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PERSPECTIVES OF RURAL HOUSEHOLDS' TRANSFORMATION INTO FAMILY FARMS IN THE WESTERN UKRAINE

The article deals with the peculiarities of rural households' development in the Western regions of Ukraine, their role in agricultural production of the region and ensuring rural employment. Particular attention is placed on identifying the potential of transformation of rural households into family farms. The necessity to create favorable conditions for family farms is emphasized, especially through legislative confirmation of their special status as agricultural producers with the possibility to be registered without creating a legal entity and use a simplified method of accounting incomes and tax liabilities, which generally corresponds to European standards on family farming.

Key-words: rural households, family farms, government support of agriculture

Цимбаліста Н. А. ПЕРСПЕКТИВИ ТРАНСФОРМАЦІЇ СІЛЬСЬКИХ ДОМОГОСПОДАРСТВ ЗАХІДНОЇ УКРАЇНИ У СІМЕЙНІ ФЕРМИ

У статті досліджуються особливості розвитку сільських домогосподарств Західних областей України, їх роль у виробництві продукції сільського господарства регіону та забезпеченні зайнятості сільського населення. Особливу увагу приділено визначенню потенціалу трансформації частини господарств населення у сімейні ферми. Наголошено на необхідності створення сприятливих передумов для функціонування сімейних ферм, в першу чергу, шляхом законодавчого закріплення їхнього особливого статусу як сільськогосподарських товаровиробників з можливістю реєстрації без створення юридичної особи та використання спрощеного методу ведення обліку доходів та податкових зобов'язань, що відповідає загальноприйнятим європейським нормам щодо сімейного фермерства.

Ключові слова: сільські домогосподарства, сімейні ферми, державна підтримка сільського господарства

Rural households play an important part in agricultural production of Ukraine. During the period of more than 10 years, when a significant decrease in production of agricultural enterprises took place due to transformations in the agricultural sector of the country, rural households produced 50-60% of agricultural production. Rural households still produce the bulk (over 80%) of vegetables and berries, and over 54% of livestock production. However rural households in Ukraine, unlike family forms of farming in European countries, have no

legal status. For this reason they face certain difficulties while interacting with other participants of the agricultural market, they have no possibility to export their products. In addition, members of the rural households are considered to be employed even if they have no job besides their personal subsidiary plots, and in fact they are left without any social insurance and will not receive pensions when they reach their limit of active working age.

These problems can be solved due to transformation of a part of rural households, which are characterized by a larger area of land use and a high share of agricultural products sold on the domestic market, into legal entities – family farms.

Different aspects of functioning and development of rural households, sources and peculiarities of their investment resources forming, necessity of state support of this sector of agricultural production in Ukraine were studied by a number of researchers, among which we should mention V. M. Zayats, M. I. Kisil, M. M. Kropyvko, M. J. Malik, S. M. Onysko, I. V. Prokopa, V. P. Riabokon, T. O. Shmatkovska and others. Yet, the problems and perspectives of economic transformation of rural households into family farms are not fully highlighted in scientific papers.

The article aims to investigate the peculiarities of rural households' development in the Western Ukraine and to outline the prospects of creation family farms on their basis.

Family farms are the most numerical group of agricultural producers in the countries of the European Union. They produce the bulk of agricultural production and are the main land users and employers in the rural areas. However there is still no common definition of a family farm. Generally accepted feature of a family farm in Europe is the fact that this farm is owned and managed by the members of the same family, and they are responsible for all the risks and contribute their own labor force into the production process.

According to Hill, only a farm, where the share of family members' labor during the year exceeds 95%, can be defined as a "pure type" of a family farm. Farms, where the percentage of hired labor during a year is more than 50%, do not belong to family forms of farming. Finally, farms, where the share of family members' labor during a year ranges from 50% to 94%, occupy an intermediate position in this classification and most family farms in Europe belong to this group [1, p. 360]. Family work is a guaranty of flexibility and viability of family farms, but its share in total labor input depends on the size of a farm, its specialization and the type of farming: traditional or organic [2, p. 9].

