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TRANSFORMATION OF THE BUDGETARY MECHANISM OF STATE SUPPORT FOR THE AGRICULTURAL SECTOR IN MODERN CONDITIONS

Summary

Theoretical and methodological principles of prospective budget planning in the system of budgetary regulation of economic development were identified. Scientific and methodical approaches to the transformation of the budgetary mechanism of state support for agricultural sector in the conditions of modern institutional changes were suggested. Modern challenges and threats to the sustainability and competitiveness of Ukrainian agricultural production were generalised. The basic risks associated with budgetary support for Ukrainian agricultural producers in wartime were revealed. The main trends in the dynamics of the volume and structure of the direct budgetary support for Ukrainian agricultural producers in 2013-2025 were analysed. Peculiarities of post-war transformation of the budgetary mechanism of state support for Ukrainian agricultural production in terms of reducing its volume, expanding budget tools, increasing its flexibility, introducing a medium-term program-targeted budget planning were outlined. An assessment of the effectiveness of budgetary support of Ukrainian agricultural development in the pre-war and war periods was carried out. Strategic directions of modernization of the budgetary mechanism of state support for Ukrainian agricultural sector in the context of overcoming military and European integration challenges have been suggested.

Introduction

The growth of the qualitative level of budget regulation while achieving the strategic priorities of the agrarian and rural development of the country, ensuring a favourable institutional environment for the functioning of the industry are important tasks of state regulation of the economy, which is determined by the decisive influence of the agricultural sector on the dynamics of economic and social processes, the level of national and global food security, sustainability and balance of regional and rural development.

Taking into account favourable territorial and natural climatic conditions, the historical agricultural orientation of the national economy, culture and life of the population, the agricultural sector remains a leading and promising branch of the national economy with significant strategic production and export potential. Despite the challenges of wartime, the domestic agricultural sector has inherent resource opportunities not only to preserve pre-war production volumes, and to further increase them to meet the needs of the domestic market and increase the volume of foreign trade in order to successfully converge the Ukrainian economy into the

European space by integrating into the international markets agri-food products not only of raw material orientation, but also processed with a high content of added value [1].

Modern institutional transformations, associated in particular with the permanent impact of military risks on the production and export activities of domestic agro-industrial producers, the acceleration of sectoral European integration processes, the increase in the level of militarization of the economy, the rapid development of digitalization of public relations, necessitate the reformatting of strategic priority directions of state support for domestic agro-industrial production and ensuring their effective implementation by budgetary instruments, taking into account the requirements of obtaining the maximum socio-economic effect from the use of budget funds within the framework of limited «wartime budget».

This necessitates the implementation of scientific research that will improve and develop ideas regarding the directions of the post-war institutional transformation of the budget mechanism for supporting domestic agro-industrial production and the features of assessing the expected and achieved level of socio-economic efficiency when applying budget instruments to support and stimulate the industry.

Modern domestic and foreign research was devoted to the issues of scientific substantiation and improvement of the budgetary mechanism of influence on the dynamics of development and structure of the country's agro-industrial production, which undoubtedly deepened the understanding of budgetary policy as a significant state regulator of industry's development trends.

However, institutional transformations caused by unprecedented challenges and destructive consequences of full-scale military operations on the territory of our country for all spheres of public relations, the forced militarization of the national economy in conditions of constantly growing needs for state support for the processes of its restoration and reconstruction in the affected territories, the need to ensure the stability of its key industries while simultaneously reforming them in the context of accelerating European integration processes, actualize the need for new research. It is important to determine the model of modern reformation of the budgetary mechanism for supporting agro-industrial production in Ukraine, which historically acts as a fundamental and system-forming component of the national economy, a guarantor of national and global food security, and is also identified as an important catalyst for post-war restoration and growth of the national economy.

Chapter 1. Theoretical and methodological approaches to the transformation of the budgetary mechanism of state support for agricultural production

At the current stage of budget relations development, further improvement of planning and implementation of budget expenditures is taking place on the basis of the program-targeted method, and at the same time, it is important to deepen the application of this method, primarily as a component of the system of prospective budget forecasting and planning.

