



AGRICULTURAL SUPPORT REVIEW UKRAINE

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Agricultural state support development in Ukraine

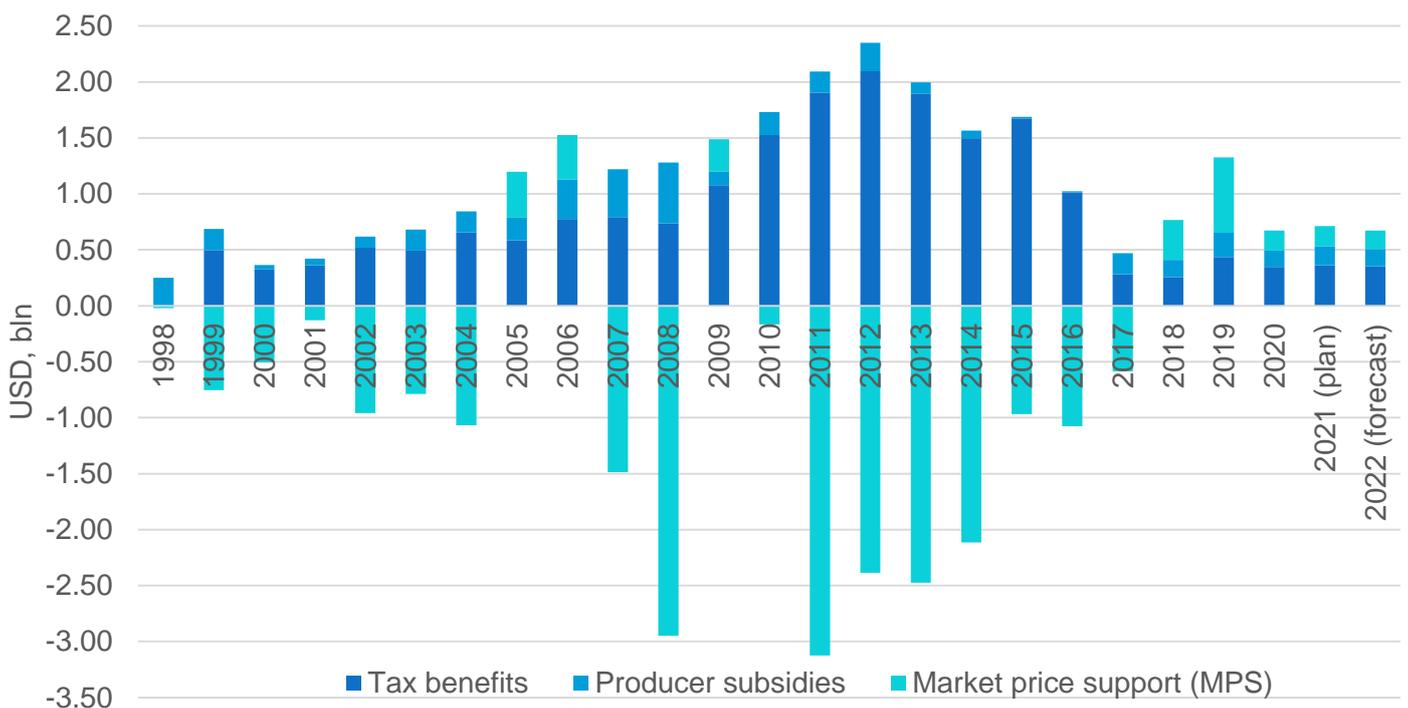
There are several sources of the state support available to agricultural producers: 1) direct budget outlays, 2) tax benefits, and 3) market price support measures (or government policies affecting domestic prices via, for example, export or import restrictions).

Since 1998, the main source of state support for agricultural producers in Ukraine has been tax benefits. At the moment the only tax benefit remaining is the so-called "single" flat-rate tax.

Until 2017, the lion share of tax benefits had

accrued from the so-called special VAT tax regime in agriculture. Price support via domestic price interventions has traditionally ranked second, although its role has substantially decreased recently. Next, direct and indirect budget support outlays are almost equally weighted. In general, **the agricultural producers' support is expected to amount to UAH 19.3 billion in 2021** (direct budget support, tax benefits and market price support), and the same amount of support is expected in 2022. Interestingly, until recently significant amount of tax benefits and direct budget payments had almost always been offset by a negative effect of government price interventions in the agricultural market in Ukraine.

Agricultural producer support in Ukraine



Source: OECD PSE (data for Ukraine), State Budget of Ukraine for 2021 and 2022, Reports of State Budget Execution (State Treasury). MPS for 2021-2022 is forecasted at the level of 2020. Tax benefits for the flat-rate tax (single tax) are estimated based on Ukrstat data on the financial results of agricultural enterprises and reported single tax revenues.

For reference. **Direct state support** is the amount of expenditures allocated from the State Budget of Ukraine for the master budget program "Financial support to agricultural producers". The draft 2022 State Budget envisages UAH 4.4 billion for such support. A detailed description of individual budget programs is given in the Table below.

