

FUNCTIONING OF AGRICULTURAL HOLDINGS IN UKRAINE: STRONG AND WEAK SIDES

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Abstract:

One of the organizational forms of the agricultural management which is gaining popularity in the world is agricultural holdings. The essence of agricultural holdings is considered in the article. Also the peculiarities of their functioning in Ukraine and determination of the strengths and weaknesses of their activities is defined, as well as perspectives of their further functioning. Agrarian holding, as a relatively new organizational legal form of managing in Ukraine has its advantages and disadvantages. As the experience shows the advantages of agrarian holdings over the subjects of management are revealed mainly in the economic sphere. While their disadvantages over the subjects of management are revealed in social and ecological spheres. This is a negative moment considering the implementation in Ukraine of the concept of the sustainable development, which means the combination of these main components (economic component, environmental component, social component).

Key words: agricultural holding, SWOT – analysis, advantages of agricultural holdings, disadvantages of agricultural holdings, perspectives of agricultural holdings functioning.

JEL classification: D20, L25, Q13

INTRODUCTION

One of the organizational forms of the agricultural management which is gaining popularity in the world is agricultural holdings. Nowadays there is an reduction of the small and medium enterprises in the agricultural sector of Ukraine economy. One of the reasons of this situation is their merge and takeover by larger companies. Agricultural holdings in Ukraine are relatively new and not enough investigated form of management. That is, to our mind, the reason of topicality of investigation of their functioning. Basing on the results of the scientific studies there may be formed the estimation of the agricultural holdings influence on the formation of the provision safety of the country, implementation and support of the sustainable development concept and the agricultural sector functioning in general. So, the study of their activity today forms a rather vast scientific area for discussion.

Literature review. Ukrainian scientific idea concerning forming, development and functioning of agro-holdings as a respective form management has been activated in Ukraine rather recently. The works of following scientists are devoted to the question of the agricultural holdings functioning: V.G. Andriychuk[13], O.M. Borodina, S.G. Vasylyev[12], A.E. Dankevich[2,3], T.G. Dudar [4], O.I. Chorna[11], O.O. Shapurov[6], G.V. Cherevko [7,8] etc.

The purpose of the article is to define the essence of agricultural holdings, to describe the peculiarities of their functioning and to outline the weak and strong sides of their activity in Ukraine as well as the prospects of their further functioning.

Paper content. The situation having been formed in agro-business Ukraine now, is characterized by a stable development of the agricultural manufacturing. The current situation in the villages is greatly determined by the activity of the local agrarian enterprises. If they (enterprises) functionate effectively then the situation in the rural areas is the better comparing with the area where the agricultural manufacturing is in decay or the lands are not cultivated at all. Successful agricultural enterprises provide employment for local population, pay taxes into local budgets, support, and somewhere even develop rural infrastructure. To a great extent their social activity of such a kind is connected with the fact that the founders of this enterprises are the dwellers of the

village and they personally and the members of their families use this infrastructure: means of communication, medical, cultural, and educational establishment.

But in the past-reform period (after 2005) an active impetus for development was given to agricultural holdings. According to the available information there are more than 50 agricultural holdings in Ukraine which in overall control up to 15% of ploughed lands area (up to 5 mln. hectares) [1, p. 28]. The study of the other expert evaluations shows that the majority of the large holdings in Ukraine is not distinguished as a separate business [2, p.72]. And further on, as the scientists predict, up to 2015 about 200-300 holdings will have been formed [3, p. 140]. So, as the current situation shows, there is a steep increase of agricultural holdings in Ukraine.

As the practice shows, Ukrainian holdings started to form mainly due to the diversification – outflow of capital (investments) from high-profit industries oil and gas and metallurgical industries to the agricultural (e.g. Mine named after Zasiadko, MMK after Illich, State enterprise “Nafkom-Agro”, “Myronivskiy hliboproduct (breadproduct)”, “Astarta-Kyiv”, “Ukrzernoprom” etc.) [4, p. 99]. The formation of some holdings was carried out via buying working enterprises and making agreements on land leasing with the rural citizens (NCH Capital, Ukrainian agricultural investments etc.).

According to the current legislation, a holding company is a joint-stock company which owns, uses and has at its disposal holding corporate stocks packages (shares) of two or more corporative enterprises. Meanwhile under the heading the corporative stock package one means such a package of enterprises stocks which exceeds 50% of their general amount it is enough for the crucial influence on its activity [5]. So, as an agricultural holding we may call a group of technologically and organizationally connected enterprises, where the crucial share package belongs to one company and they are all engaged in producing, processing, transporting, storing and selling of the agricultural or other kinds of production made of it.

