

National University of Life and Environmental Sciences of Ukraine
National University of Food Technologies of Ukraine

Prospects and challenges for development of small business forms in agriculture of Ukraine

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The main transformation indicators of the agrarian forms in Ukraine

Organizational form of business	1990 (before transformation)				2016 (after transformation)			
	Number of form, thousand units	Agricultural area land, million hectares	Share of agricultural land, %	Average size of one household, ha	Number of form, thousand units	Agricultural area land, million hectares	Share of agricultural land, %	Average size of one household, ha
All types of business	-	40,89	100	-	-	36,5	100	-
Agricultural enterprises, of them:	12,4	38,22	93,5	3082,3	47,7	19,8	54,3	415,6
collective farm,	8,5	28,7	70,2	3376,5	-	-	-	-
state farm	2,6	9,46	23,1	3638,5	-	-	-	-
mixfarm	1,2	0,06	0,1	50,0	-	-	-	-
agricultural holdings	-	-	-	-	0,11	5,6	15,4	50909,1
farms	-	-	-	-	33,6	4,4	12,2	131,7
Households	9206	2,67	6,5	0,3	15033,1	15,7	45,7	1,0
of them: rural household plots	-	-	-	-	4075,2	6,3	17,3	1,5

Source: Data of the State Statistics Service of Ukraine, calculations.

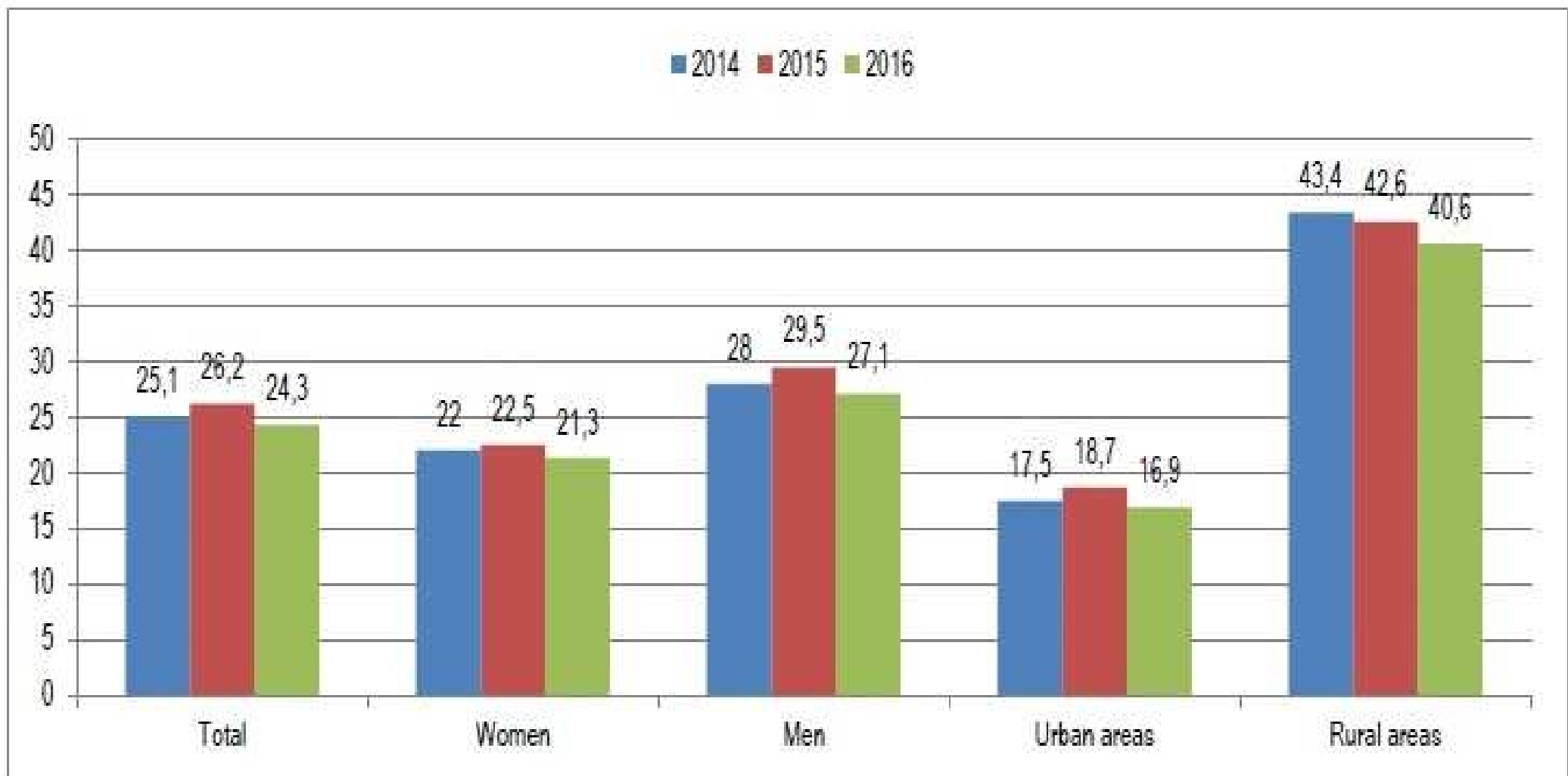


Figure 3.3. The 2014-2016 dynamics of informal employment, as % of the total employed population by respective groups

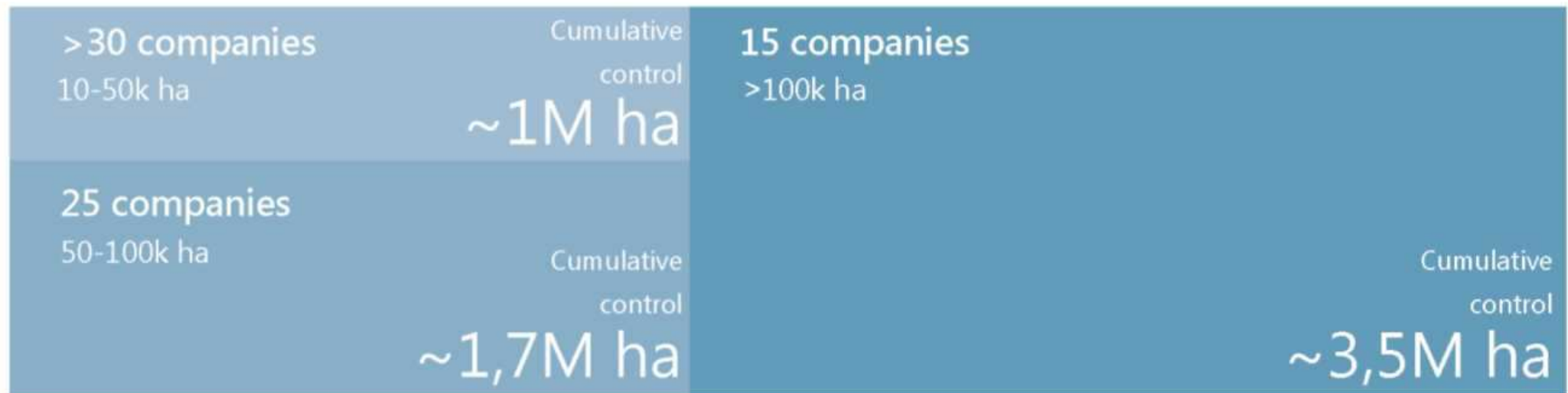
Source: based on the data provided by the State Statistics Service of Ukraine

Data: ilo.org

An agroholding is a type of a consolidated set of parent and controlled subsidiary agricultural companies operating at least 10 thousand hectares. Reaching dozens and even hundreds of thousands hectares of land in size, agroholdings are often part of larger vertically and horizontally integrated business groups.

