrease in productivity due to distortion of competition. Production growth creates additional demand for production factors and their increase in price, which increases variable costs.	Subsidized companies
Consumers	Increased production leads to lower consumer prices.	Searching for additional resources to pay the subsidies may lead to higher taxes.	Consumers

Resource Suppliers	Increased production volume increases the demand for land and its prices in a developed land market. Increased demand for seasonal workers increases wages and reduces unemployment in the industry.		Resource Suppliers
Economy as a whole	Reducing the impact of seasonal and weather fluctuations on prices, which increases price stability. Subsidizing less developed industries leads to more even economic development. Increased production and exports lead to an increase in the current account balance, strengthening the national currency and reducing unemployment.	Receiving additional financial resources by individual industries or enterprises means interfering in the market mechanism of allocation of production resources, destroying its efficiency and distorting its prices. Subsidies, as an integral part of government spending, crowd out investments that hinder real economic growth. The need to balance the budget leads to higher taxes, which constrains the demand for consumer goods and leads to irreversible losses for the economy. Increased production at enterprises leads to increased emissions, which negatively affects the environment.	Economy as a whole
State	More control over the economy to achieve their own interests, such as the growth of agricultural production.	Growth in government spending that needs to increase the state budget or increase the tax burden on firms and citizens	State

[8]

What really motivates the government to provide state support and how do subsidies affect the distortion of economic situation and market conditions? If we consider the conditions of the "reference economy", the use of state support measures in such conditions will affect the reduction of the efficiency of the functioning model, the growth of production volumes, lower prices, lower welfare, as resources will be distributed inefficiently.

In 2017, the largest item of expenditure on the agricultural sector was the budget livestock subsidies and compensation for the purchase of agricultural machinery of domestic producers. During all the years of the subsidy regime (2017-2020) the lion's share (44%) of the total state support was directed to cattle breeding (fig.1).

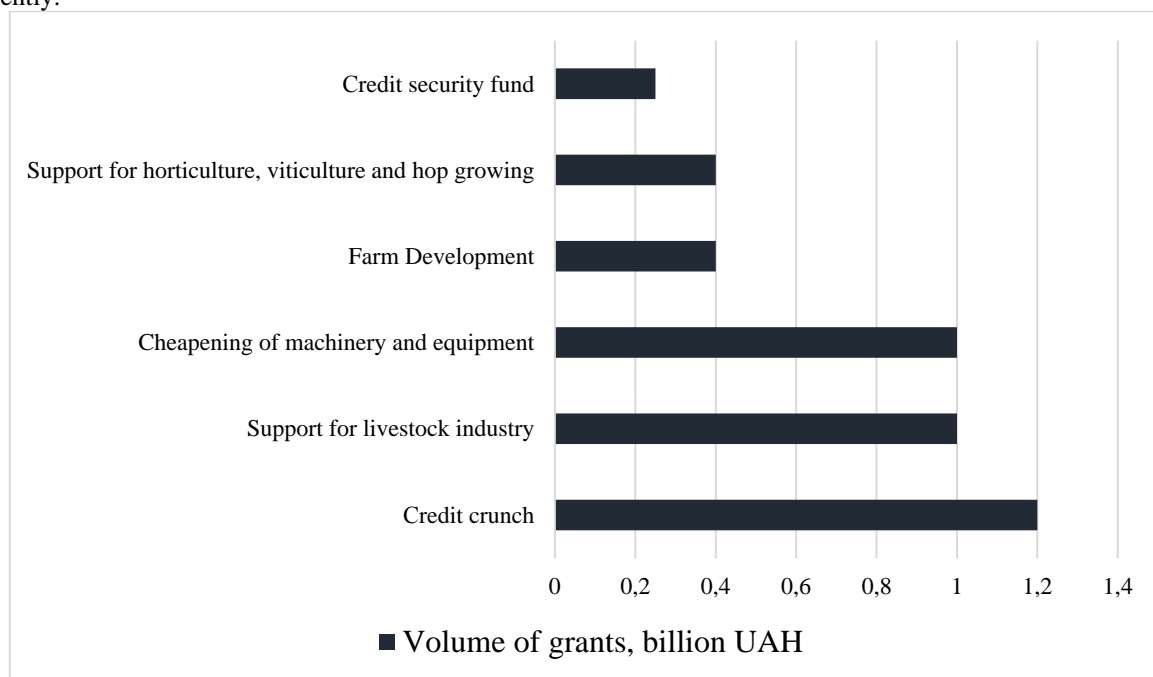


Fig. 1 Volume of grants, billion UAH [7]

To calculate the amount of subsidies it was proposed to use the payment of VAT for the corresponding month multiplied by the share of subsidy production in the total output. This is despite the fact that the overwhelming majority of cattle-breeding enterprises also have a plant-breeding subdivision, as a result of which their VAT payment is distributed very unevenly throughout the year.