Agricultural holding (from English holding – keeping, storing) – is a combination of a parent company and subsidiary companies controlled by it, which perform managing activity in the field of production and processing of agricultural products [1, p. 27].

The causes of agricultural holdings appearance in Ukraine are, to our mind, the necessity to strengthen the positions on the markets by production enlarging, and the larger the enterprise is, the easier to defend its positions. Due to production integration there takes place closing of the production chain and product sale that influences the increase of the producer competitiveness and minimizes expenditures by reduction of intermediaries amount. Also, some specialists [10] consider as one of the reasons of agricultural holdings appearance the absence of legal land market and appropriate state regulation. Moreover, we can distinguish such factors:

- favourable market conjuncture on domestic and international markets of agricultural and foodstuffs provision;
- comparatively low cost of labour force and rent;
- possibility to get donations and subsidies on agrarian production development;
- possibility of accumulation of sizeble land massifs via leasing and in case of functioning of land market – possibility of their buying out with further selling and so on.

Comparison of agricultural holdings characteristics and character of their management in different countries enables us to distinguish certain specific features of Ukrainian agricultural holdings comparing with the similar enterprises in other countries:

- considerable capital centralization;
- possibility of carrying out agreed financial investment and credit policy;
- flexibility and mobility in choice of organizational legal forms of holding participants;
- possibility of risk diversification;
- confidentiality of control for business owners who are at the top of the holding pyramid;

- effectiveness of financial and tax planning;
- management bureaucratization, complexity of hierarchy structure;
- conservation of non-profitable enterprises which lead to the decrease of holding effectiveness [6, p. 31]

As any other organizational law form of managing, agricultural holdings have some advantages and disadvantages. One of these advantages is the fact that the development and strengthening of integral interaction allows to reduce the level of transaction losses and to minimize opportunistic behaviour of their participants, price dictates (policy of dictation) and to favour financial recovery of enterprises which comprise its composition.

It should be taken into consideration that agricultural holdings have much greater finance possibilities and pay much higher rent payments to land owners and thus force out smaller private farmers from the land leasing market. But essentially, in this case, one cannot speak about the monopsony of land leasing marked by agricultural holdings. This is supported by statistic data, according to which, there are more than 42 thousand of farms working in Ukraine, a part of which lease land. Moreover, a range of other agrarian enterprises act as leaseholders of lands of agricultural use. Nevertheless the agricultural holdings influence of the land rent market remains significant. In general it is considered as positive, as they force out farmers from the low effective production compelling to switch on growing fruits, vegetables and berries. Also they take away the land of non-effective producers forcing them to leave the agrarian business. As a result, a higher level of effectiveness is reached as agricultural holdings use new technologies on larger areas and an outcome – cheaper final product than the farmers have. And farmers, correspondingly, offer more labour-intensive production, which is produced more effectively in modern conditions. Also one of the positive features of agricultural holdings is that they cultivate lands which haven't been in cultivate on before.

Apart from the positive factors, agricultural holdings have some negative moments. Namely, the concentration of vast land tracts in one hands by forcing out smaller proprietors from the market of rent relations forms a certain social-economic tension in a rural region. This situation is not always positive, sometimes this causes social tension and a range of other negative moments:

- disappearance of some smaller agrarian enterprises;
- growth of unemployment level in the rural area;
- reduction of incomes to local budgets due to stop in acting of some enterprises;
- reduction and sometimes general absence of financing of development of rural infrastructure etc.

Moreover, to negative factors can be added the possibility to create monopoly effect in the field of land relations and respectively at the market of the agricultural production. Also, there is almost non-existent control concerning agricultural holdings influence on the environment condition. And, as practice shows, the majority of great agrarian producers including agricultural holdings rather often ignore this in their activity which can bring to negative consequences both for agrarian enterprises and for mankind in general.

Having described some positive and negative sides of agricultural holdings activity we consider it expedient to systemize them in a table.

To a greater extent the drawbacks in agricultural holdings functioning in Ukraine are generated by imperfection of legislation, absence of agricultural holdings development programs. Also a range of problems is created by non-existence of regulated land market, motivation to implement programs of social and economic development of rural areas by holdings and motifs and limitations which would stimulate preservation of environment and restoration of lands.