Key agricultural companies in Ukraine

As of end-2017, top-70 agricultural companies in Ukraine operate approximately 6 million ha or roughly 20% of arable land. Of those, the largest company operates more than 600 thousand ha, the smallest one – around 30 thousand ha.



Source: AgroGeneration, open sources



Key facts about top-10 agricultural companies in Ukraine

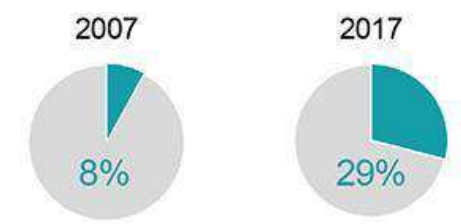
Company	Land bank, thousand ha	Specialty	Revenue, USD	EBITDA
 UkrLandFarming <small>Public Limited Company</small>	605	Crops production Milk and milk products Meat production and processing Eggs and egg products Sugar	Publicly not disclosed	Publicly not disclosed
 KERNEL	603	Largest producer and exporter of sunflower oil in the world Grain storage and trading Export sea port infrastructure	FY2017 ¹² : USD 2,169 m (+9% y-o-y)	FY2017: USD 319 m (8% y-o-y)
 AP Group AgroProsperis Group (NCH)	430	Crops production (grains and oilseeds)	Publicly not disclosed	Publicly not disclosed
 mhp <small>Agro & Industrial Holding</small>	370	Poultry production and processing Grain and fodder production Meat processing	2017: USD 1 228 m (+13% y-o-y) 2016: USD 1,135 m (+7% y-o-y)	2017: USD 459 m (+11%), margin – 36% 2016: USD 415 m (-5%), margin – 37%
 ASTARTA-KYIV agri-industrial holding	250	Sugar production Crops production (grains, oilseeds) Soybean processing Milk and milk products Biogas	2017: EUR 459 m (+24% y-o-y) 2016: EUR 369 m (+17% y-o-y)	2017: EUR 120 m (-21% y-o-y), margin – 32% 2016: EUR 152 m (+16% y-o-y), margin – 41%
 MRIYA AGROHOLDING	185	Crop production (grains, oilseeds, sugar beet, potatoes)	FY2017 ¹⁰ : USD 90 m (+33% y-o-y)	FY2017: USD 8 m (+40% y-o-y), margin – 9%
 AGROTON GROUP OF COMPANIES	151	Crop production (wheat, sunflower) Poultry production Milk and milk products	HY2017: USD 16.5 m (-5% y-o-y) 2016: USD 44.2 m (+5% y-o-y)	HY2017: n/a 2016: USD 22 m (-4% y-o-y), margin – 50%
 IMK <small>Investment Management Company</small>	130	Crop production and storage (grains, oilseeds, soybean, potatoes) Milk and milk products	2017: USD 127 m (+2% y-o-y) 2016: USD 125 m (-11% y-o-y)	2017: USD 39 m (-24% y-o-y), margin – x% 2016: USD 59 m (-10% y-o-y), margin – 43%
 UKRPROMINVEST AGRO	127	Crop production and processing (grains, oilseeds, sugar beet) Sugar production Milk and milk products	Publicly not disclosed	Publicly not disclosed
 AGRO Generation	120	Crop production and processing (grains, oilseeds)	HY2017: EUR 11 m (+199% y-o-y) 2016: EUR 60 m (+2% y-o-y)	HY2017: n/a 2016: EUR 19 m (-3% y-o-y), margin – 32%



LAND BANK OF THE BIGGEST AGRIHOLDINGS, THOUS. HA

		600
		570
		410
		366
		248
		165
		137
		122
		120
		120
		106
		106
		97
		87
		86

% FROM LAND IN USE OF AGRICULTURAL ENTERPRISES



JOINT LAND BANK OF AGRIHOLDINGS



The main negative activities consequences of agroholdings in the social context for rural areas are:

- the low employment of the rural population;
- the absence of tax payments in local budgets.

The positive side of the agroholdings' activity is the use of high-tech technologies, however, agricultural holdings specialize mainly in the less labor-intensive branches of arable farming. This means that in rural areas where agricultural holdings are functioning, **unemployment is much higher.**

In order to:

- better use the potential of agroholdings;
- reduce their negative impact on the development of other business forms

....It is necessary **to improve the legal framework that regulate** the activity of these structures, in particular concerning:

- **ensuring the transparency of the formation and activities**, including the entity structure, the share in the capital, the size and location of the land used, disclosure of the financial reporting;
- introduction of compulsory **participation of agroholding structures in the formation of local budgets**, in particular through registration them at the location of the land plot;
- strengthening their **social responsibility** and defining mechanisms for participation in environmental protection;
- introduction of restrictions on **the size of the concentration of the land bank** within a single territorial community. *The area of land leased by an agroholding group in the territory of a community (administrative district) should not exceed 35% of the total agricultural land area of this territory, which will enable to provide living space for the development of small and medium forms of business.*

The farm is a special type of entrepreneurial activity of the Ukraine's citizens, which consists in the production, processing and marketing of agricultural products for the purpose of profit.



