

**MANAGEMENT OF THE DEVELOPMENT OF FAMILY FARMS
IN THE CONTEXT OF ECONOMIC TRANSFORMATION: ASSESSMENT OF THEIR ROLE
AND MEASURES TO SUPPORT THEIR SUSTAINABLE DEVELOPMENT**

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The Survival of Family Farms: Socioemotional Wealth and Factors Affecting Intention to Continue the Business are considered. In most of FAO's program countries in Europe and Central Asia, the farm structure is dominated by smallholder farmers and small family farms. Small farms have many needs and limitations to their effective operation and development, which are outlined in the work and require special support. Smallholders and family farms are often economically unviable, and the rural population remains the poorest and most vulnerable. Despite this, they are potentially a key resource for achieving sustainable economic, social and environmental development of the country. Family farming – both globally and in Europe and Central Asia – is an important component in achieving several Sustainable Development Goals (SDGs). In this regard, a key goal of the SDGs is to double agricultural productivity and incomes of small food producers by 2030. For these reasons, supporting small farmers and family farms is one of the main priorities in Europe and Central Asia. In Ukraine, the development of small farming is significantly limited due to policy and market failures that have occurred over the past 20 years. Governments, private sector actors, and civil society organizations must work together to address these challenges and create an enabling environment for agricultural enterprises to thrive. By doing so, agricultural enterprises can play a crucial role in promoting economic growth, reducing poverty, and ensuring food security for the world's growing population. As indicated above, very few policy interventions targeting smallholders have been identified, and most public agricultural policy is horizontal and primarily being absorbed by bigger farms. Implementing proposed measures will boost effective management of family farms developing.

Key words: agrarian enterprises, family farms, development, personal peasant households, management, economic transformation.

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Formulation of the problem. Agricultural products in Ukraine are produced by more than 50,000 agricultural enterprises, 92 percent of which are farms. Statistically active – approximately 32.5 thousand, of which almost 29 thousand, according to the State Statistics Service, have 4.7 million hectares of land under cultivation. Domestic farming has long become one of the leading segments of agricultural production.

At the end of February, the All-Ukrainian Congress of Farmers stated that draft law No. 6013 "On the peculiarities of the regulation of business activity of certain types of legal entities and their associations in the transition period" if adopted, could lead to the actual liquidation of farms (peasants). The main goals of the work is research the influence of family farms' development to the agribusiness in the world in the context of economic transformation.

Analysis of recent research and publications. The analysis of the latest research and publications in the field of management of the development of family farms allows us to highlight the works of Nicholls E., Ely A., Birkin L., Basu P., Goulson D., Nivievskiy O., Deininger K, Halytsia O. and other scientists.

The purpose of the article is to assess the role and measures to support sustainable development of family farms in the context of economic transformation; to outline main problems and obstacles.

Presenting main material. Farms belong to small producers of products. The main purpose of their activity is to meet their own needs in agricultural products and food and to sell the surplus of such products. Farms in independent Ukraine were formed on such principles at the beginning of the nineties of the last century. During

the current period of their development, the goals and objectives of their activities have changed. Currently, most farmers produce products for sale and only a part of such products is left for their own needs. Over the past ten years, there has been a tendency to increase the gross production of agricultural products by farms. In Ukraine small farmers and agricultural producers produce more than 50% of the gross output of all agricultural products, including 9% of the products of farms (registered agricultural producers) and from 41.5% of the production of individuals – households (so-called single-person households). The other half of production is produced by corporate farms, including agricultural holdings. Households dominate livestock production, producing for example 78% of milk, 74% of beef and veal, 35% of pork, 17% of chicken. Households also dominate the production of potatoes – 99%, vegetables – 89%, about 20% of sunflower seeds, 25% of cereals.

According to UN 2021 data, farms in the world produce more than 85% of the volume of agro-industrial products, while in Ukraine this indicator barely reached 10% of GDP, falling by 4% compared to 2020. One of the reasons for this

is the focus of the Ukrainian agro-industrial complex on large holdings, which defending their economic interest, form the state tax and legislative policy of Ukraine.