An important indicator characterizing the effectiveness of the state in fulfilling its functions is the effectiveness of budget expenditures. Ensuring economic growth and improving the level and quality of life of the population requires rethinking the role

and significance of budget expenditures in achieving strategic priorities of social development. Carrying out structural reforms in the main sectors of state regulation requires the assessment and effective use of resource potential in achieving the set goals. The current stage of development of budget relations requires the introduction of new approaches to determining the effectiveness and efficiency of the use of budget funds in the context of further improvement of the program-targeted method of forming budget expenditures.

The program-targeted method in the budget process involves the formation and implementation of budget expenditures in the context of budget programs of budget funds managers, as well as the achievement of socially significant final results. The significant advantages of this method are its focus on results in the spending of budget funds, the prospective nature of the formation of budget expenditures, the transition from the management of budget resources to the management of budget results, and the coverage of all stages of the budget process [2; 3].

The main components of the budget mechanism for state support and stimulation of the development of the country’s agricultural production are shown in Figure 1.

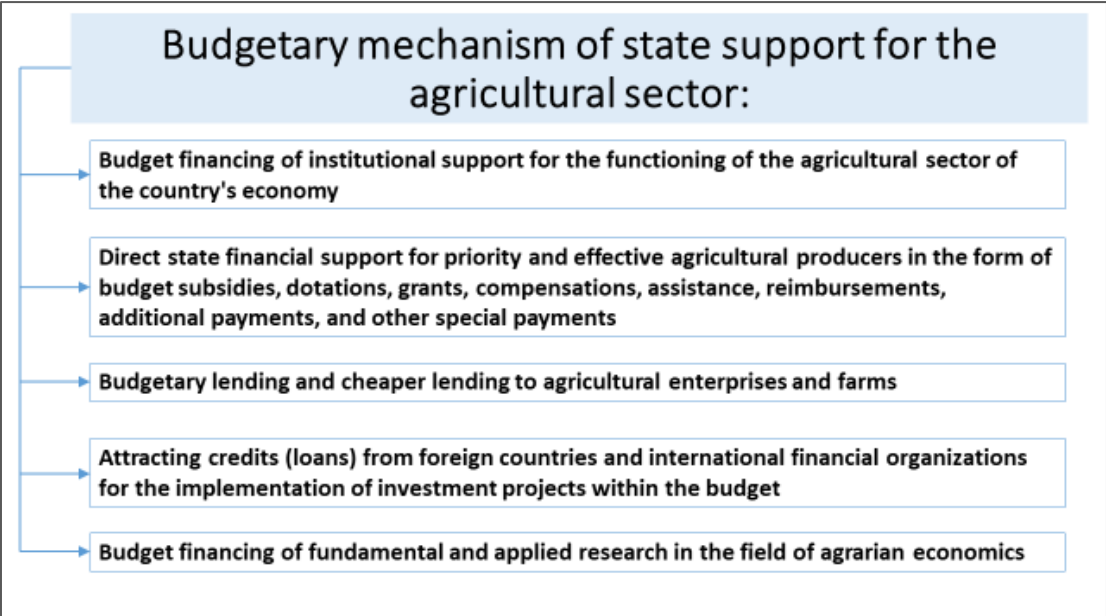


Figure 1. Budgetary mechanism of the state support for agricultural sector

Source: compiled by the author

When applying the program-targeted method of budget expenditure management, the nature of the development and implementation of budget policy changes, which consists in shifting the emphasis from ensuring the implementation of budget expenditures to increasing their efficiency and effectiveness in solving priority tasks of socio-economic development. This involves the development of quantitative and qualitative indicators of the effectiveness of budget programs in terms of the volume of costs, product indicators, the level of efficiency and quality, which characterize the results of the budget program. The use of these indicators makes it possible to assess the use of budget funds from the point of view of achieving planned results, to

compare the results of the implementation of budget programs in dynamics and between budget fund managers, to determine the most effective budget programs in the distribution of limited budget resources. Analysis and assessment of the effectiveness of spending budget funds is carried out by monitoring the effectiveness of budget programs, which aims to constantly review and streamline the composition of budget programs, improve their internal structure, and stop ineffective or insufficiently effective programs [2; 3].

The effective functioning of the budget expenditure management system based on the program-targeted method requires the use of the principles of prospective budget forecasting and planning. Budget managers must draw up strategic plans for their activities, which determine the main goal of their activities, goals, objectives, a list of budget programs and expected results in the medium and long term in accordance with the established priorities of the country's socio-economic development. The process of forming budget programs should include determining the general goal of each budget program for the future, its goals and objectives for the medium term, types and directions of activity that ensure the implementation of the program, as well as indicators that can be used to assess the degree of achievement of the set goals in the short and medium term.