The share of farms in the structure of gross output of agricultural enterprises in Ukraine

Indicators	years				
	2000	2005	2010	2015	2016
Number of farms, units	38428,0	42447,0	41726,0	32303,0	33682,0
Share of farms in the total number of agricultural enterprises, %	-	73,3	73,9	71,2	70,6
Gross agricultural products total, UAH million	3125,2	8177,5	11965,8	18909,3	22101,4
<i>Gross agricultural crop production, UAH million</i>	<i>2903,3</i>	<i>7719,2</i>	<i>10840,9</i>	<i>17565,4</i>	<i>20705,3</i>
<i>Gross agricultural production of livestock, UAH million</i>	<i>221,9</i>	<i>458,3</i>	<i>1124,9</i>	<i>1343,9</i>	<i>1396,1</i>
The share of farms in gross agricultural products, %					
To gross agricultural products of agricultural enterprises	5,4	11,2	12,7	14,3	15,2
including gross crop production	92,9	94,4	90,6	93,4	93,7
including gross livestock production	7,1	5,6	9,4	7,1	6,3

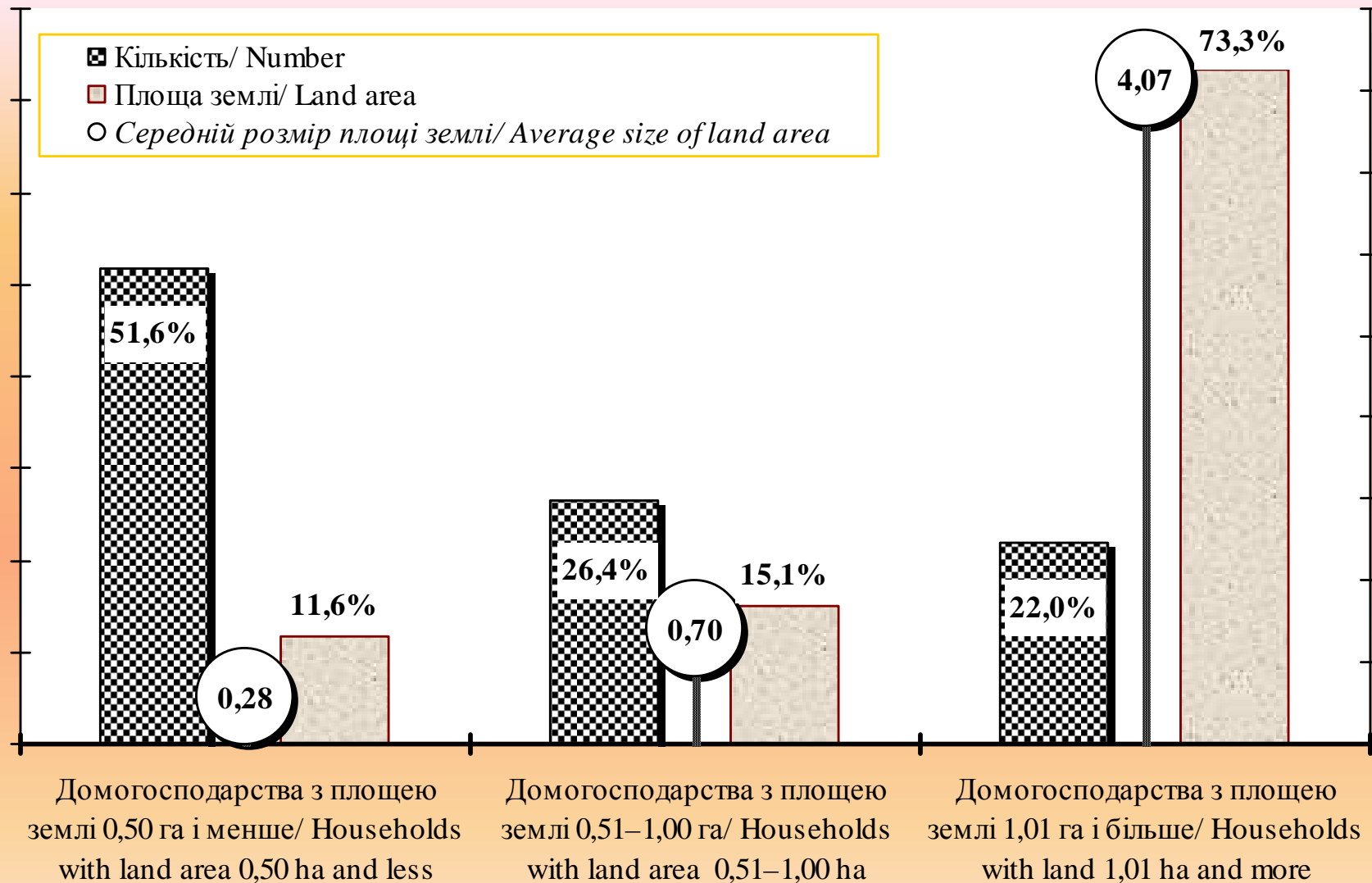
Source: Data of the State Statistics Service of Ukraine, authors' calculations

Household plot is a legally defined farm type in all former socialist countries in CIS and CEE. This is a small plot of land attached to a rural residence. The household plot is primarily cultivated for subsistence and its traditional purpose since the Soviet times has been to provide the family with food. Surplus products from the household plot are sold to neighbors, relatives, and often also in farmer markets in nearby towns.

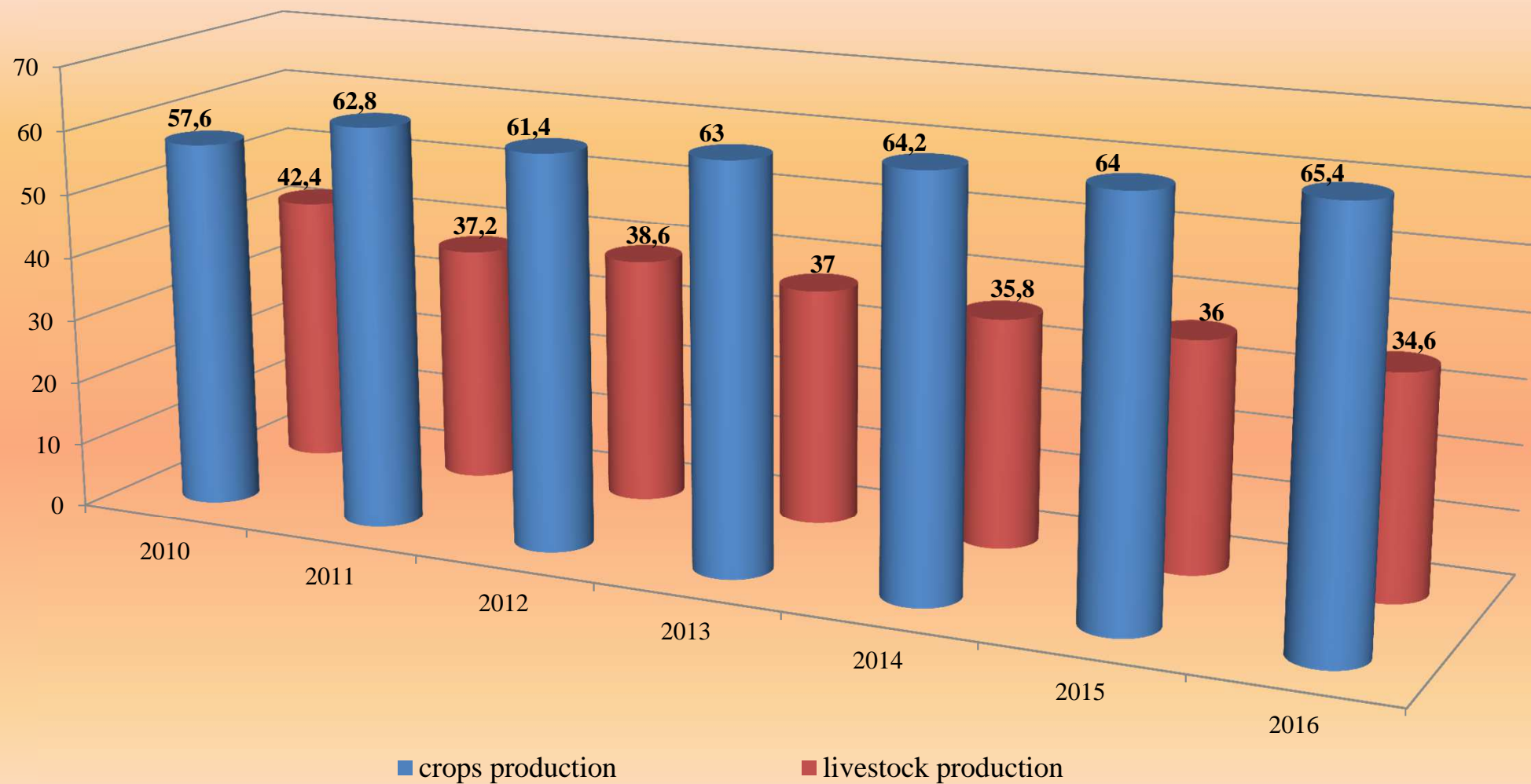
*The amount of rural household plots is approximately 4,01 mln.
Average land area of the household in 2017 – 1,23 ha*