UN Position: Decade of Family Farming

However, in the West, the main trend currently prevailing in the global practice of agricultural industry is the development of small farms. According to the Food and Agriculture Organization of the United Nations (2016), about 97% of all EU-28 farms should be considered family farms. The Netherlands has the largest share of such farms at 98%. In neighboring Poland, it is 90%. As of 2016, in the EU-28, only 27.5% of the area was cultivated by corporate farms, and the majority of the rest – by family farms.

The EU will allocate €26 million to Ukraine for the development of agriculture and small farming in the context of economic transformation.

In 2019, the UN declared the period until 2028 the "decade of family farms". Local production and processing of finished products, self-employment of rural families, replenishment of the regional budget and state GNP are what small family farms in other countries provide today. And Western countries support it.

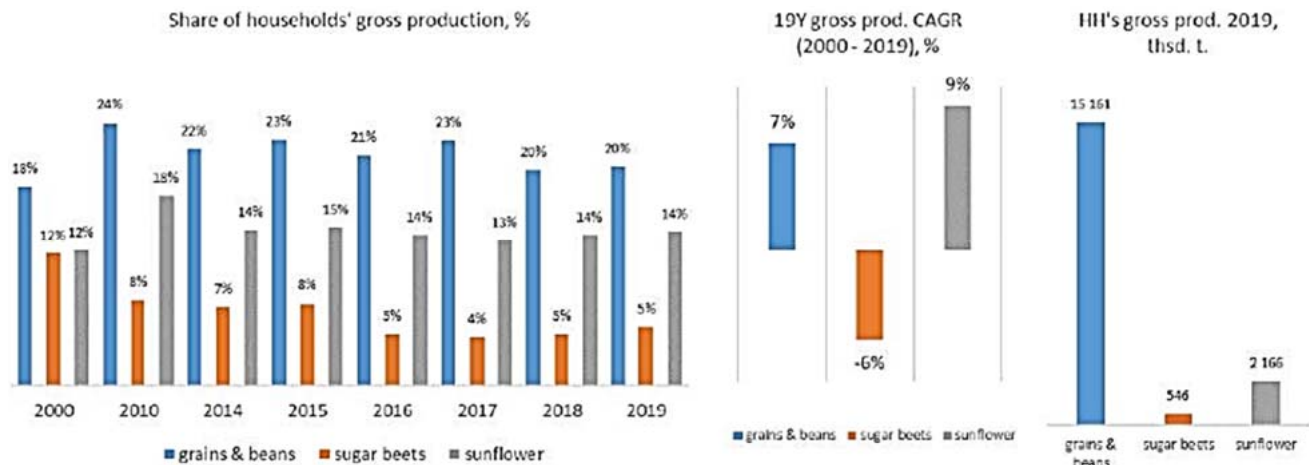


Figure 1. The share of households in the production of cereals, sugar beet and sunflower

