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PROVIDING COMPREHENSIVE MONITORING  
IN AGRICULTURAL POLICY

**Annotation**

*The article reviews the main problems of innovation and investment development of agrarian sector of Ukraine, the questions of state support of innovation and investment development of the agricultural sector, the possible measures to increase the efficiency for this activity.*

**Keywords:** agricultural sector, government regulation, innovation and investment development, strategy.

**Анотація**

*У статті розглянуто основні проблеми інноваційно-інвестиційного розвитку аграрного сектору економіки України, проаналізовано питання державної підтримки інноваційно-інвестиційного розвитку аграрного сектору, запропоновано можливі заходи щодо підвищення ефективності даної діяльності.*

**Ключові слова:** аграрний сектор, державне регулювання, інноваційно-інвестиційний розвиток, стратегія.

**Аннотация**

*В статье рассмотрены основные проблемы инновационно-инвестиционного развития аграрного сектора экономики Украины, проанализировано вопрос государственной поддержки инновационно-инвестиционного развития аграрного сектора, предложено возможные мероприятия по повышению эффективности данной деятельности.*

**Ключевые слова:** аграрный сектор, государственное регулирование, инновационно-инвестиционное развитие, стратегия.

**Introduction**

Since becoming a member of the WTO, the agricultural sector of Ukraine is functioning in qualitatively new economic conditions. Together with opening the trade borders, the state more acutely felt the effects of the global financial crisis and the instability of market prices, which is characteristic for it. The agricultural sector focuses – especially in the terms of the financial crisis on one of the main budget-forming and investment components of the state economy. Today, agriculture is increasingly feeling the pressure of negative effects, mainly related to the global financial crisis. In this situation governments of the developed countries have resorted to the use of additional protective measures in order to protect their food markets and to support their export.

When joining the WTO, Ukraine could not apply protective measures under the condition of urgency, as its market was directly dependent on the world market and protectionist policies of developed countries. This resulted in substantial volatility of the market and lower commodity prices. The internal factors such as: sharp marked limitation of purchasing power, reducing exports, stopped lending process to the enterprises, monetary and exchange rate factor,

the growth of the energy prices, approaches to curb prices in order to protect domestic consumers in the food industry are also seen. Concern is caused also because the decay of social infrastructure in rural areas is not suspended. Thus, since in rural areas there is the lowest rate of birth and life expectancy, meager salaries and pensions and the highest death rate hundreds of villages degrade and die out. By this entire industries are destroyed and the total losses become the norm of most farms.

**Analysis of recent research**

To the study of agriculture as part of the economic system of Ukraine and the issue evaluation, formation and structure of productive capacity works of local economists are devoted: S. I. Demyanenko, I. I. Lukinov O. M. Mogilny, O. M. Onishchenko, B. Y. Paskhaver, P. T. Sabluk, V. O. Tochylin, V. M. Trehobchuk, O. M. Shpuchak, A. E. Yuzefovich, V. V. Yurchyshyn. A significant contribution to the development of macroeconomic research, the relationship between individual components of the economy have made the following domestic and foreign scholars as V. Bondarenko, Y. Gaidar, A. Galchinsky, V. Heyets, J. M. Keynes, V. Leontiev.



### **Statement of research objectives**

The purpose of the article is to consider the basic problems of innovation and investment development of agrarian sector of Ukraine, to analyze the issue of state support in innovation and investment development of the agricultural sector and to suggest possible measures to improve this activity.

### **Results**

Economic processes, which are happening in socio-economic life of Ukraine, are putting forward new requirements for their regulation. The market mechanism, on which until recently excessive hope has been put, without effective regulation in the form of state influence on the socio-economic processes in a transitional economy appeared to be ineffective. Thus, the practice of macroeconomic development once again confirmed that the effective functioning of socially oriented market mechanism is impossible without the active of socio-economic policy of a state. The negative things in the agrarian sector of Ukraine became the natural consequence of errors in strategy and tactics of agrarian reform, which was started in 1991. The hassle, often wrong choice of priorities in agrarian reforms led to a serious degree of disproportions in agriculture, deep decline in production, financial instability, and decreased quality of life of rural population.