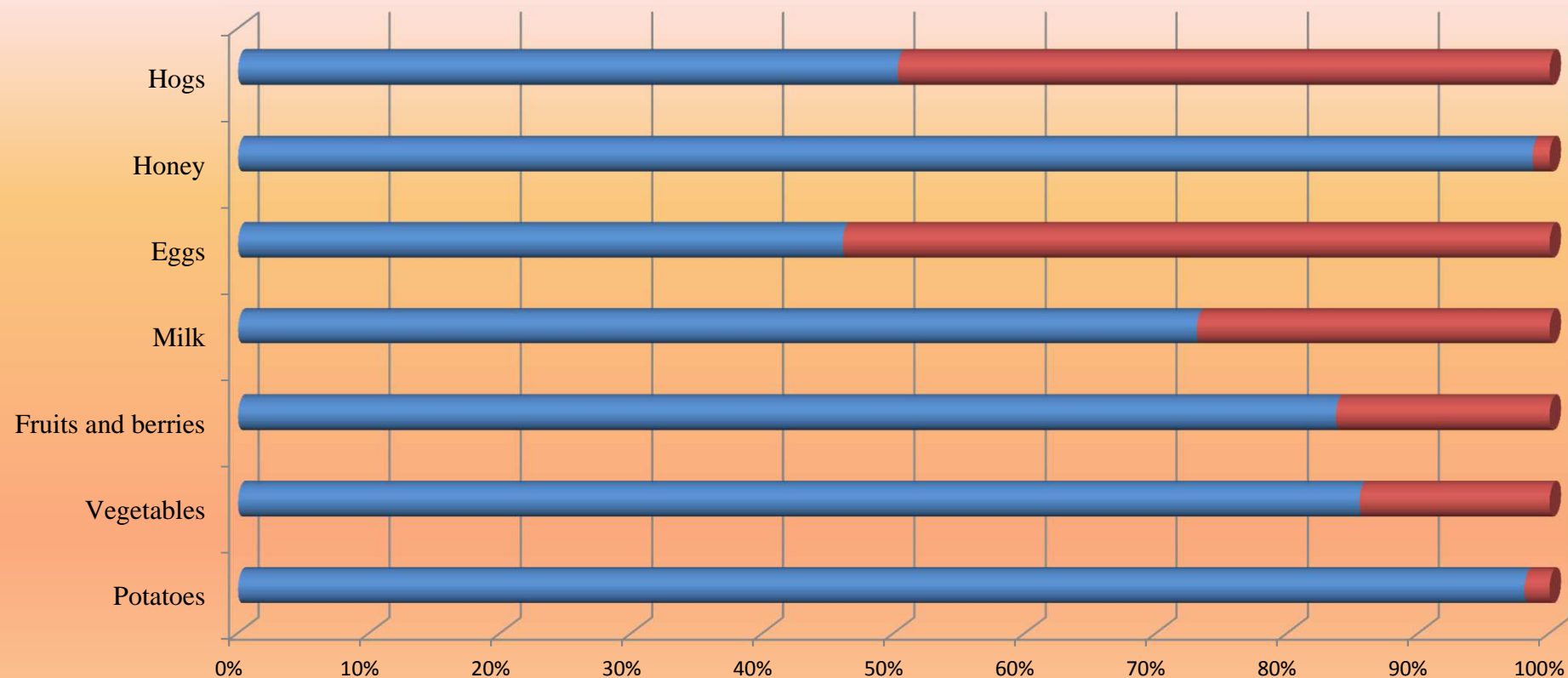
Rural households, their average land area in 2017, by main groups



The share of crop and livestock production by rural household plots in the total production of agricultural products, %



The share of some crop and livestock products which were produced by rural household in 2017, %



	Potatoes	Vegetables	Fruits and berries	Milk	Eggs	Honey	Hogs
■ Rural household plots	98,1	85,5	83,7	73,1	46,1	98,7	50,3
■ Agricultural enterprises	1,9	14,5	16,3	26,9	53,9	1,3	49,7