Source: <https://www.ukrstat.gov.ua>

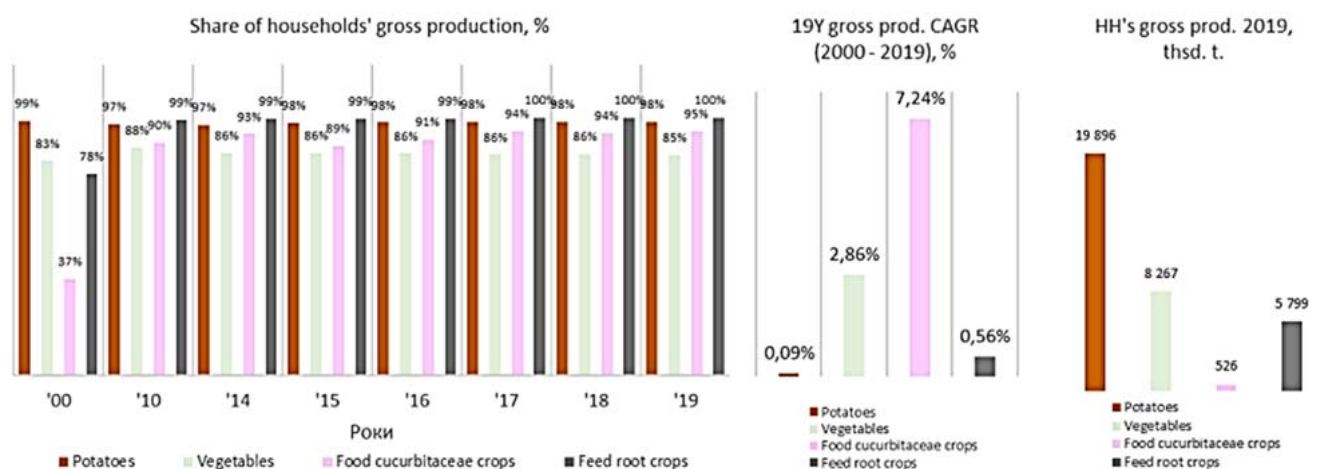


Figure 2. The share of households in the production of vegetables and corn

Source: <https://www.ukrstat.gov.ua>

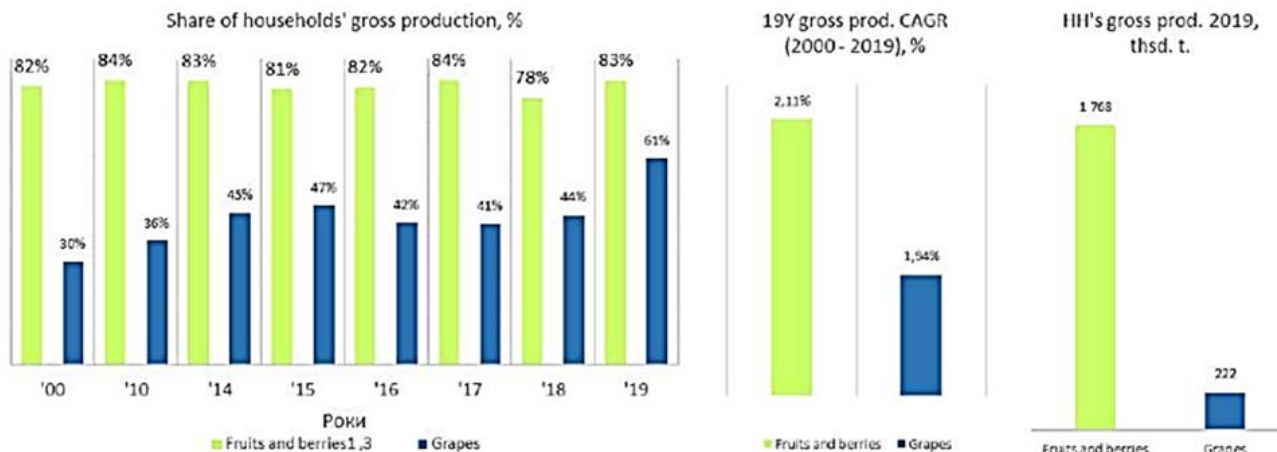


Figure 3. The share of households in the production of fruits and berries, grapes

Source: <https://www.ukrstat.gov.ua>

For example, there are about 118 rural development programs in the EU, but most are focused on the development of family farming, for example, the advisory service for supporting small farms; a credit system, a preferential tax system, support for the development of production, dating of wages in disadvantaged areas (for example, for mountainous areas), support for farmers' markets, control over the distribution of agricultural land, etc. In addition, most European countries have restrictions on land shares. For example, in Austria, more than half of agricultural enterprises have plots of less than ten hectares; and almost 40% – less than five hectares. That is, in Austria, at the state level, they support the development of small family farms and prevent the development of large agglomerations, which would possibly have surplus profits, but would not be interested in providing jobs and social development of agricultural regions. In Ukraine, unfortunately, agro-oligarchs compete in the parliament for preferences and are not going to restrict corporate land banks.

