

UDC 330.322.2

Valerii Pchuk, Doctor of Economics

Khrystyna Shtyrkhun, PhD student

Chernihiv National University of Technology, Chernihiv, Ukraine

**FINANCIAL SUPPORT OF THE ORGANIC MARKET**

В. П. Ільчук, д-р екон. наук

Х. І. Штирхун, аспірант

Чернігівський національний технологічний університет, м. Чернігів, Україна

**ФІНАНСОВЕ ЗАБЕЗПЕЧЕННЯ РИНКУ ОРГАНІЧНОЇ ПРОДУКЦІЇ**

В. П. Ильчук, д-р экон. наук

К. И. Штырхун, аспирант

Черниговский национальный технологический университет, г. Чернигов, Украина

**ФИНАНСОВОЕ ОБЕСПЕЧЕНИЕ РЫНКА ОРГАНИЧЕСКОЙ ПРОДУКЦИИ**

*The article analyzes the main directions of state policy in the sphere of production and circulation of organic products in Ukraine. The size of expenses on establishing the organic enterprise is determined. The system of the principles of financial support provision of the organic market in Ukraine is offered.*

**Key words:** organic production, organic market, agricultural industry, financial support, state support, principles.

*Проаналізовано основні напрями державної політики у сфері виробництва та обігу органічної продукції в Україні. Визначено розмір витрат на створення підприємства, що займається виробництвом органічної продукції. Запропоновано систему принципів фінансового забезпечення ринку органічної продукції в Україні.*

**Ключові слова:** органічне виробництво, ринок органічної продукції, сільське господарство, фінансове забезпечення, державна підтримка, принципи.

*Проанализированы основные направления государственной политики в сфере производства и обращения органической продукции в Украине. Определен размер расходов на создание предприятия, занимающегося производством органической продукции. Предложена система принципов финансового обеспечения рынка органической продукции в Украине.*

**Ключевые слова:** органическое производство, рынок органической продукции, сельское хозяйство, финансовое обеспечение, государственная поддержка, принципы.

**Urgency of the research.** Organic market in Ukraine is at the stage of slow growth. Producers of organic products still do not get enough money to direct them to increase production and sales of organic products. Therefore the organic market requires considerable investments for its further growth in order to provide the population with high-quality agricultural products and improve an image of Ukraine in the world markets. On the one hand, this sector of the agro-industrial complex has not received the necessary level of attractiveness for investors yet because of unstable political and economic situation in Ukraine, the low level of organic market development, imperfect legislative support, lack of the state support, etc. On the other hand, there are some conditions which create a favorable investment climate: increase in demand for products among the population; the leading positions of Ukraine in the world market of organic products; a considerable potential for further expansion of organic production. Thus, financial support of the organic market of products should be a priority of the state.

**Actual scientific researches and issues analysis.** Enough attention in scientific works of such foreign and domestic scientists as Iu. N. Bazhal, Dzh. Beili, I. A. Blank, O. D. Vasylyk, V. M. Heiets, B. V. Hubskeyi, Iu. M. Zavoloka [1], V. P. Prykhodko [6], P. Samuelson, A. Smit, P. M. Stankevych [8], A. M. Fedoryshcheva, I. M. Shkola and others is paid to a research of problems of investment attraction and their effective use. Besides, the principles concerning various fields of activity of the agricultural enterprises have been formed in works of domestic scientists as N. S. Koidan [3, p. 6], Kh. Z. Makhmudov [4, p. 12], Kh. I. Shtyrkhun [9, p. 331] etc.

**Uninvestigated parts of general matters defining.** Despite the importance of the conducted scientific research, some theoretical and methodical questions connected with the financial provision of the organic market haven't found reflection in them.

**The research objective.** The main goal of this study is to develop and systematize principles of financial support of organic market in Ukraine.

**The statement of basic materials.** The Law of Ukraine “On the production and turnover of organic agricultural products and raw materials” [5] defines the main directions of the state policy in the sphere of production and turnover of organic products, which are aimed at:

- 1) development of competitive, highly effective farming through providing an organic production;
- 2) increase in exports of organic products;
- 3) development of the domestic organic market and meet consumer demand for a range of organic products (edition since 5/4/2015).