For most of the year they have to buy fuel, fertilisers, plant protection products, etc., which completely eats up the income from the sale of livestock products, in other words, the obligation and tax credit from VAT they have approached zero and there is no tax to pay. They earn profit and pay VAT for the whole year only in those two or three months when they sell the harvest.

As a result, in accordance with the government decree, these enterprises, although they sold livestock products for all twelve months of 2017, but received a subsidy only for two or three months, that is, four or six times less than previously provided for.

The only exception was the poultry breeders, because they historically had livestock and plant production units divided between different legal entities, so they received the subsidy almost the entire year, except for the first calendar month, while the procedure for payment of the subsidy was being developed [4].

Due to the controversial nature of this issue, instead of finally changing the procedure for payment of subsidies, the government simply zeroed funding for this program in the 2018 budget.

The growth of technological requirements to agricultural production is accompanied by the formation of a new set of technological machines. In the absence of working capital, the most affected by the crisis domestic machine-building for the agro-industrial complex is not able to provide the development and production of high-quality, competitive machinery. In the conditions of tough international competition at the market of technical means, the segment of imported, new and

used agricultural machinery is developing more and more. Over 70% of such machinery sold at the Ukrainian market is imported, which may lead to the loss of domestic production potential of the sector, dependence of the agricultural sector on the import of technical resources, outflow of significant financial resources from the national economy [6].

The world experience shows that those countries that have achieved significant success in the agricultural sector have powerful branches of agricultural engineering and high-tech systems of engineering and technical service. This is an axiom of normal functioning of any society that has natural and climatic conditions appropriate for agriculture. In the conditions of market economy, as the experience of developed western countries testifies, the development and efficiency of agro-industrial production also depends on the state regulation and support [3].

Increasing domestic supply of agricultural products in order to reduce domestic prices is achieved by increasing production and curbing international trade. However, in an open economy, there is a significant risk that lower prices will make goods more competitive on the international market and increase export volumes, while leaving the market for livestock products "underloaded" and therefore difficult to access for the poor.

In other words, compensation takes place, but does not distort international trade. That is, state subsidies in no way should not depend on the volume of agricultural production, but should be aimed at funding research, infrastructure projects, payments that compensate for the country's food security through food aid to the poorest segments of the population.

Judging by Figure 2, replacement of indirect support by direct support did not motivate manufacturers to increase output (the output, on the contrary, decreased).