Source: Data of the State Statistics Service of Ukraine, authors' calculations

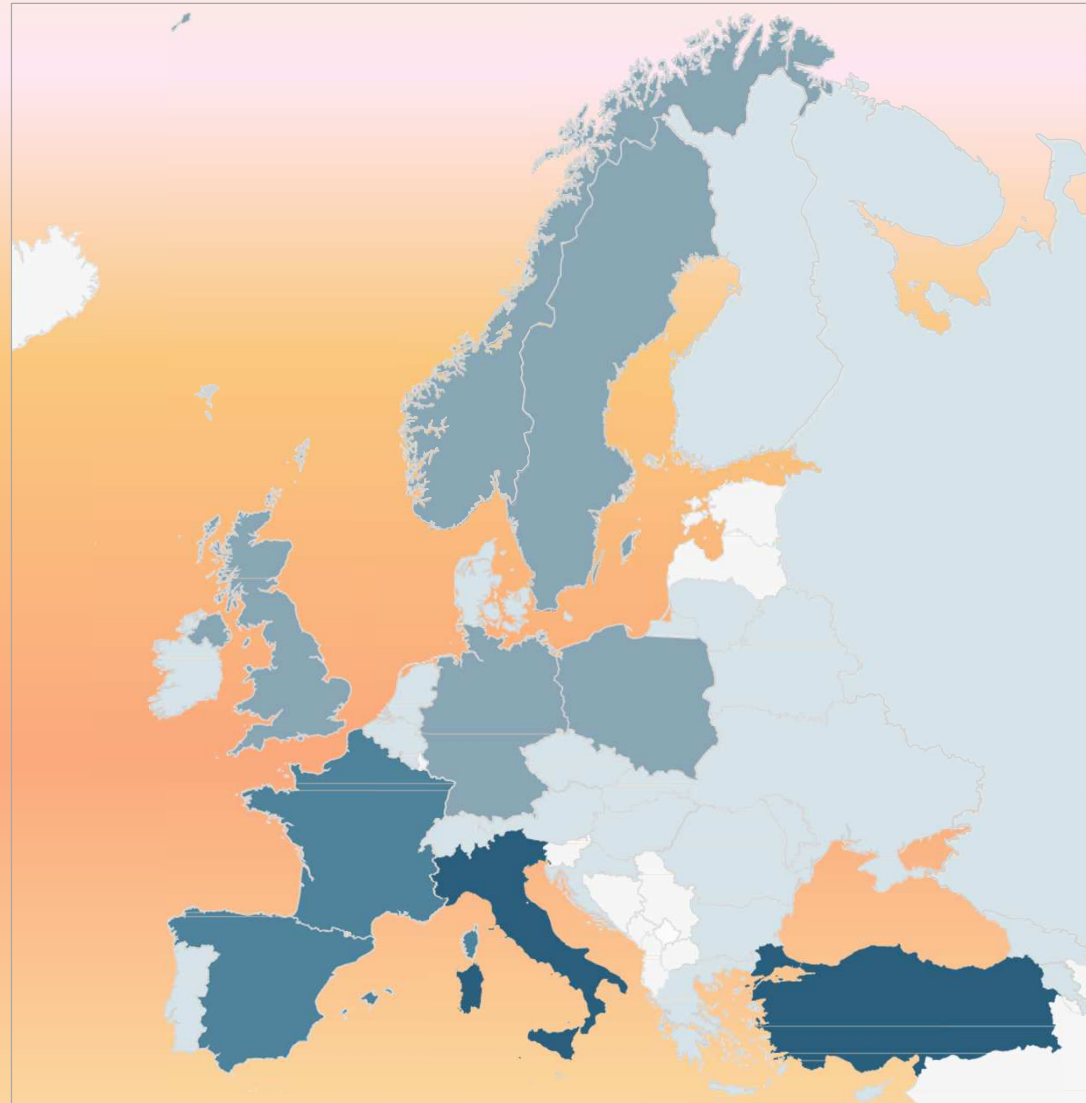
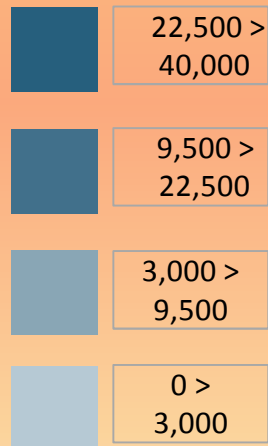
Agricultural cooperatives facilitate smallholder producers' access to:

- natural resources such as land and water,
- communication and knowledge of the markets,
- food and productive assets such as seeds and tools policy- and decision-making.



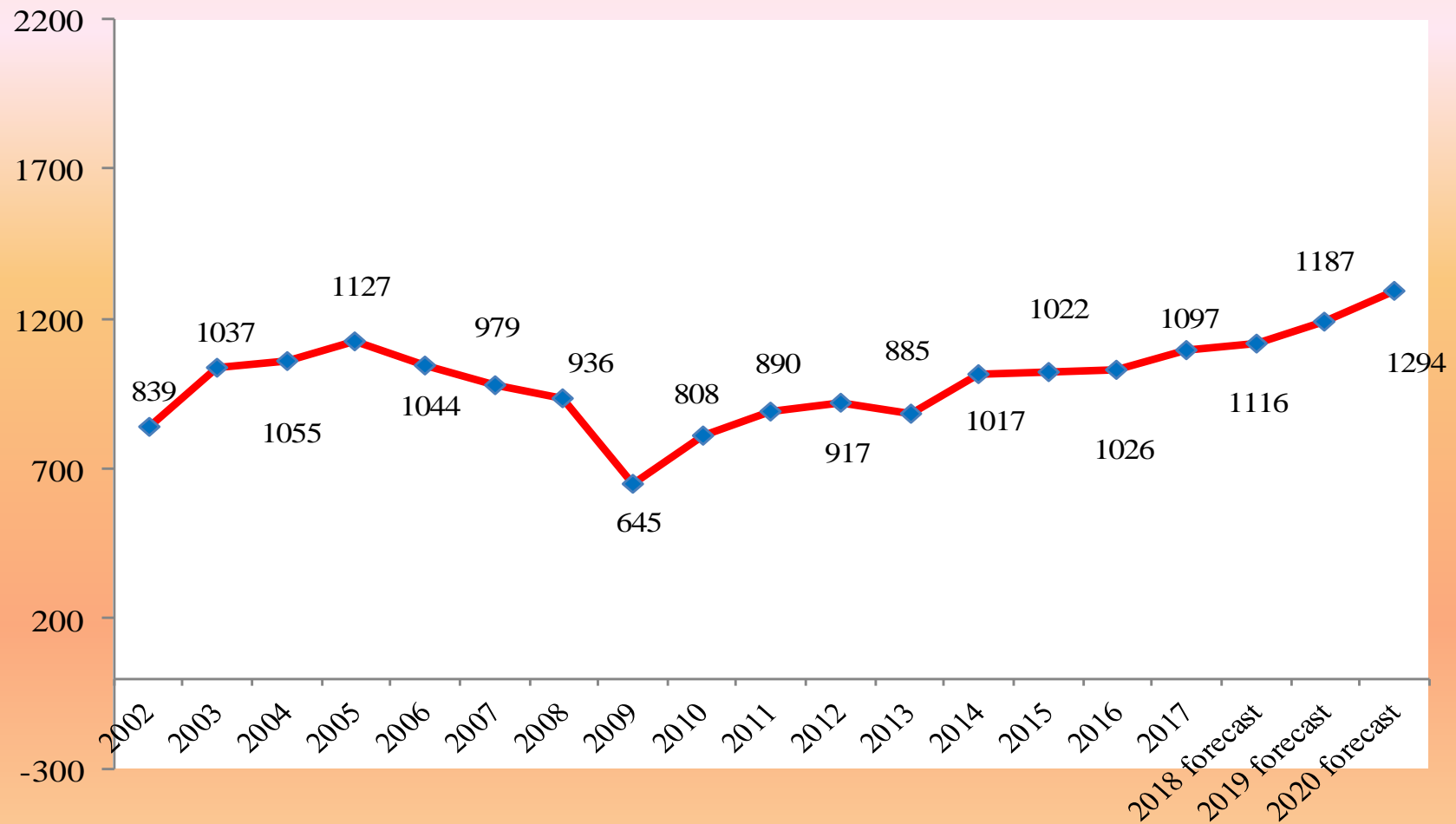
Cooperative enterprises in Europe

Cooperative enterprises in Europe



Italy (39,600), Turkey (33,857), France (22,517) and Spain (20,050) have the largest number of cooperatives in Europe.