The primary edition of the Law dated 3/9/2013 included also an implementation of economic incentives for production and sale of organic products (raw materials), as well as other measures to reduce the cost and improve a quality of organic products and raw materials produced domestically. In addition, the section 8 "State and scientific support of production and turnover of organic products and raw materials" was excluded from the law. Such exceptions demonstrate renunciation of the state of any support of organic production, including financial support of production and sale as well as a reduction in the cost of organic products. in Ukraine. But the positive aspect is that the Law determines the state shall promote attraction of the international technical assistance and investments for formation and development of production and turnover of organic products [5].

Undoubtedly, the state has to become a key investor in organic production [6], it will act as the guarantor for other investors and promote increase an investment attractiveness of the industry.

The amount of money on the establishment of the enterprise with the closed cycle of organic production is high. The total cost for a medium enterprise is more than 130 million UAH [3]. In addition, each year the enterprises are engaged in the organic production, have to undergo production certification, conducted by specially authorized certification body, and costs from 6 to 12 thousand UAH. Producers which have just begun to produce organic products are required to pay the same amount of money and have to undergo a transitional 3-year period (the transition period from production of traditional (inorganic) products (raw materials) to production of organic products (raw materials)) and confirm their intentions concerning continuation of organic production annually.

According to the program of a financial support of organic production in Chernihiv region for 2016-2021 years the state provides 100% compensation of producer's expenses on the certification of production (raw materials, products) and expenses during a transition period irrespective of types of agricultural activities. Such support provides the reduction of the cost value of the organic production and its price to provide its competitiveness in the domestic and foreign markets. During 2016-2021 years 1,7 million UAH are planned to allocate from the regional budget. The purpose of the program is an increase in a share of organic products in a total amount of gross output of agriculture of the region [7].

There are 8 producers of organic products in Chernihiv region. An amount of compensation payments on certification of organic production according to the program is sufficient. However, considering the almost total absence of the competition in the market of organic products both in Ukraine in general, and in Chernihiv region, there is a need of gradual replacement of traditional farming with organic one which requires considerable investments, including a financial support one the irretrievable basis. Despite positive intentions of the program concerning a financial support of organic producers, such assistance is extremely small in comparison with those means which are necessary for the establishment of organic enterprise and organization of a production process.

The market research, production, promotion and sale of organic agricultural products to the consumer shall be provided with sufficient amount of financial, material, labor, energy

and other types of resources. Therefore, given the above, we offer a system of the principles of financial support of the organic market in Ukraine (fig. 1). The principles are conditionally divided into groups, each of which covers the general and specific principles generally determine the phases of investment process, namely:

- a search of investment sources;
- an attraction of the investment capital;
- a use of investment funds.