The process of improving the use of the program-targeted method in the budget process of Ukraine takes place in the context of the application of medium-term budget planning mechanisms, which requires the introduction of strategic planning elements into the activities of the main budget funds managers. Planning of budget expenditures for the long and medium term should be based on the identified priorities of the Government, the forecast of budget revenues, as well as based on the strategic plans of the main budget funds managers. This will allow harmonizing the policy in the field of public finances in the short and medium-term and long-term periods, which will provide an opportunity to proceed to the formation of a budget strategy and conduct a more balanced budget policy, which is a prerequisite for ensuring sustainable socio-economic development in Ukraine.

When studying the peculiarities of the functioning of the agro-industrial sector of the Ukrainian economy during the war period, it should be noted that the following negative trends and challenges will determine and significantly affect the country's food security and the stability of the national economy, as well as the processes of its post-war reconstruction and reformation [4]:

- the presence and need to cover/compensate for a significant amount of direct and indirect losses to the agro-industrial sector from military aggression in terms of losses of material assets of agro-industrial enterprises and farms due to the destruction of production facilities, damage and destruction of production, transport, and warehouse infrastructure facilities, restrictions/blocking of the sale and export of domestic agricultural products, the need to relocate enterprises due to the occupation of territories, etc.;
- reduction in the total volume of domestic agricultural production, which poses a threat to food security, the sustainability of the national economy, as well as the curtailment and/or restriction of the activities of agricultural producers in temporarily occupied, frontline, liberated, and other affected territories, which in the future will

lead to significant territorial disparities in the levels of agrarian and rural development of the country's regions;

- complication and increase in the cost of transport and logistics services for agricultural producers, disruption/breakage of logistics supply chains, loss of sales markets for domestic agricultural products due to damage to transport networks, blocking of seaports and trade activities in the waters of the Black and Azov Seas;

- reduction and complication of Ukrainian agri-food exports, which will lead to an increase in world prices for agricultural products, a short-term decrease in their prices on the domestic market, and the accumulation of their unsold balances;

- increase in the cost of production of agri-food products due to increased prices for energy, raw materials and other materials, complications in logistics due to the risks of martial law, significant destruction of domestic energy, transport and other critical infrastructure, which will lead to an increase in the need for agricultural enterprises and farms for effective state financial support and/or access to loan funds and investment resources;

- decrease in the business activity index, a deterioration in the solvency of economic entities, complications and delays in mutual settlements due to a deficit of working capital, which will complicate the financial and economic activities of agricultural enterprises and farms, and will lead to an increase in the volume of their receivables and payables;

- shortage of labour resources in the medium term due to forced migration of qualified labour abroad due to military threats, increasing unemployment as a result of staff reductions and the number of employees of enterprises, and their liquidation;

- reduction in the volume and quality of crop yields, loss of sown areas, reduction in the number of farm animals and birds during the war period due to their physical destruction, damage and contamination of agricultural lands, berry orchards, orchards, greenhouses, destruction of land reclamation and water management infrastructure, which in the medium term will lead to a decrease in the export capacity of the domestic agricultural sector, a decrease in foreign exchange earnings from agricultural exports, a drop in production in the agro-processing, food industries and related sectors of the economy, a decrease in food stocks and a certain shortage of food products on the domestic market, and an increase in consumer prices for them;

- uncertainty regarding the duration and intensity of military operations on the territory of our country, which may lead to further losses of agricultural production and export potential, increased forced migration of the population, a reduction in the volume of agro-industrial production, a decrease in its competitiveness and investment attractiveness, greater destruction of important infrastructure facilities, etc.