During the last 20 years, small Ukrainian farmers have remained on the sidelines of the state's agrarian policy agenda. Support for agriculture in the form of significant tax breaks and subsidies was directed at large enterprises, which put small producers at a disadvantage in terms of development and growth. Therefore, it is clear that if we want to block the lumpenization of the countryside, and pull agricultural regions out of a depressed state, we need an effective state policy to support the development of small farming in particular.

First of all, we are talking about financial incentives and subsidies for running small farms in villages. In Ukraine, according to the head of the Union of Ukrainian Peasants, Ivan Tomycha, this figure is UAH 15–25 per hectare. For comparison: in the world, this indicator varies from 250 to more than 400 euros. In EU countries, it is, for example, 300 euros/hectare, and in Japan it is 600 euros in general".

Or, for example, South Korea. Under the WTO's agreement to open rice import markets, the Asian country's government announced an increase in direct fixed subsidies

to small-scale rice farmers to about 1 million won (about US\$954) per hectare starting in January 2015.

Also, in addition to the subsidy system, the reduction of the interest rate by 0.5–2 percent on 11 different loans deserves special attention. For example: in South Korea's 2017 budget, a total of 15.1 billion won (about 14.4 million US dollars) is allocated to cover costs related to direct subsidies – and we are talking directly about the same funds aimed at support of small farms.

Small farms in the countryside – new jobs and support of social infrastructure. In developed Western countries and in Asia, governments understand that the development of small agricultural producers means an increase in the number of jobs far from cities. Accordingly, the rural population not only provides itself with everything necessary, but also guarantees social stability and a decent standard of living in the region.

Even according to the structure of the formation of the local budget in Ukraine (currently, the single tax ranks second after the personal income tax in terms of filling the budgets of rural communities), small farms are beneficial to local communities. A clear example of such support is the USA, where more than 50% of new jobs in rural areas are related to small farms.

In order to reduce the social component and within the framework of the decentralization reform, the state transfers the responsibility for maintaining social institutions to the communities themselves. Accordingly, it is necessary to provide these communities with the opportunity to earn, namely the development of small and family farming.

Farming-oriented and supported policy is in Germany. From 2023, the new Common Agricultural Policy (CAP) will also change how much direct payments farmers receive. The aid rates for the 1st pillar are now uniform nationwide.

The so-called basic income support replaces the basic premium and the greening premium. The estimated basic support for 2023 is around €156/ha, according to estimates by the Brandenburg Ministry of Agriculture, Environment and Climate Protection.

What will change for young farmers and animal keepers? The redistributive premium will remain in the new CAP. For the first 40 hectares there is now 69 €/ha, for the following 41-60 ha there is 41 €/ha. With the new basic support for young farmers, politicians are raising the upper limit from 90 ha to 120 ha. Here, too, the subsidy rates have increased to €116/ha. Linked animal bonuses are also new. For ewes and goats there is 35 €/animal and for suckler cows 78 €/animal.

In contrast to the above examples, the development of small farming in Ukraine is significantly limited due to policy and market failures that have occurred over the past 20 years. Accordingly, failures in government policy limit smallholder farmers' access to markets and financing, which is further complicated by a moratorium on the purchase and sale of agricultural land. The failure of the policy lies in the fact that since the beginning of the 2000s, the agrarian policy of Ukraine prioritized the support of big business, and the interests of agricultural holdings were actively lobbied. Therefore, small farming survived and developed in conditions of rather limited opportunities. In addition, new legislative initiatives have appeared, which may further negatively affect the development of small farming in Ukraine. The current format of the opening of the land market in July 2021 and legislative initiatives No. 3131 and 3131-d (introduction of a set tax obligation for each hectare of agricultural land) may further limit the opportunities for the development of small farming in Ukraine.