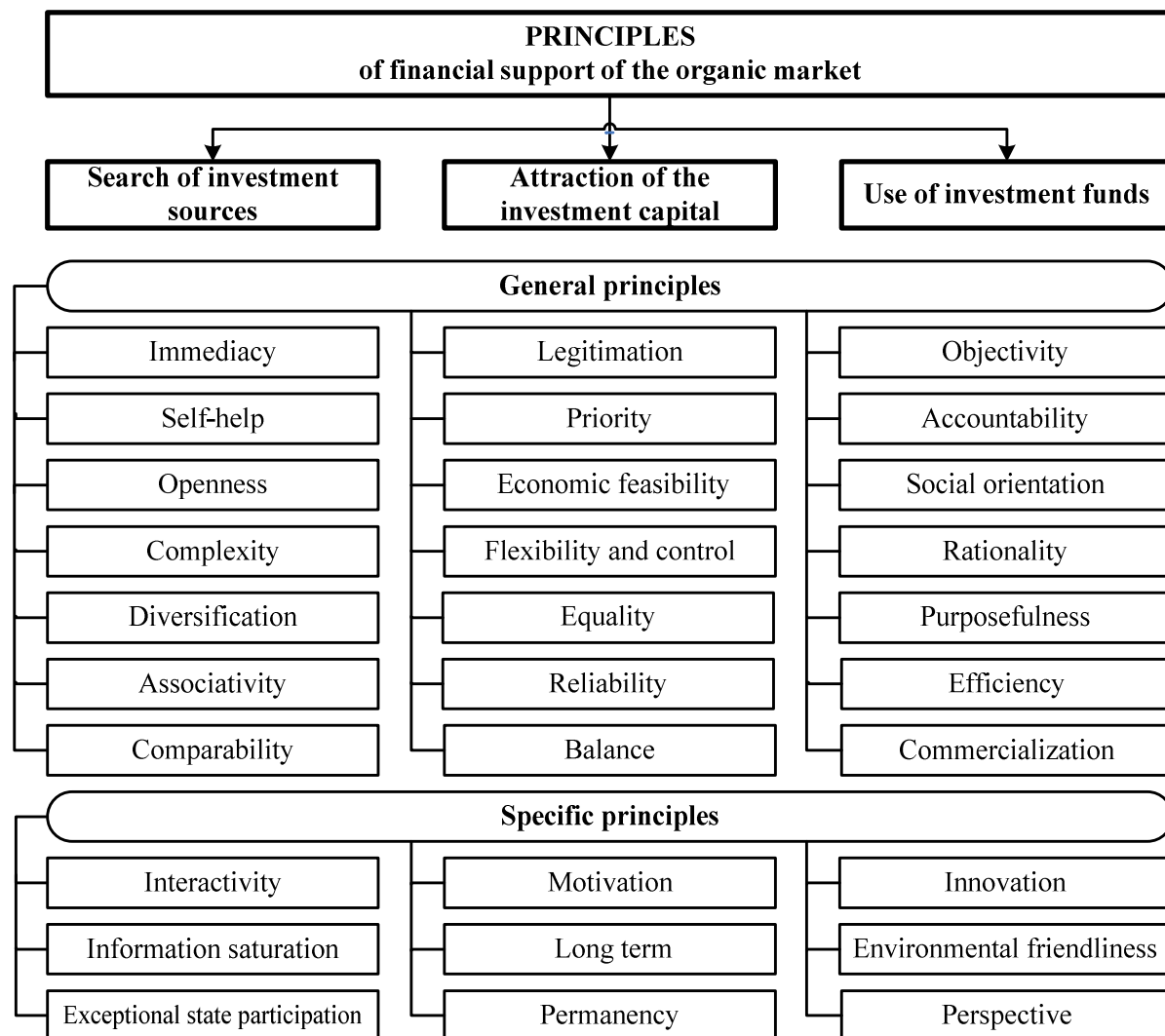


Fig. Principles of financial support of the organic market in Ukraine

Source: made by authors.

General principles of financial security of the organic market in Ukraine include:

**Immediacy** – assumes fast search and the analysis of the potential investment sources capable of providing a sustainable development of the organic market.

**Self-help** – means consecutive development and implementation of new schemes of the search of financial resources which allow realization of innovative projects effectively under the conditions of limitation of financial resources and creation of new opportunities for investment providing innovations. It stimulates and develops methods of innovative search and determines the gradual development of the organic market.

**Openness** – consists in the provision of complete information about the investment purposes, amounts and terms of attraction of the capital etc.

**Complexity** – consists in the application of a number of approaches which are interconnected and help to choose certain investment sources taking into account features and

the level of the development of capital market, as well as worked out mechanisms of search and attraction of investments. It is important to consider that all the participants of the investment process have their own economic interests, therefore, all their efforts should be aimed at achieving the general purpose of the project.

**Diversification** – involves the accumulation of the required amount of capital on the basis of various investment sources (state, local authorities, legal entities of a non-state pattern of ownership, citizens, foreign investors, etc.) that is carrying out joint financing of projects. This principle also includes attraction into investment process both small, and strategic investors for implementation of investment projects at the enterprises which produce and sell organic agricultural products. Diversification, on the one hand, consists of the distribution of risks between several owners of the sources, and on the other hand, creates a certain stable investment.

**Associativity** – assumes a mutual complementarity and coordination of various investment sources.

**Comparability** – means the choice of the most attractive investment source from a number of alternative that meets all the requirements of raising capital.

**Legitimation** – means legality, legitimacy of attraction and the direction of funds for socially important projects and programs that provides an increase in the social standards of living of the general population.

**Priority** – allows the enterprise to decide on which projects it needs to raise funds primarily that depends on production costs, demand for products, customer preferences and so forth.

**Economic feasibility** – means attraction of a certain amount of capital at a minimal cost on acceptable conditions for the corresponding term.

**Flexibility and control** – means a capability to adapt to changes of the external environment, rules of the game in the investment market and to react to changing market conditions quickly by taking operational management decisions.