It should be noted that the policy, which is being implemented now for commodity of agriculture, is not ensured with comprehensive monitoring of the factors of agricultural sector and the relevant legal framework. As a result, the lion's share of decisions made in management, are of declarative and fragmentary nature, aimed at overcoming temporary, acute problems of individual agricultural sector. Most of these measures are inadequate to the economic situation in general, as they are based on the «linearity» of the relationship between economic entities of the market and government bodies in the form of short-term direct support of the budget (subsidies, compensation, preferential loans, debt relief, administrative control for the channels of the distribution of products) [1].

Of course, without government regulation and budget support the existence and the development of agriculture is impossible. Agriculture under the conditions of a market economy, because of its certain characteristics, cannot fully participate in intersectional competition. Because of non-equivalence of trade barter of village with other sectors of the economy, seasonality of production, weak investment attractiveness and low purchasing power of population and other negative factors

agriculture remains extremely risky sector of the economy.

In this situation comprehensive regulation is needed, which includes antitrust regulation of tariffs of natural monopolies, state intervention in the food market, the development of leasing of agricultural machinery and equipment. The use of state mechanisms regulating the agricultural sector in Ukraine is denied by many opponents, but the mechanisms of state regulation of agricultural sector exist in almost all countries and are constantly improving, while reacting to global economic factors.

In theory, now we are at the final stage of agrarian reform, understanding new trends in agriculture production and the search for the future strategy. «The economic condition of agricultural sector intensifies the search for ways out of the economic crisis and the development of business. The main purpose of agriculture economy is the formation of the competitive industrial production aimed at resolving of political, social, economic problems and the issue food security» [3].

In order to achieve this goal it is necessary to fulfill the following: to set a complex of measures aimed at improving performance and strengthening coordination of executive power in order to transform industrial components on the basis of public policy, to determine the system of the target programs and the projects of the development of the separate sectors of the economy and working towards the improvement of the reproductive proportions; to strengthen the stimulative functions of a state in order to promote the business activity of separate entrepreneurs for the sake of revival and development of the industrial production through reaching the optimal proportions of ownership, to implement tax reform and implicate the perfect corporate management models, to create a normative legal framework for the effective functioning and development of an industry, to ensure effective management and the use of property rights, antitrust regulation and competition, and others. These are also important measures in order to strengthen the economic environment.

Thus, the functioning of the agricultural sector during the economic crisis leads to the need for research of a number of problems which are associated with an increase in agricultural manufacturing during the change in external and internal economic conditions.

A characteristic feature of the modern innovation of the agricultural sector in the world is that it is being accomplished as part of the STR. The technological revolution covers not only industry, transportation,

construction, but agriculture and other sectors of the agro sector, where so far the amount of heavy manual labor and the dependence on natural forces of nature are very large. Modern scientific and technological revolution in agricultural sector provides a real innovation, defines the transition to the new innovative technological mode of production. It is being expressed as follows: 1. In acceleration of the implementation of science in agriculture, which in this area is increasingly becoming a direct productive force. 2. In the quality of innovative changes in all elements of its logistical and biological foundation in the technology and agro production. 3. In the formation of highly-developed agricultural sector.

Agricultural production under the condition of STR was developed later than industry. There were the powerful factors for it: historically cultural and technical backwardness of agriculture from industry, the village from the city took place. The level of specialization and concentration of production is lower than in industry, which makes it difficult to increase accumulation and effective use of technology and science, a later development of biology, genetics, chemistry and other sciences which the STR in agriculture depend on.

However, it is important to note that the later involvement of the agricultural sector into the STR restrains it from having a consistent flow of all phases of technical progress and, where possible and appropriate, makes the transition into modern technological mode of production more ease.

Using the achievements of scientific and technological revolution in agriculture is largely carried out during the state of innovation and investment policy. Thus, we are talking about public investment for stimulating agribusiness, increasing innovation activity, the formation of market innovation and their promotion to the domestic and foreign markets. The economic efficiency of enterprises, providing high speed of their development, increasing competitiveness on both domestic and international markets determines the level of investment activity [5]. Investment is the basis of reproduction of production potential of the agricultural sector of economy.