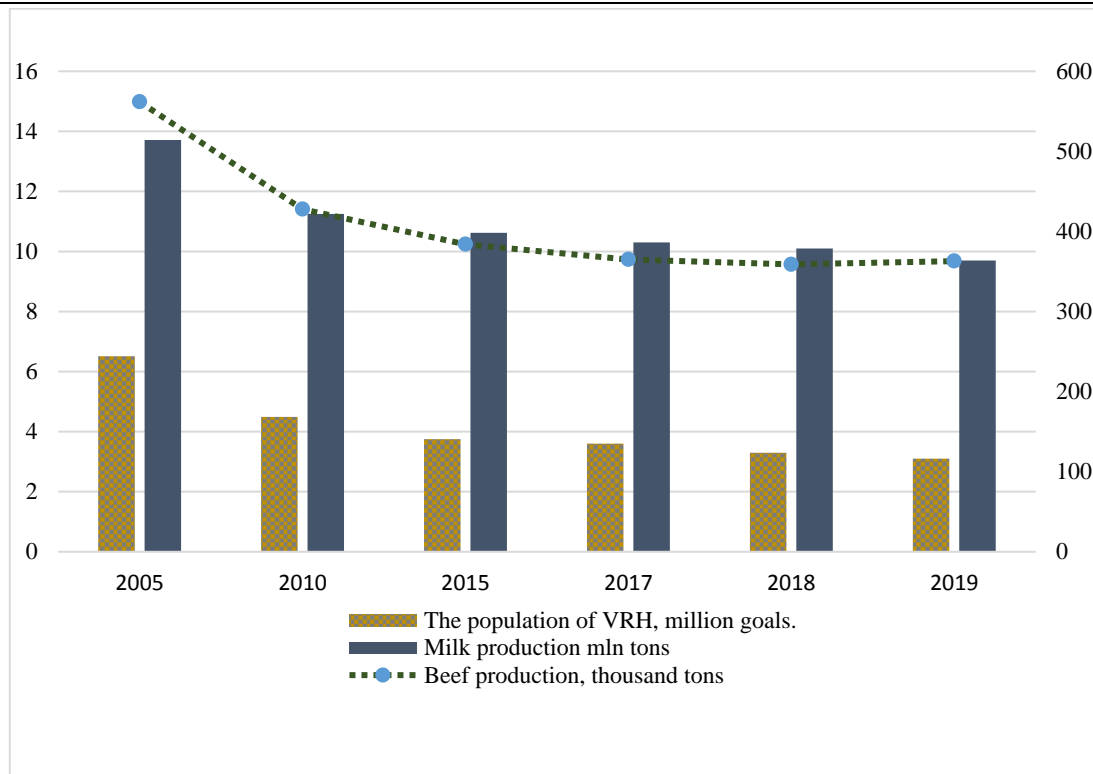


Fig. 2. Dynamics of changes in livestock production volumes in 2010-2019 [4]

On the other hand, the share of exported products in livestock production increased from 28% to 42% (Figure 3). In absolute terms, export volumes increased, but in the conditions of declining production, this does not mean an increase in domestic supply, but on the contrary, a decrease. Additional support will facilitate the entry of more products to international markets without having a positive impact on domestic stocks.

While the recipients themselves may benefit, the likely increase in the share of raw materials exports may have an extremely negative impact on economic growth in the industry [8].

Among the largest recipients of budget assistance are companies of people's deputies (first of all, members of the agricultural committee of parliament).