**Comparability** – means the choice of the most attractive investment source from a number of an alternative that meets all the requirements of raising capital.

**Legitimation** – means legality, the legitimacy of attraction and the direction of funds for socially important projects and programs that provide an increase in the social standards of living of the general population.

**Priority** – allows the enterprise to decide on which projects it needs to raise funds primarily that depends on production costs, demand for products, customer preferences and so forth.

**Economic feasibility** – means attraction of a certain amount of capital at a minimal cost on acceptable conditions for the corresponding term.

**Flexibility and control** – means a capability to adapt to changes in the external environment, rules of the game in the investment market and to react to changing market conditions quickly by taking operational management decisions.

**Equality** – guarantees implementation of identical approaches to all investors who invest the capital, and also equal opportunities for participation in all projects and making an expected profit. The principle grants the right to each investor to direct the funds for financing of any investment object depending on his preferences, purposes, and investment opportunities.

**Reliability** – allows to expect guaranteed and uninterrupted supply of required amount of the capital in case of any changes in the capital market; it is determined by a real capability to attract the capital in a certain time and on acceptable conditions.

**Balance** – involves the formation of an optimal investment portfolio for ensuring the organic market development of organic products and is that there is a certain interrelation between the process of capital investment and performance indicators. Making certain

investments, there comes a moment when their additional volume does not affect an increase in efficiency, therefore, it is necessary to calculate the optimum level of capital investment accurately without waste of resources, which will bring no additional effect.

**Objectivity** – means that management decisions on the use of investments should be made taking into account objective economic laws on the basis of the deep analysis of situation and factors of various origin using scientific methods of cognition.

**Accountability** – provides an investor with all the necessary information on rationality, efficiency and targeted use of funds invested into the development of organic production. If the state acts as the investor, regular monitoring on a use of public funds and means of joint ventures by the state monitoring bodies should be carried out. This principle allows implementing the state economic strategy taking into account regional priorities of the development of the agrarian and industrial complex.

**Social orientation** – means the use of funds for social projects and programs inherent in the sphere of production and sale of organic products, which aims at preserving and recovery of health of consumers of organic products, access to the foreign markets as well.

**Rationality** – consists in the economical use of funds for the purpose and avoidance of fragmentation on various investment projects.

**Purposefulness** – means directing capital to the specific projects and programs in the sphere of production and sale of organic products which correspond to certain regional priorities of development of the agrarian and industrial complex.

**Efficiency** – consists in the achievement of social, ecological and economic effects as a result of the implementation of investment projects, and determines their attractiveness for all participants of the investment process.

**Commercialization** – reflects the commercial nature of investment direction, which consists in profit earning from the capital invested in the production of organic products.

The principles relating to the specific nature of the features of production and promotion of organic products include:

**Interactivity** – assumes attraction and use of investment resources for the development of information and communication technologies by the creation of a single state electronic resource which would connect organic producers and potential investors. This principle is implemented through attracting investors by taking part in forums or posting links on bulletin boards.

**Information saturation** – provides creation of own banks and databases about potential investors and accumulation of information concerning innovative technologies of search and attraction of the equity during the period of forming of investment resources.

**Exceptional state participation** – consists in an active role of the state as a participant in the investment process. In the conditions of the deficit of financial resources, this principle is implemented by paid nature of the state investments. The advantage of public investment must be given to enterprises with a full cycle of production of final product.

**Motivation** – provides favorable conditions to attract investors' funds, which consist of building capital, creating an attractive investment climate in the sphere of organic production, and providing certain state benefits to investors who implement social projects and so on.

**Long term** – allows organic producers to attract investment resources and use them during the long-term period, as, on the one hand, the organic market is perspective, on the other hand, requires financial investments for long term.

**Permanency** – means that in the conditions of a lack of entities' funds and in connection with the initial stage of formation of the organic market in Ukraine, financing should be constant that will allow providing a sustainable development of the market of organic products.

**Innovation** – consists in need of the direction of investments on the innovative renewal of material and technical resources of the agrarian entities and gradual transition to organic

production by introduction of new technologies, methods, means and mechanisms of production through implementation of long-term national projects and programs. The increase in competitiveness of agrarian products in the domestic and world markets will help to promote organic products that are unique and innovative for Ukraine, in a more efficient way.