Tax benefits are estimated as the difference between the potential and actual taxes paid by agricultural enterprises arising from the special single tax or flat tax regime. This tax "replaces" profit and land taxes. Until 2017, the largest source of tax benefits for agricultural producers had been a special VAT regime in agriculture, according to which farmers had the right to retain VAT on the sale of their products to reimburse input VAT and other production expenditures.

Price support is any government policy measure that affects the farm-gate price of agricultural products. These are such measures as the introduction of export or import quotas or duties, administrative regulation of prices, quotas for domestic production, VAT non-refunds on exports, and so on. Positive price support occurs when the farm-gate price is higher than the reference border or world market price. This happens in case of import duties or quotas, for example. On the contrary, negative price support occurs when the farm-gate price is lower than the reference border or world price (in the case of export duties, quotas or export VAT non-refund, for example). With positive price support the farmer receives additional income while the negative one is associated with lower farmer's income.

To calculate the total amount of support for the entire agricultural sector, the so-called **indirect support** should be added to the above-mentioned sources of support. Indirect support accrues from the budget expenditures to support the provision of general sector-wide services (according to the OECD methodology) or to finance "green box" measures (according to the WTO terminology). This includes funding for phytosanitary and sanitary measures, training personnel, agricultural education and science, consulting, etc.

Direct state agricultural support

Direct state support of agricultural producers is provided in the form of subsidies and grants from the state and local budgets of Ukraine. In 2020 the direct support of agricultural producers was UAH 3.97 billion. In 2021 the total of UAH 4 billion was allocated, and UAH 4.4 billion is planned for 2022 in the draft law of Ukraine on the State Budget for 2022 that has been submitted for the first reading (more details is in the Table below). In 2021 the expenditures on reimbursement for the cost of agricultural machinery **increased** (from UAH 0.8 bln to 1 bln, the rest UAH 0.6 bln for 2020 was to cover the obligations on payments for 2019). Expenditures on credit concessions also increased (+151 million UAH); the support of individual farmers almost doubled (mostly to reimburse for the cost of extension services and for social security payments reimbursement).

Also the programs to reimburse for the costs of the lost crops due to emergency were first launched in 2021, as the Government's response to the drought in the southern regions in 2020. The reimbursement amounts to 4,700 UAH/ha and is limited to 50 ha/person (to cover the fixed costs). The subsidies for buckwheat producers were also introduced (up to UAH 5,000 with the limit of 300 ha per recipient). Currently, the Government is considering two additional programs to support the insurance in the agricultural sector and irrigation programs.

Thus, since 2020 the state support has gradually become more targeted, i.e. it is allocated in cash directly to the producer. On the other hand, the financial institutions have been more and more involved in servicing the budget support programs (via more intensive financing of concession credits programs, and via insurance programs, should the resolution of the Cabinet of Ministers be adopted).

In the next issues of this Review, we will analyse each of the budget support programs in detail.

Direct State Support to Agricultural Producers in Ukraine, UAH mln

Program	2020	2021
Partial reimbursement of the cost of domestically produced agriculture machinery and equipment	1,457.64	1,000.00
Financial support for agriculture via concessional credits	1,048.71	1,200.00
Financial support for horticulture, viticulture and hop development	291.95	450
partial reimbursement for the costs of materials, construction of espalier and installation of drip irrigation systems, machinery and equipment	200.00	200.00
partial reimbursement of the costs of construction and reconstruction of refrigerators, shop floors, purchase of lines	90.14	250.00
Accounts payable	1.81	
Financial support for the development of individual farms	134.76	200
partial reimbursement of farms expenditures on agricultural advisory services (except for recently established farms)	0.30	5.00
financial support of recently established farms for agriculture advisory services	-	10.00
subsidy per unit of arable land (1 hectare) for recently established farms	33.70	60.00
subsidy for cows (of any productivity type)	35.14	100.00
support of the service cooperatives	0.52	-
Reimbursement of the social security payments	-	25.00
Accounts payable	65.1	
State support for the development of livestock production and processing of agriculture products	1,046.92	1,150
reimbursement of the costs for purchasing breeding animals, bees, semen and embryos	300.00	350.00
special budget subsidy for existing bee colonies	239.80	240.00
reimbursement of the cost of livestock facilities	430.58	350.00
reimbursement of the cost of facilities financed by bank loans	6.98	60.00
special budget subsidy for doelings, does, ewe lambs, and ewes	-	50.00
special budget subsidy for the increase in the number of cows of own reproduction	-	100.00
partial reimbursement of the costs of construction and reconstruction of silos	69.47	-
Accounts payable	0.1	
Reimbursement of the losses from damages to agricultural crops from emergencies	-	240.00
State support for niche crops	-	50.00
State support for potato producers	-	50.00
Total	3,968	4,500
(including repayment of accounts payable and unallocated expenditures)		

Source: The State Budget of Ukraine data for 2020-2021, State Treasury report on the budget execution

If you have any questions or suggestions regarding the Review, please send them to the e-mail address: first.deputy@minagro.gov.ua or onivievskyi@kse.org.ua