Development trends of agricultural cooperatives in Ukraine



Source: Statistical Yearbook of Ukraine for 2016, authors' calculations.

Number of agricultural cooperatives by directions and types of activity

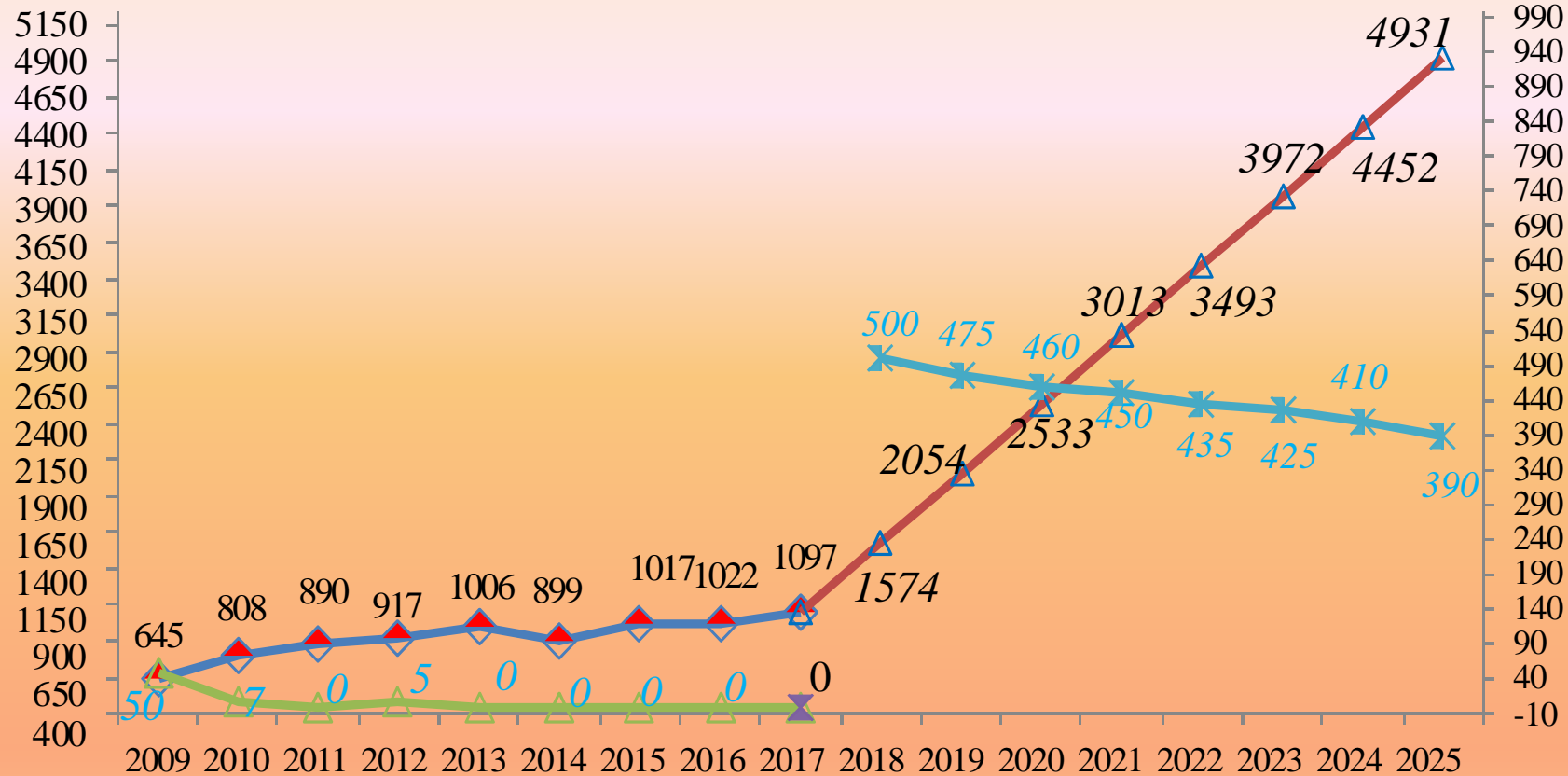
Activity direction of AC	Number AC, un.		By the type of activity, units									
			processing		stock-marketing		supplying		other		multifunctional	
	registered	<i>actual</i>	registered	<i>actual</i>	registered	<i>actual</i>	registered	<i>actual</i>	registered	<i>actual</i>	registered	<i>actual</i>
Land cultivating and harvesting	246	<i>152</i>	9	<i>7</i>	14	<i>10</i>	4	<i>3</i>	37	<i>21</i>	180	<i>98</i>
Dairy farms	284	<i>151</i>	9	<i>5</i>	159	<i>91</i>	4	<i>3</i>	12	<i>4</i>	102	<i>78</i>
Meat	40	<i>34</i>	3	<i>0</i>	9	<i>5</i>	0	<i>0</i>	7	<i>3</i>	12	<i>8</i>
Fruit and vegetable	102	<i>76</i>	2	<i>0</i>	41	<i>22</i>	8	<i>6</i>	11	<i>4</i>	39	<i>31</i>
Crops	47	<i>35</i>	7	<i>5</i>	12	<i>5</i>	1	<i>1</i>	5	<i>1</i>	24	<i>19</i>
Other	298	<i>141</i>	11	<i>8</i>	27	<i>16</i>	6	<i>3</i>	106	<i>68</i>	156	<i>64</i>
Total, un	1097	<i>589</i>	41	<i>25</i>	262	<i>149</i>	23	<i>16</i>	178	<i>101</i>	513	<i>298</i>
Share, %	-	<i>57,9</i>	-	<i>61,0</i>	-	<i>56,9</i>	-	<i>69,6</i>	-	<i>56,7</i>	-	<i>58,1</i>

Source: Data from the State Statistics Service of Ukraine and the Ministry of Agrarian Policy and Food of Ukraine

Factors which inhibit the evolution of Cooperative movement:

- **monopolization and oligarchization** of markets and industries;
- **rural poverty**, inaccessibility of resources for cooperatives;
- the weak ability of the rural population to reconcile **the interests of the joint activity**;
- **the weakness of social capital** in the countryside;
- **aging and absence of initiative** among the rural population, lack of leaders;
- **failure** by the authorities already **declared commitments**.