The possibilities of the recovery of the productive capacity of the agricultural sector which was actually destroyed in the last decade of last century and its further development through expanded reproduction will depend on the current investment and structural policy. Through all sources of investment in recent years there has been a steady increase of investment activities and budget allocations to the needs of the

agricultural sector and only in the crisis period in 2009 this margin was decreasing.

In order to ensure the sustainability of agriculture and its competitiveness in domestic and foreign markets, and hence the increase of the investment attractiveness, in September 2007 the Cabinet of Ministers of Ukraine approved the State Program of the development of Ukrainian village until 2015. Through the implementation of measures which are aimed at the formation of investment and innovative model of development of agriculture, by 2015 the revenue of investment in the form of about 20 billion hryvnas to the industry is foreseen.

The governmental policy of privatization became one of the major reasons for the increase of investment activity.

During the years of reform investments in agricultural branch of economy grew at 7.2 times. During the past decade there was the growth of investments into the economy of Ukraine as a whole and its agricultural sector particularly. But such investment policy does not take into account physical depreciation of fixed assets, which in recent years came close to critical levels and is in most regions over 50 %. In the GDP the share of agricultural area is about 8.2 %. Over 30 % of industries are economically connected with the agricultural sector.

Farmers, regardless of the ownership type, have to adapt to new conditions of the investment process, while not having enough experience. They should learn how to enter into the economic relations with the new entities that provide investment resources, and which are significantly different from the usual state structures: are explicitly acting on the base of market principles, imposing stringent requirements for investments' providing and the conditions of their return.

Analyzing the state of investment activity in Ukraine the following main problems that hinder the creation of a positive investment climate can be formulated: inadequate tax systems, low effective demand of agricultural subjects of economic activity, significant amounts of indebtedness of agricultural enterprises of both public and private financial institutions, underdevelopment of the credit facility in the agricultural sector; lack of reliable guarantees for the protection of foreign capital, the lack of banks specializing in lending to agribusiness, low public confidence in the banking system.

For the salvation of the above named problems a favorable climate for both domestic and foreign investors, including the use of effective levers of economic policy, improving the legal framework,

especially the system of taxation and privatization, improving the mechanism of creation and functioning of a special (free) economic zones, strengthening the banking system, the development of securities market and the system of state protection and state guarantees for investment should be created.

In the economy of Ukraine the problem lies not only in increasing investment in agriculture, but also in providing innovative activity. Innovative activity is a purposeful activity of the establishment, implementation in the production and promotion of new efficient, scientific, technological, organizational and managerial achievements of STC with a purpose to make profit. An innovation must be made such a way to not only cause a need for a new product, but also to provide financial opportunity for making further innovation after its implementation. However, the final assessment of the effectiveness of innovation makes a market in the face of the consumer.

In order to assess the economic and social results of innovative activity in the agricultural sector, one can use the following system parameters: convergence of investments in research and development and in their own agricultural production, the share of innovative high technology products in the total final product of the agricultural sector [8].

Strengthening the innovation activity in Ukraine should take center place in the implementation of a state policy in the agricultural sector. However, the innovative business in the country is still poorly developed. An innovative business in agriculture refers to the venture (risk) capital. Therefore, its development requires a large domestic and foreign investment. This risk should be compensated not only through revenues of the companies –innovators, but also through guarantees, preferential tax treatment, affordable credit and insurance.

In order to reduce risk and improve innovation the formation of the economic mechanism of embedding science in the structure of agricultural production is needed. The selection of the most effective forms and methods of innovation activity in the agricultural sector requires, above all, science-based management, which involves the formulation of goals and selection strategies, preparation of innovative projects, project management and risk management, management of personnel, the creation and development of a new technology, the evaluation effectiveness of innovation. The central place has the selecting of goals and innovative strategies. Determining the most appropriate areas of economic and scientific-technical policy which are based on a long-term run of the agricultural sector during

the transition to the market, taking into account the aggregate external and internal factors, resource constraints at the macro-, meso- and macro levels depend on the above two factors [7].