The main risks associated with budgetary support for the processes of reconstruction and restoration of sustainable development of the agro-industrial sector of the Ukrainian economy, its reform in accordance with European standards, include the following [4]:

- limited opportunities for budgetary support and stimulation of the processes of reconstruction and reform of the industry, direct financial support for agricultural

producers in the conditions of the functioning of the "wartime budget", which can be compensated by the receipt of credit and grant assistance from international financial organizations, the EU, partner countries;

- failure to receive financial assistance from the EU, IFOs and donor countries due to the escalation and further spread of military operations on the territory of our country, Ukraine's failure to fulfil the conditions and indicators of the effectiveness of the use of international financial support, which may lead to additional money emission, reduction of budget expenditures, increased inflation, complication of entrepreneurial activity, reduction of state and international support for business, which will negatively affect consumer demand and production volumes in the economy, including leading to the curtailment of agri-food production;

- insufficient volumes and low level of effectiveness of direct state support for domestic agricultural producers in conditions of wartime restrictions on access to other sources of financing their economic activities, with the cost of agricultural production increasing due to the rise in prices for fuel, seeds, fertilizers, other raw materials, logistics, and wartime losses of material assets, which threatens bankruptcy/liquidation of agricultural enterprises and farms, and the failure of sowing campaigns;

- limitations and low level of effectiveness of state support programs to reduce the cost of lending to agricultural producers using mechanisms for partial compensation by the state of interest rates on loans and providing state guarantees for the fulfilment of credit obligations, since expanding the volume of business lending in wartime is possible only if it is effectively stimulated by the state and promotes insurance of war risks;

- insufficient level of effectiveness of state support for investment activities in the field of agro-industrial production in terms of insurance of military risks, provision of state guarantees for the implementation of investment projects, which will act as a deterrent factor for attracting domestic and international financial resources to rebuild and support the financial and economic stability of the industry;

- low level of involvement of territorial communities and financial resources of their budgets in managing the processes of reconstruction and reform of the industry, development of budget programs of financial support for agricultural producers, especially in the most affected areas, which will lead to the risk of inconsistency of the obtained reconstruction and reform results with real local needs, as well as a decrease in the efficiency of the use of state financial resources due to violation of the principles of decentralization and subsidiarity of public financial management.

Successfully overcoming such unprecedented challenges and risks to the sustainability and competitiveness of the development of national agro-industrial production, closely linked to the prospect of accelerating accession to the EU, will require modernizing approaches to the functioning of the budgetary mechanism of state support for the industry. This will involve strengthening its prospective focus and scientific validity, introducing strategic indicative planning for the development of agro-industrial production sectors and the features of their state financial support, as well as assessing the effectiveness of state support from the point of view of obtaining the expected specific sectoral and socio-economic results, which will allow

researching and assessing the interrelationship between the strategic priorities of the country's agrarian and rural development and the results of the activities of state administration.

Chapter 2. Transformation of the budgetary mechanism of state support for Ukrainian agricultural sector in the war period

The budgetary mechanism of state support for the development of agricultural production in Ukraine is based on the principles of the program-targeted method of budget planning. Its essence involves the transition from planning agrarian budget expenditures to planning sectoral results from spending budget funds. The processes of planning, execution and control over the use of budget expenditures for the development of the agricultural sector are carried out in the context of budget programs that are developed and implemented by budget managers in the person of public administration responsible for the formation and implementation of agrarian and food policy. It is mandatory to assess the expected sectoral results from the implementation of measures within budget programs [5; 6; 7].

In recent years, the main vectors of transformation of the budget mechanism are associated with the introduction of medium-term planning into Ukraine's budget process, which provides for the implementation of processes of formation of budget expenditures in the context of budget programs for a three-year perspective within the framework of implementation of strategic priorities of the country's agricultural and rural development [2; 8].

The formation of the Budget Declaration as a document of medium-term budget planning is introduced, which will reveal the strategic goals of state policy in various spheres of public relations, the directions of activity of public administration for their implementation, as well as quantitative and qualitative indicators of the result that will characterize the level of achievement of the established goals. For each goal of state policy indicators of their achievement should be determined, since each goal should have the final result of the activity of the manager of budget funds in this area or clearly determine the direction of changes aimed at improving the situation or solving problems in this field of activity.

The Budget Declaration will also contain the maximum amounts of budget expenditures for the main budget managers for each year of the medium-term period for further planning of their budget programs necessary to ensure the fulfilment of their functions, the implementation of certain strategic goals and the achievement of planned results. Thus, the achievement of strategic goals of state policy is ensured within the framework of the implementation of strategic plans for the activities of public administration and the implementation of their budget programs. At a later stage, the main managers of budget funds form passports of budget programs, which detail and specify certain strategic goals, directions of activity, program measures for their implementation and the expected results – indicators of budget costs, the resulting product, its quality, the level of effectiveness of program activity [3].