It is necessary to review the concept of supporting small farming. The key elements are as follows:

- Reformatting the current agricultural support policy with a focus on supporting farmers; restoration of the agricultural advisory system; creating opportunities and promoting the formation of creditworthiness investment projects by small farmers;

- Creation of opportunities for access to loans for small farmers who work in conditions of lack of access to credit. It is important that the debatable issue of lifting the moratorium on the purchase and sale of agricultural land will only partially solve the problem, as it does not mean the disappearance of the risk of agricultural lending. A solution in this situation may be a program of partial guarantee of

loans for small farmers, which can reduce such risks without reducing the responsibility of banks in combination with other risk management tools (for example, agricultural insurance) to combat systemic risk.

- Providing investment support to (new) agricultural entrepreneurs in the form of co-financing. Targeting the funding objective and target audience is a key element. Project/capital targeting investment should be a priority. It is also not necessary to completely exclude the possibility of working capital financing. The KSE team proposed criteria for affordability based on the income/turnover of the enterprises and the existing database. In Ukraine, we are proposed to limit the support program for small agricultural producers with revenue to 0.5 million euros per year.

- Updating the tax system. As already mentioned, currently the system of taxation of agriculture of Ukraine in terms of its design and administrative burden largely favors big business.

- Implementation of world experience in creating programs to increase awareness, knowledge and financial literacy of farmers.

- Increasing rural income and improving the support provided to smallholders and family farms, particularly for rural women and youth.

- Strengthening the legal and institutional frameworks for agrifood production and climate change resilience for increased competitiveness and sustainability in the agricultural sector.

Provided the measures listed in the above section are implemented, additional fiscal control and law enforcement measures, as proposed in draft law No. 3131-d, can be considered. Provided the measures listed in the above section are implemented, additional fiscal control and law enforcement measures, as proposed in draft law No. 3131-d, can be considered. However, for theoretical consistency, the very concept of minimum tax liability should be modified as follows:

Income from land lease can be the basis for calculating MTL. For those who cultivate their own land, the rent is effectively lost income. A rational farmer expects to earn more from the rent – otherwise it is more profitable to lease the land to another agricultural producer. Therefore,

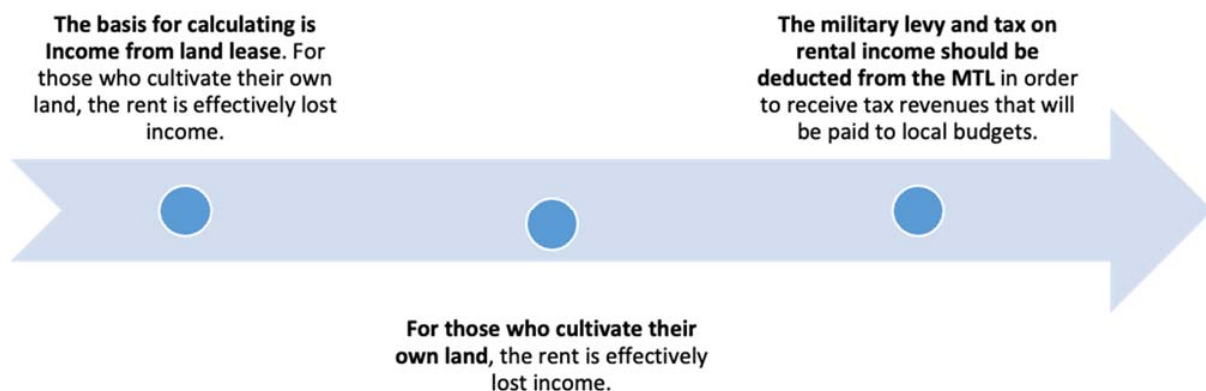


Figure 4. The concept of alternative minimum tax liability (MTL)

Source: Developed by authors based on *Smallholders-KSE (Smallholders-KSE_МАЛІ ФЕРМЕРИ ТА ЇХ ПОЛБ.pdf)*

the rental income will be the expected minimum income received by a farmer who cultivates his own land or rents it informally.