**Environmental friendliness** – based on the fact that investments are directed into organic production, which use only environmentally friendly, non-waste technologies that will protect, preserve and restore the environment.

**Perspective** – means that the organic market is very promising, besides organic products must meet not only the customer current requirements but also create future ones which will have new consumer properties, therefore, use of investment means will provide a long-term commercial result.

Thus, the principle is a set of rules or requirements that must be considered in the case of the search of investment sources, the attraction of investments and their directing. These principles are closely related and influence on efficiency and development degree of the enterprises engaged in the production and sale of organic products. Therefore, their implementation must be complex to ensure a high level of organic products profitability and sustainable economic development of the country.

**Conclusions.** Gradual transition of the sphere of the agrarian and industrial complex to model of the innovative development directed to distribution of organic production - is the unique rational way of its effective technological upgrading that will improve the competitiveness of agrarian products in the domestic and world markets considerably through gradual replacement of traditional production with organic and increase the image of Ukraine in the world.

Implementation of the principles funding market for organic products in the stages of a search of investment sources, the attraction of the investment capital and use of investment funds will allow solving the problem of resource support of its innovative and development, promoting a sustainable development and economic growth of the country in general. At the same time, the state shall become the key investor of the organic market. First, it helps to ensure food security, sustainable development and improve an image of the state in the international space; secondly, guarantees to provide very important and perspective for society and the country in general direction with investments; thirdly, governmental participation in an investment process creates additional confidence of private investors in the prospects of financial security of organic market; fourthly, provides state control over internal investment processes.

### References

1. Заволока Ю. М. Основні принципи побудови системи формування інвестиційної політики на підприємствах / Ю. М. Заволока // Збірник наукових праць Таврійського державного агротехнологічного університету. Економічні науки. – 2013. – № 4. – С. 88–91.
2. Как на Житомирщине производят органические молочные продукты [Электронный ресурс] // Журнал Житомира. – 2015. – 11 трав. – Режим доступа : <http://zhzh.info/news/2015-05-11-23634>.
3. Койдан Н. С. Удосконалення маркетингової діяльності сільськогосподарських підприємств : автореф. дис. ... канд. екон. наук : спец. 08.00.04 «Економіка і управління підприємствами (за видами економічної діяльності)» / Н. С. Койдан. – Чернігів : Черніг. нац. технол. ун-т, 2014. – 20 с.
4. Махмудов Х. З. Економіко-організаційний механізм формування попиту і стимулювання збуту на ринку продовольства : автореф. дис. ... д-ра екон. наук : спец. 08.00.04 / Х. З. Махмудов ; Нац. науковий центр «Інститут аграрної економіки» УААН. – К., 2010. – 31 с.
5. Про виробництво та обіг органічної сільськогосподарської продукції та сировини : Закон України від 03.09.2013 № 425-VII (із змінами, внесеними згідно із Законом № 191-VIII від 12.02.2015) // Відомості Верховної Ради України. – 2015. – № 21. – Ст. 133.

6. *Приходько В. П.* Принципи активізації інвестиційного потенціалу в регіональній політиці економічного зростання [Електронний ресурс] / В. П. Приходько // Ефективна економіка. – 2011. – № 6. – Режим доступу : <http://www.economy.nayka.com.ua/?op=1&z=1115>.

7. Програма фінансової підтримки органічного виробництва в Чернігівській області на 2015–2020 роки [Електронний ресурс] // Офіційний сайт Департаменту агропромислового розвитку Чернігівської обласної державної адміністрації. – Режим доступу : <http://apk.cg.gov.ua/index.php?id=13389&tp=1&pg=>.

8. *Станкевич П. М.* Інвестиційні процеси та їх державне управління в Україні / П. М. Станкевич // Вісник соціально-економічних досліджень : зб. наук. пр. / голов. ред. М. І. Зверяков ; Одеський держ. екон. ун-т. – Одеса, 2010. – Вип. 38. – С. 169–173.

9. *Штирхун Х. І.* Теоретичні засади маркетингового підходу до збутової діяльності аграрних підприємств / Х. І. Штирхун // Збірник наукових праць Державного економіко-технологічного університету транспорту. Серія «Економіка і управління». – 2015. – Вип. 31. – С. 324–334.