The return to medium-term budget planning during the war period was actualized within the framework of the Program of Expanded Financing of Ukraine for 2023-2026 from the IMF with structural beacons in terms of fulfilling the

requirements for the introduction of strategic indicative management of public finances to strengthen the financial stability of the country in the face of wartime challenges. In 2024, the provisions of Article 33 of the Budget Code of Ukraine were returned, the Budget Declaration for 2025-2027 was formed and approved [9; 10].

Medium-term planning of agricultural budget programs involves preliminary determination of priority areas for the development of the domestic agricultural sector, establishment of sectoral strategic goals and objectives with specification of indicative indicators of their achievement in the medium term, as well as assessment of the volume of financial resources, including budgetary, necessary to achieve the established goals, objectives and planned results. Deepening the application of strategic indicative principles in the public administration system led to the adoption of the Strategy for the Development of Agriculture and Rural Areas in Ukraine for the period until 2030 and the Strategy for Food Security of Ukraine for the period until 2027, which will serve as the basis for planning agricultural budget programs in the medium term [11; 12].

The introduction of martial law and the forced dynamic transition to the functioning of the wartime budget led to a significant reduction in the volume of budgetary support for the development of the agricultural sector, especially at the beginning of the war period, which was explained by the urgent need for priority financing of the ever-growing needs of the defence complex and the social sphere in the context of a simultaneous decrease in internal budget revenues due to the influence of military factors and, accordingly, a forced restriction of state support for economic activity.

The structure of budget support for the development of Ukrainian agricultural sector of the economy, on average for the pre-war period of 2017-2021, was characterized by the following indicators: budget funding for institutional support for the functioning of the agricultural sector – 63.3%; direct state financial support for agricultural producers – 27.6%; budget funding for fundamental and applied research and development in the field of the agrarian economy – 8.5%; budget lending to farms – 0.6% [13].

With the introduction of martial law, the total budget support for the development of the industry decreased from UAH 18.5 billion to UAH 11.8 billion, or by 37% compared to the pre-war year of 2021, in particular, mainly due to a reduction in budget funding for institutional support for the functioning of the agricultural sector (by 32%), a decrease in volumes (by 57%), and the transformation of the mechanism of direct state financial support for agricultural producers and the suspension of budget lending to farms [13].

In order to redirect budget funds to the needs of priority financing of the security and defence sector, budget expenditures under programs of financial support for agricultural producers were reduced and their budget lending was suspended, which led to a decrease in the volume of direct budget support for agricultural producers from UAH 4.7 billion in 2021 to UAH 2 billion in 2022 and UAH 1 billion in 2023 (Figure 2).