Development dynamics of agricultural cooperatives at the appropriate level of state financing for the period up to 2025



- Formation dynamics of AC in Ukraine, units
- Prospects for the development of the AC in Ukraine, taking into account the volume of state financial support, units
- State support of the AC (actual) in accordance with the canceled program, UAH million
- Amounts of financing for 2018 according to the approved Concept, and the size of potential financing for the following years, UAH million

Source: calculated using data from the State Statistics Service of Ukraine and materials of the Concept of Development of Farmers and Agricultural Cooperatives for 2018-2020.

For the successful functioning and development of agricultural co-operation in Ukraine it is necessary:

- **to improve the legal framework** that regulate the activities of agricultural cooperatives;
- to adopt **the state program** for the development of agricultural cooperatives (until 2025);
- **to develop regional (local) programs** for the development of agricultural cooperatives with financial support and taking into account the specifics of the region;
- to create **financial and credit structures** (including co-operative banks, development of rural credit unions), as well as conditions for investment activity in this sector with the system of state support;
- to develop **advisory and extension** system in agricultural cooperation,
- to form **a national coordination co-operative center**, systematically to cover scientific and practical issues concerning cooperation in the media;
- to provide **support to the agrarian science** in research, monitoring, studying the development of agricultural co-operation, and in organizing support for the creation of agricultural cooperatives;
- **to improve the material and technical base** of agricultural cooperatives.

Why do you need to produce organic products?

Profitability of organic production

High marginality of niches

Style of life

Initial market formation

Corporate social responsibility

Low level of competitive pressure

Demand exceeds the supply

The World of Organic Agriculture 2016

Organic Farmland 2016

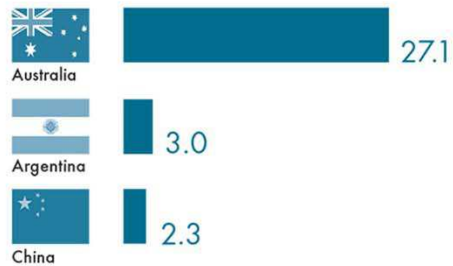


57.8 m ha Organic farmland in million hectares

178 Countries with organic farming

+15% From 2015

Top 3 countries (land in million of hectares)



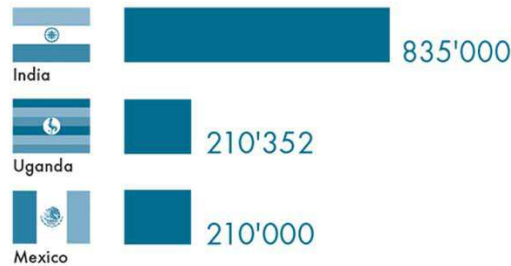
Organic Producers 2016

The number of organic producers is increasing

2.7 million Organic farmers

+12.8% From 2015

Number of producers: Top 3 countries



Organic Market 2016

The global market is growing and consumer demand is increasing

More than 80 bn € Global organic food market in billion euros

Top 3 countries (market in billion euros)

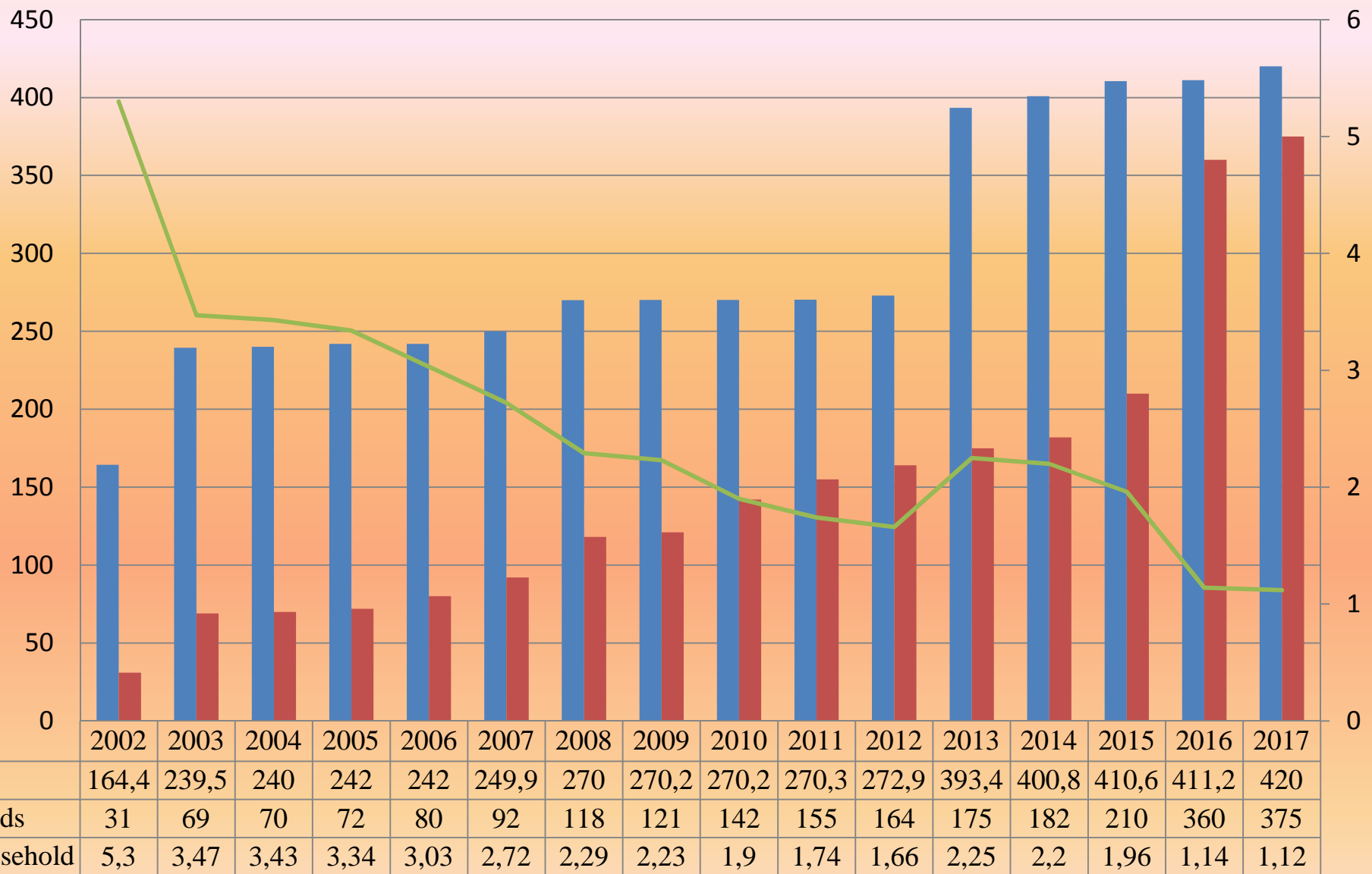


21.8% Organic market growth (Ireland)