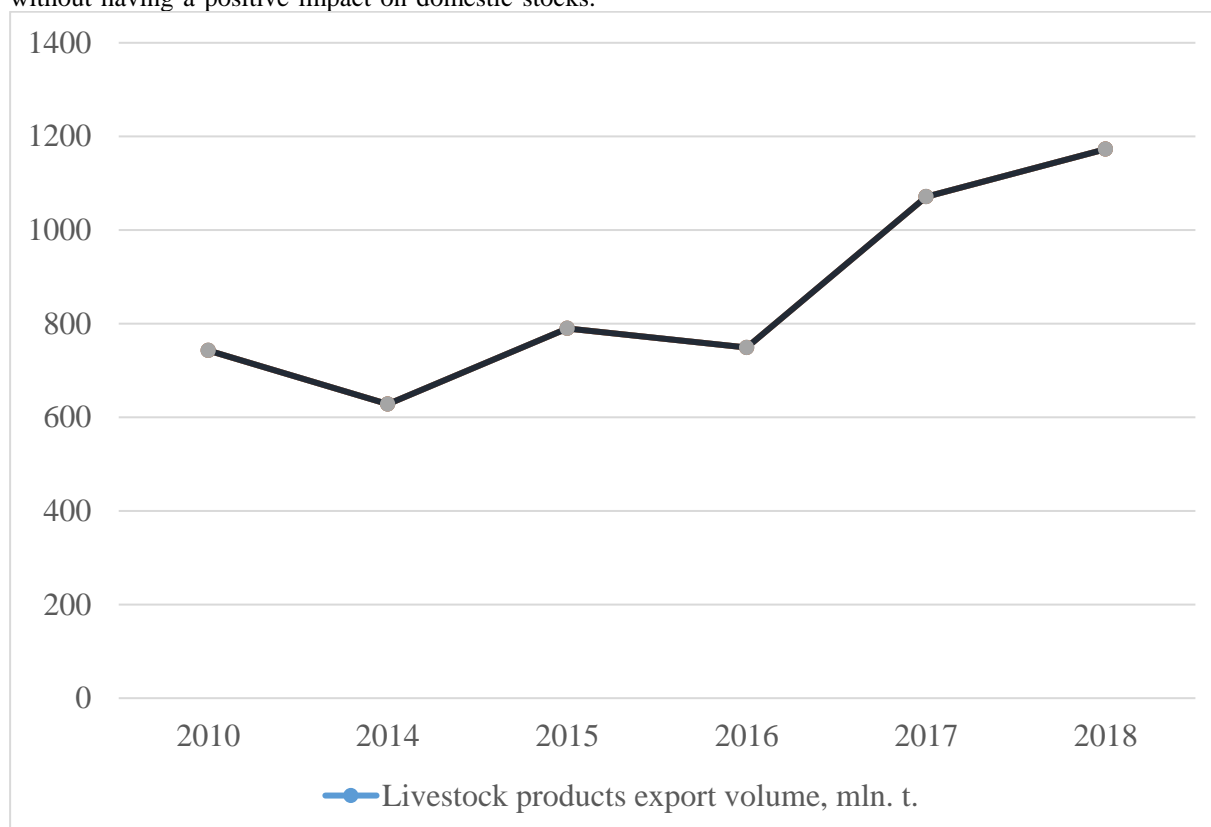


Fig. 3. Livestock products export volume, mln. t [4]

Ukrainian cattle breeding is unique not only because it is subsidized by the state, but also because of the high level of market concentration. According to the Head of Antimonopoly Committee of Ukraine Yuri Terentyev, 55% of the livestock market is held by the three largest producers, among which PJSC "Myronivskyi Khiboproduct", corporation "Agro-Oven" and "Complex Agromars".

If you look at their financial situation, it is very difficult to say that they need some kind of support. But the mechanism of distribution of subsidies was built so that together with PAT "Ukrlandfarming" these four giants monthly absorbed an average of 44% of state support.

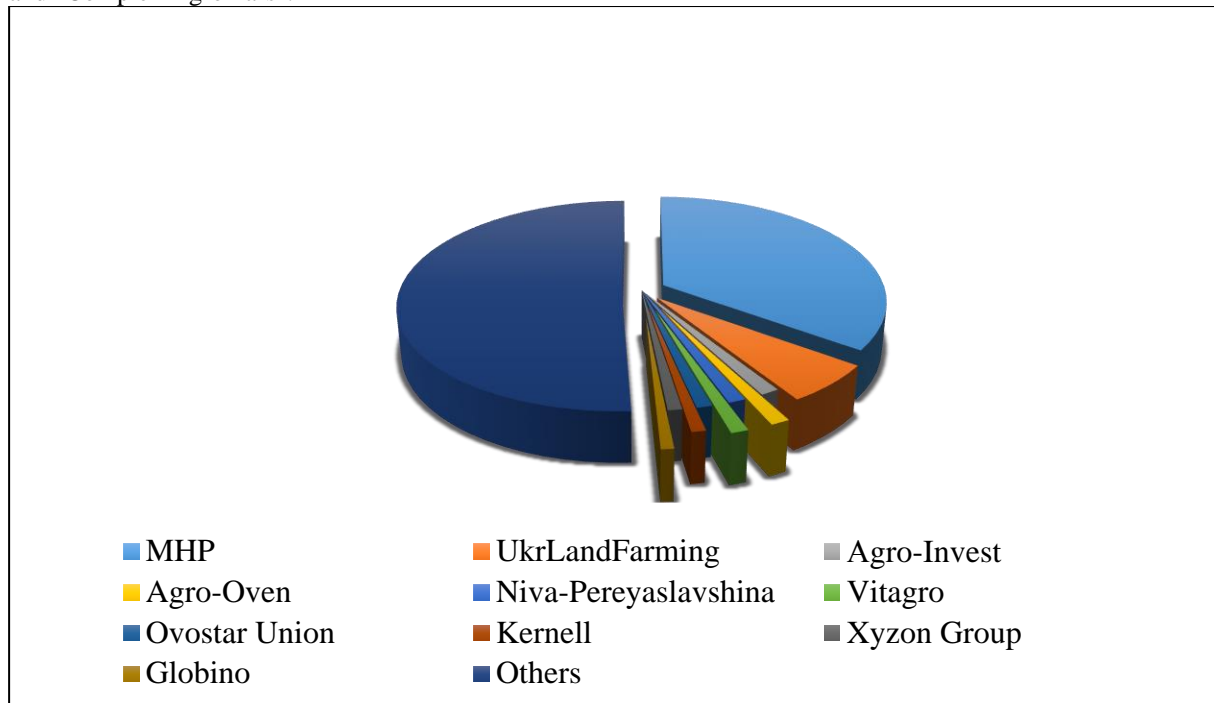


Fig. 4. Volume of grants for TOP-10 agricultural companies for 2017-2020 [8]

This is quite understandable, because subsidies were calculated in proportion to the value added tax paid, which directly depends on the profitability of agricultural companies. If we look at the problem as a purely economic one, providing most of the subsidies to the largest producers does not contribute to inclusive economic growth and fair competition. While small producers receive subsidies that are barely enough to secure a loan, the larger ones get enough to build a new plant or take over one of the competitors. In world practice, direct agricultural subsidies have not been perceived positively for a long time.