In obedience to the methodology used by the European Statistical Office for writing surveys on family farming in the European Union only family farms which used more than 1 hectare of agricultural land were taken into account. After 2010, the threshold value of this figure has been risen up to 5 hectares [2, p. 14]. There are also some other criteria used to distinguish a legal entity of a small agricultural business (a family farm) from a rural household, which is not a business entity. For example, in the USA a household should be registered as a farm if it receives more than 1 thousand dollars of income per year by selling its agricultural production. The correspondent criteria in Germany is the size of land use of more than 1 hectare of arable land or 3 heads of cattle or 5 heads of pig; in Denmark – 300 euro of annual profit [3, p. 106].

The results of a sample statistical survey of households in the rural areas of Ukraine show that 22,2% of rural households in our country had more than 1 hectare of agricultural land in their use, and the average size of land use in this group of households accounted to

4,05 hectares. The share of households with the area of land use of more than 1 hectare varies by regions and is much higher in the Western part of Ukraine. 33,6% of rural households in the Western Ukraine use more than 1 hectare of land, but the average size of land use is lesser than the average value of this figure in Ukraine (table.1).

Table 1

Rural households of the Western regions of Ukraine in 2015

Region (oblast)	Number of rural households, thou units	Rural households with the land use size over 1 hectare		
		average size of land use, hectares	share by the number of households, %	share by the total land area, %
Volynska	160,7	3,09	51,4	86,4
Zakarpatska	211,8	2,21	29,4	68,3
Ivano-Frankivska	248,4	1,66	28,1	54,8
Lvivska	302,0	2,15	32,2	65,8
Rivnenska	192,3	3,42	37,3	81,7
Ternopil'ska	195,1	2,20	38,4	71,0
Chernivetska	172,2	2,36	22,9	57,8

Source: calculated by the author according to [4, p.9; 5, p. 24-25]

However, a relatively high share of rural households in the gross agricultural output in the Western Ukraine indicates their significant role in the development of the agricultural sector of the region and their importance in food security formation (fig. 1).

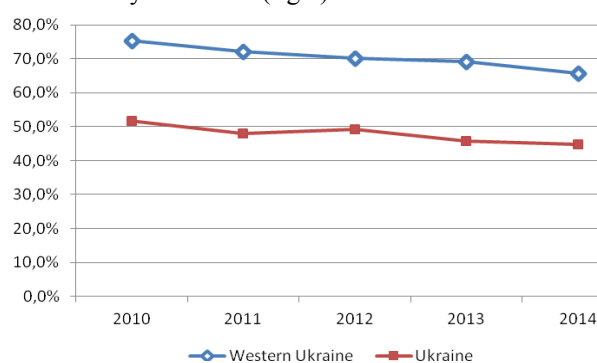


Figure 1. The share of rural households in the gross agricultural output, %

Source: calculated by the author according to [6, p. 203-207]

It is also should be mentioned that the Western regions of Ukraine is the place of residence of 50% of rural population of the country which is officially employed only in their rural households. This figure amounts to almost 1,18 million of people in their active working age [7, p. 36]. Thus the above-mentioned problem of social insurance of rural population is particularly relevant for the regions of the Western Ukraine.

Rural households of the Western regions of Ukraine use smaller total area of agricultural land, including arable land, as compared with the other regions of Ukraine. At the same time the share of lands under hayfields and pastures is rather high (in all Western regions, except Ternopil) and the value of this figure is the higher the bigger the size of a rural household is. In addition, the area under fodder crops occupies the second or the third

place by its share in the total sown area of the rural households and this figure is higher than the average in Ukraine. With this structure of agricultural land use rural households of the Western Ukraine show a relatively well-developed livestock-raising, as it is evidenced by the indices of performance and maintenance of livestock and poultry.