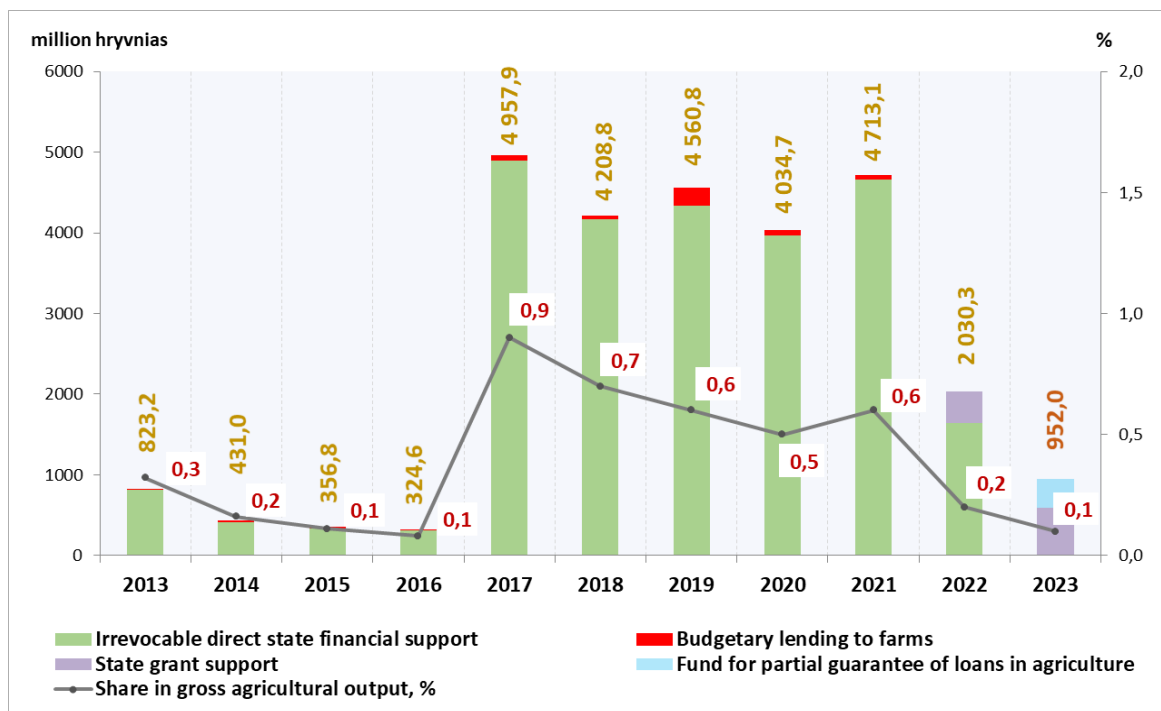


Figure 2. Dynamics of the volume and structure of the direct budgetary support for Ukrainian agricultural producers in 2013-2023

Source: based on the data [14; 15]

It is important to note the presence of long-term trends in reducing the level of direct budget support for Ukrainian agricultural producers in the pre-war period, which since 2010 was less than 1% of agricultural output, in the pre-war year 2021 decreased to 0.6%, and in the war years 2022-2023 – to 0.2-0.1%, respectively (Figure 2). These trends contradict the declared strategic goals of transforming Ukraine into a powerful agrarian state with sustainable growth rates of agro-industrial production as a key GDP-forming link of the national economy, a driver of the post-war reconstruction of the country and its affected regions, a guarantor of not only national, but also global food security.

In the pre-war year of 2021, direct budget support for agricultural producers in Ukraine was provided in the following areas:

- support for the development of livestock farming and processing of agricultural products (special budget subsidy for existing bee colonies; partial reimbursement of the cost of animals purchased for further reproduction that have breeding value; partial reimbursement of the cost of construction and/or reconstruction of livestock farms and complexes, fish farms, milking parlours, agricultural product processing enterprises, including those financed through bank loans; partial reimbursement of the cost of grain storage and processing facilities; special budget subsidy for keeping goats, goats, ewes; special budget subsidy for increasing the number of cows of their own reproduction) – UAH 1.6096 billion or 34.1%;
- support for activities in the agricultural sector by reducing the cost of loans – UAH 1.2 billion or 25.5%;

- partial compensation for the cost of purchased agricultural machinery and equipment of domestic production – UAH 991.4 million or 21%;
- financial support for the development of horticulture, viticulture and hop growing – UAH 512.2 million or 10.9%;
- financial support for the development of farms – UAH 120.8 million or 2.6%;
- compensation for losses from complete damage to agricultural crops due to natural emergencies – UAH 107.9 million or 2.3%;
- state support for potato producers – UAH 53.2 million or 1.1%;
- budget subsidy per 1 ha of agricultural land (UAH 5,000 per 1 ha for buckwheat producers with a limit of up to 300 ha) – UAH 50 million or 1.1%;
- provision of budget loans to farms – UAH 50 million or 1.1%;
- state support for the use of reclaimed land – UAH 16.7 million or 0.3%;
- financial support to family farms through the mechanism of additional payment of the Single Social Contribution – UAH 1.3 million or 0.03%.

In 2022-2023, direct budget support for agricultural producers of Ukraine was carried out in the following directions:

- providing a budget subsidy per unit of cultivated agricultural land to producers cultivating from 1 to 120 hectares, in the amount of UAH 3,100 per 1 hectare (the volume of payments amounted to UAH 1.316 billion in 2022 alone);
- providing a special budget subsidy for cattle maintenance to producers keeping from 3 to 100 cows, in the amount of UAH 5,300 per head (the volume of payments amounted to UAH 329 million in 2022 alone);
- providing state grants for the creation or development of horticulture, berry and viticulture, greenhouse farming, and processing enterprises (2022 – UAH 383 million, 2023 – UAH 1,200 million);
- partial compensation of interest rates and provision of state guarantees under the state programs "Affordable loans 5-7-9%", "Affordable financial leasing 5-7-9%";
- additional payment of a Single Social Contribution to family farms.