An innovative strategy that promotes innovation activity may be different: offensive, if the purpose is the leading market position; defensive, when it is advantageous to keep following the «leader» with the aim of borrowing his innovation of making some changes; simulative when using the achievements of competitors and avoiding errors; dependent when the purpose is self-preservation and sub-contract work for companies innovators is performed. These kinds of innovative strategies can be used both separately and in combined form at different levels of the agricultural sector. These kinds of innovative strategies can be used both separately and in combined form at different levels of the agricultural sector.

A special role in the promotion of innovation in the agricultural sector holds the state, which in the process of formulation of economic, scientific, technical and social policy sets out the priorities of basic innovations at various levels, creates a market mechanism for its implementation. All the achievements of the STR and its agro technical, technological, organizational, economic and other innovative areas should be more actively used. The analysis of the innovation development of the agrarian sector of Ukraine allows us to select a number of problems hampering the competitiveness area.

Firstly, there is no reasonable and effective innovation policy of the state. The disclaimer of Ukraine at the beginning of its state independence from the priority scientific and technological development, the lack of public priorities, an exclusion from the main productive forces – science, advanced education and innovation is a major problem for the accelerated development of national economy [2].

Secondly, there is no system of the state governance of the innovation process from the side of the state. The distribution of the areas of this field between different agencies leads to a lack of common goals and objectives, uncoordinated actions, scattered human and financial resources. Such governance has never been aimed at solving national problems, as it was always carrying the sectoral character.

Thirdly, the legal framework for the regulation of innovation activity is fragmented, not unified, contradictory, and therefore imperfect. Ukraine has adopted over 100 laws, legal acts of the government and various departmental documents that are not

coordinated and do not form a single legal framework of innovation activity.

The fourth problem is the lack of the financial mechanism of innovation activity. The main sources of financing the costs of innovation are the companies' own funds. Meanwhile, in developed countries in the «nurturing» of innovation activity extensive and very dynamic network of private equity and venture capital funds play a decisive role. Under the condition of the absence of clear rules and guarantees the private capital is not yet moving towards the innovation sphere.

Today, the future path of development of agrarian sector of Ukraine looks like a dilemma: either it will be possible to create a competitive industry, which together with a number of priority areas will find its proper place in world markets, or it will lead to a loss of this perspective and Ukraine will not be able entry into developed countries. Therefore, the transition to an effective state policy of innovation in the agricultural sector is among the top priorities of the public governance.

The strategy for implementation of this policy should be implemented based on the system and consistent basis. All participants in the innovation process should be interested in combining their interests and efforts in developing and applying new knowledge and technologies in order to enter the domestic and foreign markets with competitive products. In the implementation of this goal an interaction of all subjects and creating the economy based on knowledge the role of government is significant. The priority areas of investment in agriculture primarily include: technical re-equipment and reconstruction of existing enterprises, invest-

ments in environmental protection, strengthening scientific and technological developments and their implementation in practice of enterprises [6]. It is also essential to appropriately use the available own resource potential that can greatly accelerate the economic development of Ukraine.

### Conclusions

Today several measures in order to minimize the crisis in the agricultural sector and to provide its output to innovative new perspectives should be taken. Among them are: rollovers, which were taken by the agricultural units in the commercial banks and providing new loans; increased cost of funding of programs and financial support of the industry through the mechanism of reduction of budget credits, livestock and crop subsidies, reduction of the purchase of vehicles, restoring funding budget programs with partial compensation of costs of agricultural machinery of domestic production, reproduction and improvement of soil fertility, reduction of cost of insurance premiums; selection by the stabilization fund of additional funds to support farmers.

A special attention should be paid to the creation of equal conditions for all types of agricultural enterprises and to reform their directions of their support, namely: switch from the production subsidies into independent from the amount and type direct payments, to create the equal access into the market and existence to all types of agricultural enterprises in order to allow every small business to have a prospect of a large trade, and therefore provide a competitive, differentiated state support for individual farmers and separately for rural development.

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