Based on the above we can conclude that there is a considerable potential of transforming of rural households of Western Ukraine into family farms, including livestock farms. However, to enhance this process we need to create a number of preconditions. First of all, it comes to legalizing the status of family farms in Ukraine through appropriate legislation.

In March 2016 the Parliament amended the Law of Ukraine "On farms" having in the view the aim to encourage creating family farms by stimulation of the large rural households' legal status transformation. The new version of the law contains a declaration of providing a special governmental support for the new start-up family farms and provides them a possibility to be registered as a sole entrepreneur without creating a legal entity. In fact, this is only one of the very first steps towards family farming in Ukraine. There is still no legislative basis on state support measures for family farms and for now it is just a proclamation with no real steps and actions. In addition, for the purposes of taxation family a farm registered as a sole entrepreneur is not considered to be an agricultural producer. According to the Tax Code of Ukraine this definition refers only to legal entities – farms and agricultural enterprises. For this reason family farms – sole entrepreneurs can not apply for the special taxation regime, which provides significant tax concessions for agricultural producers.

Besides the possibility to act as a sole entrepreneur without creating a legal entity, family farms in the European Union benefit from a particular policy of direct state support and additional tax concessions [8]. Ukraine is also obligated to implement these measures into domestic agricultural policy. First of all we need to fix a maximum value of non-taxable income for family farms' members. Secondly, a certain group of family farms (those who are smaller and less financially viable) should have the right to use notional income measures rather than financial accounting to calculate their income tax and pay the added value tax as small percentage of price (and again, no need to conduct a separate accounting for the added value tax). Differentiated approach to taxation of farms depending on the volume of their activity indirectly affects the land market in Europe, stimulating primarily the expansion of small farms' land use. The reason is that the payback period for every additionally purchased unit of land area is shorter for smaller farms due to lower level of tax burden [9]. And the last requirement is to provide all the agricultural producers, regardless of their size, with an equal access to the innovations, knowledge and best agricultural practices via the agricultural chambers and advisory service.

The above mentioned regulations constitute the institutional frame of family farms activity and the only way to launch the processes of rural households transformation into family farms is to elaborate and implement the respective laws into Ukrainian legislation.

Anyway, the transformation process should be voluntary and initiated by the rural residents themselves. Thus, we need to establish a set of additional incentives and advantages for those rural households, which decide to change their legal status and transform into family farms.

Family farmers in the European Union member states benefit from the Common Agricultural Policy direct and indirect support mechanisms during the decades. These mechanisms include first price support, direct land based payments (currently consist of basic payments and green payments), young farmers support (provides top-up payments to the young farmers of the age of 40 years or less during the first five years after installation), small farmers support (replaces all the other direct CAP payments by a lump-sum annual payment and allows using more simplified procedures to apply for subsidies), supporting investments towards farms improvement and modernization (grant assistance to farmers who invest funds to improve environmental protection, working conditions, production quality etc.) and other supporting measures[10].

Evidently because of permanent deficiency of the state budget and consequently applied residual principle of financing programs to support agriculture, Ukraine can hardly attempt to bring the volume of government financial support of the sector up to the European level. Still what we can do in modern conditions is to enable family farmers' access to the existing mechanisms of support, such as preferential loans for agricultural equipment and machinery purchase, reimbursement of 50% of the building or reconstruction cost of livestock farms. The next step is to develop a particular support policy for family farms which can include, for example, provision of interest-free purpose-oriented loans for cattle number increasing, pedigree young animals and high-quality seeds purchase; establishment of special (lower than generally used) rates for social security tax with the further compensation of the discrepancies by the state budget.

Following the study we can draw the conclusion that Western regions of Ukraine have a significant potential of family farms emergence based on rural households. However, to unleash this potential we need to create an appropriate institutional background and provide family farmers with a substantial state support.

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