It is understandable that as in any other country, there are both supporters and opponents of agricultural holdings.

Table 1. SWOT-analysis of agroholdings functioning as a new organizational economic form of management in agricultural business in Ukraine

Strong sides	Weak sides
<ul style="list-style-type: none"> • complexness of economy management; • higher effectiveness of production and lower primecost of production in general on the basis of synergistic effect use; • comparatively better access to credits and higher investment attractiveness; • applying new technologies and high-productive equipment; • high level of concentration of capital; • economizing on constant expenditures; • high proportion of active part within the structure of main means; • better possibilities for introduction and using the newest technology, science achievements and rational production arrangement; • possibilities for quick implementation of innovations for all participants of a holding; • production, storing and sale of the highest quality products and in the best terms; • availability of many centers of profit generation within one structure; • saving capital and operating costs per unit of area; • possibility to develop low-profit production; • creating conditions for development of agricultural industrial integration; • possibility to decrease transaction expenditures and prices of the products by reducing intermediaries number when passing the chain of manufacturing and selling the product. 	<ul style="list-style-type: none"> • non-availability of state support and inefficient state policy; • absence of a proper normative law basis of agricultural holdings functioning; • leasing form of use of lands; • non-existence of interest in carrying out long-term capital investment in agricultural arable lands due to the absence of guarantees of long-term use of land areas; • increase in unemployment level in the rural area; • non-availability of interest in rational and careful use of land areas; • sharpening of social problems in rural areas; • payment of tax obligations according to the site of parent company registration (as a rule in large cities), what causes under-receiving of tax earnings by local budgets.
Opportunities	Threats
<ul style="list-style-type: none"> • possibilities to enter the world sale markets; • increasing the level of competitiveness of a domestic product on the world markets; • decrease of the level of financial riskiness of the agricultural business ; • significant role in solving the foodstuff problem of a country; • encouragement of infrastructure development in the rural area; • solution of social problems in villages; • strengthening producers positions at the market due to the increase of areas of raw material zones for own manufacturing. 	<ul style="list-style-type: none"> • formation of monopoly effect at the market of agro foodstuff production; • negative impact on the environment; • exhaustion of land areas; • creation of land “latifundia”; • possibility of outflow of capital from the agricultural domain in other spheres, where their use can bring better return.

Note: Formed and extended by the author basing on [7, 8].

Meanwhile the opponents of agricultural holdings in Ukraine raise grounded arguments: sad experience of Brazil, where in some decades of races after market profitable agricultural production, transnational companies in fact devastated hundreds of thousands hectares of arable lands, ignoring first of all agriculture, so the state there was forced to buy out these abandoned lands and hand out land areas to all willing to be farmers [9, p. 18]. But these arguments are also unsteady in sense of their absoluteness- the state is able to control the quality of agricultural lands being in use, to form controlling structures and to apply respective sanctions for the breach of the set

demands concerning their quality level. As V. Yasynovskiy remarks one should legally distinctly foresee the ban to be engaged in land cultivation or agricultural production for those companies which exhaust land and not have respectively safe fore ground equipment or land preserving technologies [9, p. 18]. We agree with V. Yasynovskiy concerning possibilities of a state in regulation, control and elimination of sad experience of Brazil.

CONCLUSION

So, agrarian holding, as a relatively new organizational legal form of managing in Ukraine has its advantages and disadvantages. As the experience shows their advantages over the subjects of management are revealed mainly in the economic sphere while the disadvantages economic, social and ecological spheres. This is a negative moment considering the implementation in Ukraine the concept of the sustainable development which means the combination of these main components namely. To our mind the state is able if not the eliminate, then at least to limit drawbacks in agricultural holdings functioning. Some measures should be worked out of this, such as:

- to improve normative legal basis of agricultural holdings functioning;
- create and implement a range of programs and measures concerning their support and development;
- to improve the system of state control over keeping to ecological legislation;
- improve the conditions of crediting all subjects of management;
- perfection of tax paying system, and to our mind, agricultural holdings must pay taxes not at the place of the registration of their parent company but at the location of production chains;
- to work out a row of measures which would stimulate agricultural holdings to invest money into rural areas development;
- to work out and implement the strategy of agricultural holdings functioning and coordinate it with the strategy of sustainable development of rural territories etc.

The realization of the suggested measures, to our mind, will ensure the balanced agricultural holding functioning and will let them take an appropriate place in the agrarian system of our economy.

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