Even if a farmer can earn more than the rental income (or less), we face the problem of determining this minimum income on top of the rental income. Since the actual profits of agribusiness are not taxed, taxing income on top of rental income would also not be fair.

Also, following the approach of draft law No. 3131-d, only the military levy and tax on rental income should be deducted from the MTL in order to receive tax revenues that will be paid to local budgets.

The above concept can be implemented in two ways:

- Based on actual / recorded rental prices in the area where the plot is located (statistical data on rental prices are available);
- Based on the annual equivalent of the normative monetary valuation of the land.

Conclusions. In conclusion, the challenges and obstacles faced by agricultural enterprises in the era of globalization are diverse and complex. Agricultural enterprises must adapt to the changing global environment by improving their productivity, sustainability, and competitiveness. This will require significant investment in technology, infrastructure, and human capital. Governments, private sector actors, and civil society organizations must work together to address these challenges and create an enabling environment for agricultural enterprises to thrive. By doing so, agricultural enterprises can play a crucial role in promoting economic growth, reducing poverty, and ensuring food security for the world's growing population. As indicated above, very few policy interventions targeting smallholders have been identified, and most public agricultural policy is horizontal and primarily being absorbed by bigger farms. Implementing proposed measures will boost effective management of family farms developing.

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УПРАВЛІННЯ РОЗВИТКОМ СІМЕЙНИХ ФЕРМЕРСЬКИХ ГОСПОДАРСТВ В КОНТЕКСТІ ЕКОНОМІЧНИХ ТРАНСФОРМАЦІЙ: ОЦІНКА ЇХ РОЛІ ТА ЗАХОДИ ДЛЯ ПІДТРИМКИ ЇХ СТАЛОГО РОЗВИТКУ

Розглянуто виживання сімейних ферм: соціально-емоційне багатство та фактори, що впливають на намір продовжувати бізнес. У більшості програмних країн ФАО в Європі та Центральній Азії в структурі ферм переважають дрібні фермери та невеликі сімейні ферми. Малі фермерські господарства мають багато потреб та обмежень для їх ефективного функціонування та розвитку, які викладені в роботі та потребують спеціальної підтримки. Дрібні власники та сімейні ферми часто є економічно нежиттєздатними, а сільське населення залишається найбільш вразливим і найуразливішим. Незважаючи на це, вони потенційно є ключовим ресурсом для досягнення сталого економічного, соціального та екологічного розвитку країни. Сімейні фермерські господарства – як у всьому світі, так і в Європі та Центральній Азії – є важливим компонентом у досягненні кількох Цілей сталого розвитку (ЦСР). У зв'язку з цим ключовою метою ЦСР є подвоєння продуктивності сільського господарства та доходів малих виробників продуктів харчування до 2030 року. З цих причин підтримка малих фермерів і сімейних ферм є одним із головних пріоритетів у Європі та Центральній Азії. В Україні розвиток малого фермерства значно обмежений через політичні та ринкові провали, які мали місце протягом останніх 20 років. Уряд, учасники приватного сектору та організації громадянського суспільства повинні працювати разом, щоб вирішити ці виклики та створити сприятливе середовище для процвітання малого фермерства. Таким чином,

фермери можуть відігравати вирішальну роль у сприянні економічному зростанню, зниженні рівня бідності та забезпеченні продовольчої безпеки для зростаючого населення світу. Як зазначено вище, було виявлено дуже мало політичних втручань, спрямованих на дрібних власників, і більшість державної сільськогосподарської політики є горизонтальною і переважно поглинається більшими підприємствами. Реалізація запропонованих заходів сприятиме ефективному управлінню розвитком сімейних фермерських господарств.

Ключові слова: аграрні підприємства, сімейні ферми, розвиток, сімейні фермерські господарства, управління, економічна трансформація.

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