In addition to empirically proven problems in reducing productivity at the firm level, distorting competition and international trade, there are many other aspects that have led to negative attitudes towards direct support.

Agricultural subsidies are among the most expensive for budgets of the countries that use them; as soon as a country begins to pay direct subsidies to agricultural producers, their cancellation becomes a priori impossible through lobbying and interest of owners and statesmen. Direct and indirect subsidies create additional opportunities for rent-seeking.

Under perfect competition, productivity growth is completely natural and does not need additional support from the state. Under intense competitive pressure, productivity grows much faster than in highly concentrated markets. Competitive pressure is the factor that motivates enterprises to modernize for the sake of

short-term decrease of competitive pressure. But under conditions of state subsidies, instead of trying to increase their own competitiveness, agricultural producers often choose another way - to maximize the revenue part by changing the structure of production [8].

Many countries in the world have long since abandoned the policy of providing direct subsidies to agricultural producers. On the other hand, they have adopted other models of government support. In the United States, the main goal of agrarian policy is to ensure food security and active participation in foreign economic activity [14].

State regulation covered all aspects of farmers' and agro-industrial complex activities. First of all, it included agricultural programs that should increase or stabilize farmers' prices and incomes; natural resources and environmental protection programs; international trade policies that aim to create favorable conditions for trade in U.S. products; marketing and demand expansion programs to increase farmers' competitiveness in foreign and domestic markets; credit programs - agricultural insurance, etc. [8].

In 2014, the usual direct budgetary aid was replaced by another tool at the legislative level - risk insurance. It works easy. Farmers do not know what will be the cost of their planted crops and what will be the weather in the next season. Livestock farmers also cannot be sure of the prices of their products due to the risks of losses through adverse weather conditions or livestock diseases. If farmers are threatened by severe



drought, flooding and unpredictable market conditions, a less expensive partial insurance is provided, but if the risks are lower, the insurance may be higher.

American financial analysts believe that farmers will become increasingly interested in managing risks, particularly through the impact of global climate change. At the same time, programs proposed by the new U.S. legislation may have other effects, such as farmers' inclination to use regions that are more risky in terms of yield. However, developed economies such as the U.S. can fully support high levels of agricultural subsidies, while in less developed countries such a scheme may seem too costly [11].

The EU countries also have an active state administration of agriculture, as it is one of the largest agricultural producers in the world. This is, firstly, predetermined by a specific model of subsidies to farms (subsidizing the export of surplus products); secondly, a system of public procurement of agricultural products within the limits of "interventions", which are carried out to stabilize the market at fixed prices approved by the EU, which is much higher than the world prices. There are three types of prices for agricultural products: market, guaranteed and supportive, where the latter two are regulated by the state. Thus, a high level of agricultural production is stimulated and quotas are set for the production of basic agricultural products.

Producers are protected from the intervention of cheap foreign products and social programs are financed. At the same time, given the seasonality of agricultural production, a protectionist policy is implemented, which ensures a guaranteed amount of funding for the agricultural sector through price, credit and budget channels. Such costs are offset by increased employment in other sectors of the economy (processing of agricultural products, mechanical engineering, etc.). It is believed that small private farms as an agrarian system cannot survive without subsidies. Western European agriculture consists of 10 million small farms, where profits from the sale of products make up half of the income. The other half is formed by a two-stage system of state subsidies. Large subsidies come from the farmer's country of residence, as well as from the EU, for exporting additional food products to any EU market.

Methods have also been developed to support incomes, which include sufficiently high domestic prices of food products and accumulation of their excess stocks, which are sold at dumping prices outside the European Union. In EU countries, about 10 percent of the country's agricultural budget (25 percent most in France) goes to support farmers who start their businesses. Government regulation covers 90 percent of agricultural commodity prices in the form of subsidies to support farmers through high input prices [9].

This policy of subsidizing farmers has allowed the EU to become a significant exporter of agricultural products, but such subsidies account for half of the entire EU budget. This system causes an oversaturation of the agricultural market, affects the competitiveness of agriculture in countries that are developing and weakens the EU's position within the WTO. A farmer receives only part of his income from market payments,

most of it coming from the state. Agriculture in the EU countries has two main tasks - the need to reform the existing system of subsidies and support farmers in Central and Eastern European countries with less developed agriculture. The main way to address the existing problems is to change the nature of subsidies, with the size of the subsidy levied on farmland rather than on production. Funds will be provided for environmental protection, improvement and quality control.