9.7% Market share (Denmark)

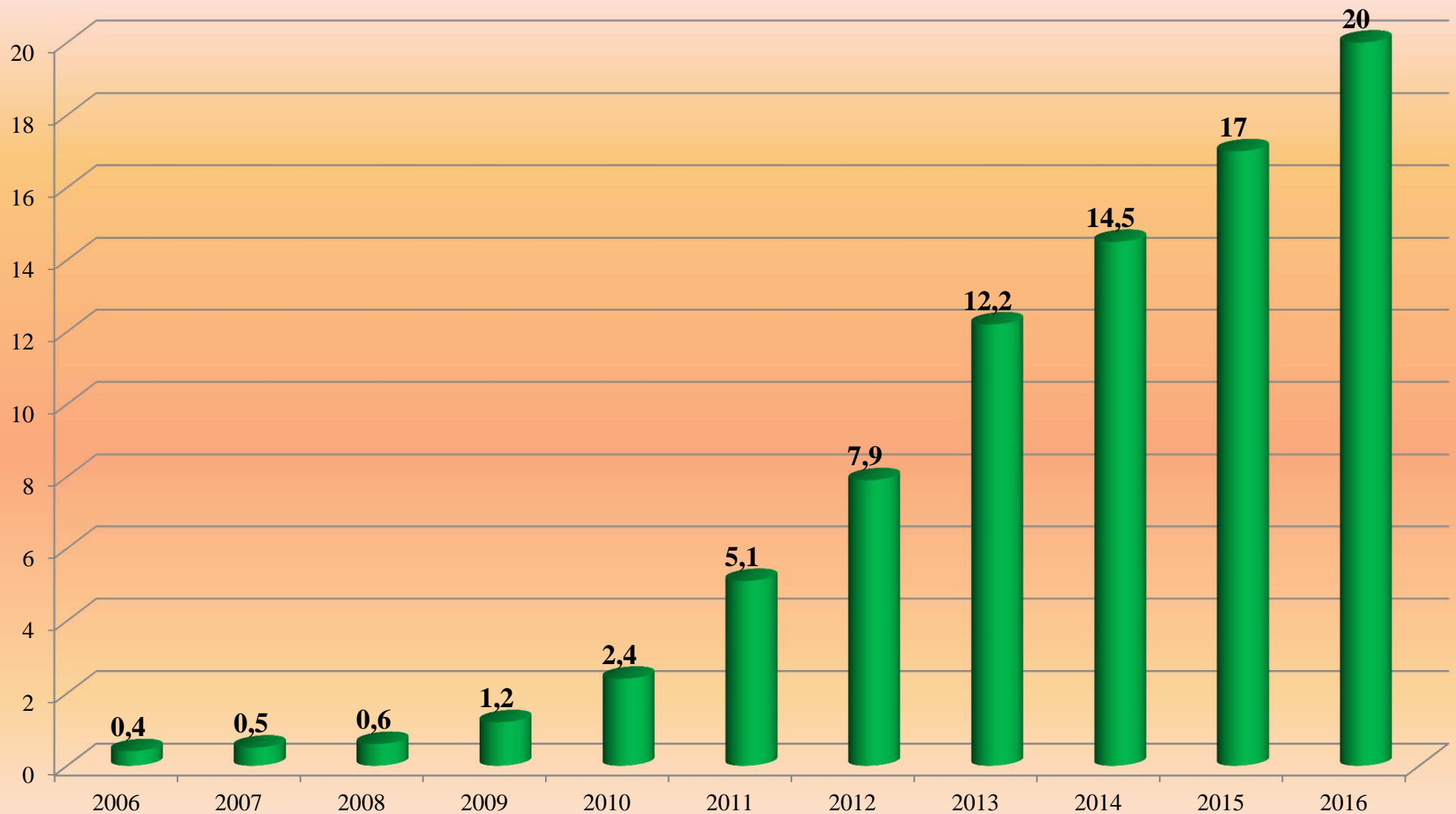
274 € Highest per capita spending is in Switzerland

Dynamics of the development indicators of the organic market in Ukraine



Source: Data from the State Statistics Service of Ukraine and the Ministry of Agrarian Policy and Food of Ukraine

Market size of the Ukrainian consumer market for organic products, mln euro



Source: Data from the State Statistics Service of Ukraine and the Ministry of Agrarian Policy and Food of Ukraine

Due to the lack of organic berry growing areas in the EU countries, their import from Ukraine is promising



blackberry



cranberry



blueberry



cowberry



raspberry



The volume of external supply of berries from Ukraine in 2017 grew by 66% - to 27 thousand tons, as compared to the previous year (16 thousand tons), while almost all deliveries were made to the EU.

The leader in the growth of exports was *raspberries*, which *shows growth up to 90%*; the second and the third places - *strawberries and blueberries with an increase up to 65% and 64% respectively.*

TRENDS OF ORGANIC PRODUCTION DEVELOPMENT

Ukrainians are willing to pay more for organic products, as *they are of higher quality.*

Modern society is ready to take a step towards a healthy, organic diet.





Crop production and its possible niches

What we know how **to grow well - grows easily.**

What is **exclusive** - it is special (for example: asparagus).

What is **in demand**, it is always eaten and it has higher margin (for example: small tomatoes, colored vegetables, herbs)

What **does not exist at all in the market**, but all of it will be definitely acquired (for example: organic apples and etc.).

Livestock production and its possible niches

What we know how **to grow well**.

What is **exclusive** - it is special (for example: snails).

What is **in demand**, it is always eaten, it has a higher margin (for example: guinea fowl, turkey, rabbit)

What **does not exist at all in the market**, but all of it will be definitely acquired (for example: organic eggs).



Measures that will promote the development of rural households and small farms, which will increase their competitiveness:

- **the specialization of production in labor-intensive forms**, in which great interest is in active and creative work, and the size of production is not important (vegetable growing, potato growing, fruit production, beekeeping, livestock production, organic farming, etc.);
- **the development of agricultural Cooperatives**. Its efficiency is proven by the long experience of many countries with a developed market economy;
- the development of rural household plots and small farms requires more significant **state support** in the direction of encouraging the Cooperatives' development, the organization of wholesale markets, the creation of advisory services, the organization of professional training for small businesses owners, information and analytical support.

Welcome to Ukraine

Thank
you for
attention!

