



Agricultural Support Review Ukraine

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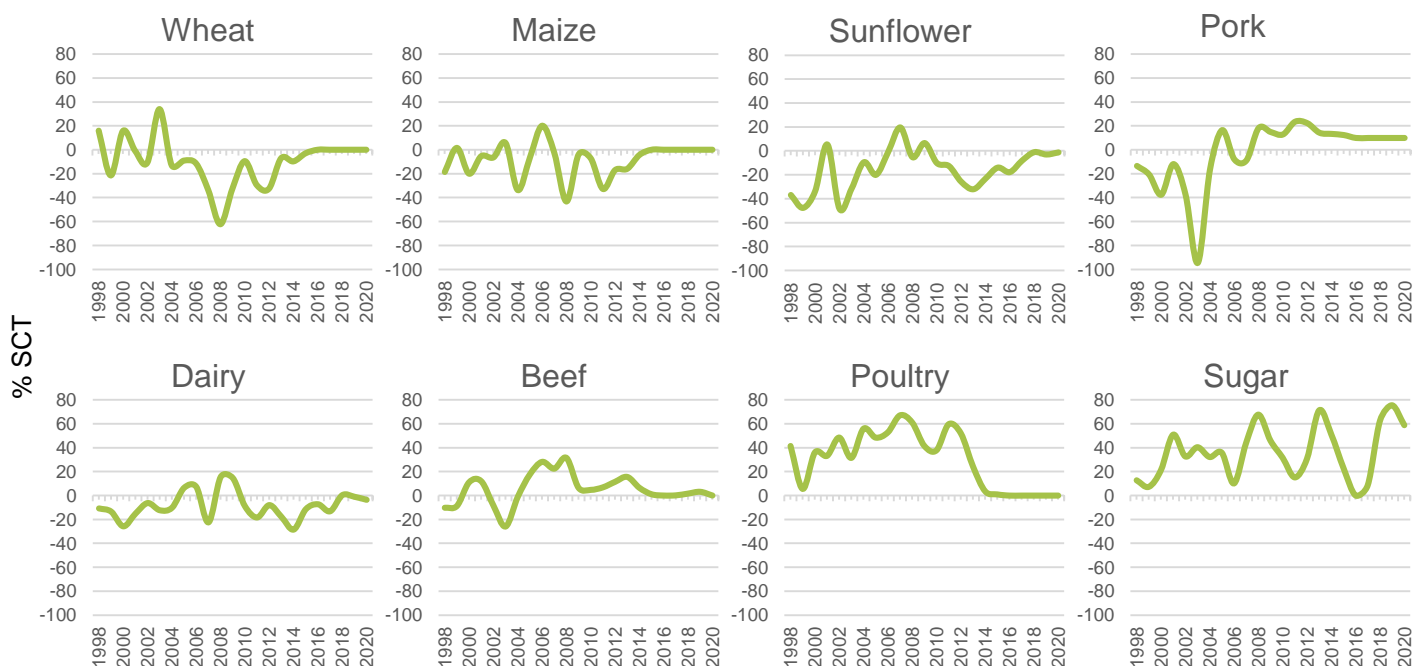
Single Commodity Support in Agriculture: Historical Data

The first issue of the Review contained the development and structure of total state support transferred to agricultural producers since 1998. The main source of support to agricultural producers were tax benefits, price support measures, followed by direct subsidies and grants. As a matter of fact, this support varied considerably among different agricultural subsectors. This is illustrated on the graphs below that demonstrate a gross support to agricultural producers (as a share of gross farm receipts for a specific commodity) arising from various policies linked to a production of a single commodity (% SCT, according to the

OECD methodology).

For instance, poultry producers in the late 2000s received gross state support in the amount of more than 60% of their gross receipts. On the contrary, mainly due to export restrictions, wheat producers were essentially tax and their forgone revenues were about 60% of their gross receipts. In general, until 2016 the following pattern had prevailed: export-oriented crop sectors were essentially taxed and suffered from government price interventions, while livestock producers benefited from a significant support. Since 2016, **price interventions have almost ceased to exist, except for the sugar and pork sectors.** The support to sugar has been derived from the import tariff quota and high above-the-quota import duty (50%), which drives the wedge between the world and domestic market prices.

Single Commodity Support in Ukraine's Agriculture, in % SCT



Source: based on OECD PSE data for Ukraine, SCT (single commodity transfers) is the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, measured at the farm gate level and arising from policies linked to the production of a single commodity such that the producer must produce the designated commodity in order to receive the transfer. % SCT - SCT as a share of gross farm receipts for a specific commodity

The Program of Partial Compensation of the Cost of Domestically Produced Agriculture Machinery and Equipment

The Program Design

As it was mentioned in the previous issue of the Review, the program of partial compensation of the cost of machinery and equipment is one of the largest agriculture state support programs. In 2020, the program received the most among all the programs, i.e. almost 37% of the total agricultural budget support, and 22% has been earmarked in 2021 (more of the total support was allocated for concessional loans and livestock support programs).

The program is targeted at **agricultural producers** (enterprises, institutions, individuals) that derive at least 75% of total annual revenues from agriculture production¹, using their own or leased facilities.

The amount of compensation is 25% of the cost (20% until January 1, 2018) of purchased machinery and equipment (excluding VAT).

The amount of support per one beneficiary is limited by 10 thousand minimum wages or 60 million UAH in 2021². This restriction applies to one producer (and related parties) during one year.