In EU countries, agricultural production is regulated through quotas. In general, in the EU countries, an average of 10 percent of agrarian budgets are allocated to support start-up farmers, including 25 percent in France and a small amount in the UK and Ireland. On average, about 10% of the EU budget goes to research and development programs, while in the Netherlands it is almost 30%.

In Canada, government support for farmers is provided through two levels of programs - federal and provincial. Federal programs include the National Net Income Stabilization Program (NISA), the Unification of Prices through the Wheat Chamber, the Advance Payment Program and the Harmonized Production Support Program. The National Net Income Stabilization Program is a kind of savings mechanism for farmers that ensures that even in an unfavorable year, a farmer's income will not fall below the average for the past three years.

The program of price unification through the Wheat Board. The Wheat Board aims to ensure that every farmer who supplies wheat or barley to the Wheat Board at any time during the agricultural year would receive the same price for a particular grain category as other farmers. Such a mechanism provides that farmers sell grains to the Wheat Board at a time convenient for them and receive a set starting price, the same for all grains that belong to the same class. At the end of the agricultural year, the Wheat Board makes the final calculation and pays the producers the rest of the money. Consequently, the final price that a farmer receives does not depend on the time when he sold the grain to the Wheat Board, or on what market and under what conditions the Wheat Board itself sold the grain, but depends directly on the quality of the grain.

In addition to nation-wide programs, Canada has state support programs for farmers at the level of each province: - Income stabilization programs; - Loan programs for farmers, such as the Beginner Farmers Program; - Crop insurance programs. The income stabilization program ensures that a farmer's net income in any year is not below a certain level of the average for the past 5 years. If a farmer's income falls below this level, the difference will be compensated [1].

Having reached serious positions in the world market, the main priorities in agriculture are now called not so much productivity growth as sustainable development, innovations, improvement of animal welfare, use of renewable energy sources, etc. For example, among the subsidies that farmers can receive, there is a program to guarantee a part of the loan that the government is willing to take. Small and medium entrepreneurs or, for example, young farmers under the age of 39, can apply for this program. The additional funds the farmer will receive under the guarantee must be spent

on well-defined goals, such as optimizing production, improving product quality or animal welfare.

In addition, the government supports farms that have abandoned the use of chemicals and pesticides. In order to ensure that these eco-products are competitive, the government, for example, has signed agreements with supermarkets and the Federation of Agro-Industries and Greenhouses to expand distribution of these products.

Another goal in agriculture is to increase the use of biomass as fuel on farms. By 2030, it is planned to replace 30% of oil products with "green energy". Therefore, scientific research in this area is being supported.

Let us consider the most optimal models of agricultural producer support, which can be taken into account after analyzing the most effective models of countries in the world to build an effective Ukrainian model of support:

1. Replacing direct support with general support in the example of New Zealand, which in 20 years has become a major exporter of agricultural products.

2. Replacement of direct financial support with insurance benefits. Instead of paying agricultural producers money for production, it is more effective to conclude insurance contracts with farmers, which will allow the latter to reduce the impact of seasonal price fluctuations and adverse conditions.

3. Providing loans on preferential terms and financing research in the agricultural sector.

The conducted analysis of the effectiveness of direct support of agricultural commodity producer made it possible to draw the following conclusions :

- creation of imbalance of foreign trade operations as a result of price decrease, production volume increase and export growth;

- the growth of production volumes contributes to the increase in demand for production factors, which in turn provokes an increase in their purchase prices and, consequently, an increase in the cost of variable costs;

- decrease in intensity of scientific and technological progress. Direct state subsidies "settle" in the pockets of agricultural machinery producers without any extra effort, and therefore does not force the latter to actively compete with other producers;

- there is a process of distortion of competitive behavior through the received additional monetary advantages by some subjects of economy;

- the growth of direct state subsidies forms the necessity to increase the expenditure part of the state budget of the country, and, consequently, the tax pressure on economic entities increases.

High interest rates do not allow small and medium businesses to optimize and modernize the production process to the necessary extent. That is why, today, the best option to improve the efficiency and effectiveness of the model of state support for the agricultural sector, there is support for a program of preferential lending, which is based on the mechanism of cheaper loans, and which is currently one of the most in demand from agricultural producers.

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