The object of support is **agricultural machinery and equipment manufactured in Ukraine** (the cost share of domestic raw materials, components, and machine units must be no less than 60% of the whole production costs of machinery). According to the program, the list of equipment, manufacturers and suppliers is approved and published annually by the Ministry of Economy³.

Requirements to the participants of the program are as follows: no bankruptcy cases filed and having no tax debt.

The Program Analysis

We analysed publicly available **data on the payments under the program of partial compensation of the cost of agricultural machinery and equipment from December 2019 to March 2021** in the total amount of UAH 1,073 million. In the regional context, the relatively largest total support amount under the program was received by agricultural producers in Luhansk, Zaporizhzhia, Mykolayiv, i.e. the eastern and southern oblasts.

Table 1. Regional ranking by the share of received state support to reimburse for the cost of agriculture machinery and equipment in regional gross agriculture production in 2019-2021

Oblast	Total amount of state support, UAH million	Share of state support in gross output of agricultural enterprises, %	Oblast	Total amount of state support, UAH million	Share of state support in gross output of agricultural enterprises, %
Luhansk	51.80	0.44%	Khmelnyskyi	65.55	0.19%
Zaporizhia	80.99	0.38%	Chernivtsi	6.77	0.18%
Mykolaiv	54.55	0.33%	Chernihiv	57.88	0.16%
Odesa	33.79	0.28%	Zhytomyr	29.93	0.15%
Kirovohrad	56.94	0.26%	Vinnytsia	69.36	0.14%
Kherson	54.03	0.26%	Zakarpattia	1.60	0.12%
Poltava	81.94	0.23%	Lviv	18.77	0.12%
Sumy	75.35	0.22%	Volyn	13.95	0.11%
Kyiv	72.88	0.22%	Rivne	11.06	0.10%
Donetsk	36.68	0.21%	Ternopil	20.93	0.10%
Kharkiv	71.39	0.20%	Cherkasy	30.59	0.09%
Dnipropetrovsk	70.10	0.20%	Ivano-Frankivsk	6.28	0.08%

Note. Data on payments under the program covers the period from December 2019 to March 2021

¹ Full list of industries eligible for state support is given in the Law of Ukraine "On State Support of Agriculture in Ukraine" No. 1877-IV dated June 24, 2004.

² According to the Order of the Cabinet of Ministers of Ukraine No. 205 dated March 17, 2021.

³ As of August 2021, the list includes 16,809 types of machinery and equipment and 203 manufacturers.

The Program Analysis (continued)

During the period from December 2019 to March 2021, most of the enterprises received 1 payment under this program, and 1.4 payments on average.

However, there are cases when the company received 9 payments. The minimum compensation amounted to UAH 2,761 and the maximum one was UAH 35 million.

For further analysis, we attempted to combine the data on economic performance of agricultural enterprises in 2019 with the data on state support program disbursements. We ended up with 2,394 support recipients in 2019-2021 with a total program support amount of UAH 624 million. Among them, most of the enterprises produced only crops (1,610 enterprises), and the rest (784) produced both crop and livestock products.

The top-level analysis (see table 2 below) allowed to conclude on several important respects. **The main beneficiaries of the program in terms of total support turned out to be medium-sized agricultural enterprises of 500-10,000 hectares**, while small producers (up to 500 hectares) have received only 10% of the total program support.

However, the effective compensation for small enterprises is 11% of total expenditures on the

purchase of new machinery and equipment, while for other larger producers this indicator ranges from 4% to 6%, regardless of their size. A possible reason for this difference might be explained by the fact that the larger enterprises buy more imported machines, which are ineligible for compensation of the cost under the program.

Small enterprises (of up to 500 ha), which most likely need program support the most, allocate 6% of their total expenditures on the purchase of new machinery and equipment. Larger enterprises with the cultivated area of 500 – 2,000 hectares and 2-10,000 hectares spend the same share on new machinery and equipment but they receive 2.5 times more of the program support than the smallest enterprises (of up to 500 ha area).

Also, the top-level analysis of the program shows that less productive farmers (usually smaller producers) receive relatively larger support. While it has been already mentioned that the share of compensation of the cost of new machinery and equipment for small producers is much higher, a similar picture is observed in per hectare terms. More specifically, the average program support is 725 UAH per ha for the farms of up to 500 ha area, while this indicator is much smaller for the medium and large farms.

Table 2. Analysis of the program of partial reimbursement for the cost of agricultural machinery and equipment in 2019-2021 and economic indicators of this support program recipients

Area	up to 500 ha	500 – 2,000 ha	2,000-10,000 ha	more than 10,000 ha	Total
Number of agricultural enterprises	496	1,274	553	71	2 394
% in total program support	10%	40%	34%	16%	100%
Income					
Total program support amount, million UAH	63.8	250.8	209.8	99.6	623
% of total program support in total incomes	1.6%	0.6%	0.4%	0.2%	-
Average payment amount under the program, thousand UAH	87.6	131.8	223.5	1,014.2	-
% of average program support in average incomes	1.1%	0.4%	0.2%	0.1%	-
Purchase of new machinery and equipment					
Average expenditures on new machinery and equipment purchase, thousand UAH	772.7	2,126.4	5,321.0	17,987.4	-
% of average program support in average expenditures on new machinery and equipment purchase	11%	6%	4%	6%	-
% of expenditures on new machinery and equipment purchase in total expenditures	6%	7%	6%	2%	-
Productivity					
Average productivity, UAH per ha	26,640.4	26,764.3	27,782.1	32,753.9	-
Average program support, UAH per ha	725.9	188.0	102.3	50.2	-

Source: analysis is based on the support program budget data and available data on economic performance of agricultural enterprises in 2019