The Government of Ukraine has significantly expanded the areas of state support for agricultural producers and the budgetary instruments for its provision in 2024 compared to 2022-2023 (Table 1). This is due to the importance of supporting the financial stability of Ukrainian agricultural producers during the war period in the context of ensuring uninterrupted production of agricultural products and preventing threats to national and global food security, stimulating agricultural production as a key factor in the stability of the national economy, employment and income of the population.

The list of areas of direct budget support for agricultural producers was expanded, and the level of corresponding payments was increased. The planned amount of budget funds under this support program for 2024 was UAH 2.8 billion and was directed to the following directions:

- budget subsidy to agricultural producers who cultivate up to 120 hectares of agricultural land (the amount per 1 hectare was increased from UAH 3,100 in 2022 to UAH 4,000);

- a separate budget subsidy to agricultural producers from de-occupied territories and territories with completed hostilities (UAH 8,000 per 1 hectare);
- special budget subsidy for keeping cattle (cows) for farmers keeping from 3 to 100 heads (the amount per head has been increased from 5300 UAH in 2022 to 7000 UAH);
- special budget subsidy for keeping breeding stock of goats and/or sheep for farmers keeping from 5 to 500 heads (2000 UAH per head).

Table 1

Implementation of budget programs to support
for Ukrainian agricultural producers in 2024

	Approved for the year, UAH million	Updated annual plan, UAH million	Completed per year, UAH million	Level of implement ation, %
State compensation for costs of demining agricultural lands	3 000,0	434,5	434,5	100,0
Partial compensation for the cost of domestically produced agricultural machinery and equipment	1 000,0	900,2	876,7	97,4
Formation of the authorized capital of the Fund for Partial Guarantee of Agricultural Loans	0	443,6	438,0	98,7
Support for agricultural producers through subsidies per hectare and subsidies per head of livestock	796,0	2 798,4	2 778,4	99,3
Support for agricultural producers on reclaimed land and through additional payment of the Single Social Contribution	205,0	208,4	44,2	21,21
Provision of budget grants for business development	1 370,0	1 388,7	1 373,3	98,9
State support for investment projects with significant investments	3 000,0	0,0	0,0	0,0
State support for domestic demand for domestic goods and services	3 000,0	8 750,3	8 639,4	98,7
State incentives for the creation of industrial parks	1 000,0	925,1	925,1	100,0
Entrepreneurship Development Fund (state programs 5-7-9%)	18 000,0	18 000,0	18 000,0	100,0

Source: based on the data [14; 15]

An important direction of budget support for the industry during the war period remains active state stimulation of credit provision for agricultural producers and their preferential lending with state participation through the Entrepreneurship Development Fund using the mechanism of state compensation of part of the interest rate on loans depending on the number of new jobs created, as well as the provision of state guarantees for the fulfilment of credit obligations. The state programs "Affordable Loans 5-7-9%", "Affordable Financial Leasing 5-7-9%", "Affordable Factoring" continue to operate and their distribution in de-occupied, affected and close to combat areas is being stimulated. Also in 2024, the Fund for Partial Guarantee of Loans in Agriculture began operating with an authorized capital of almost UAH 450 million in budget funds, which will provide guarantees in the amount of up to 50% of credit obligations of small and medium-sized agricultural producers with land plots of up to 500 hectares for a period of up to 10 years.

Important sectoral areas of budget support for agricultural producers in 2024 are the restoration of the program of partial compensation for the cost of domestically produced agricultural machinery and equipment, which already operated in the pre-war period of 2017-2021, and the introduction of state compensation to farmers for the costs of demining agricultural lands to support the stability and restoration of agricultural production in territories where hostilities have ended and in de-occupied territories.

Last year, budget support programs for agricultural producers using reclaimed land and water user organizations were also implemented, and the practice of providing non-refundable budget grants for the development of greenhouse farming, horticulture, berry and viticulture, and processing enterprises continued.

The main areas of direct budget support for Ukrainian agricultural producers in 2025 are as follows:

- 18 billion UAH – partial compensation by the state of interest rates and provision of state guarantees within the framework of preferential lending under the State Programs “Affordable Loans 5-7-9%”, “Affordable Financial Leasing 5-7-9%”, “Affordable Factoring” through the Entrepreneurship Development Fund;
- 4.726 billion UAH – budget subsidy for 1 hectare of agricultural land (4,000 UAH), special budget subsidy for keeping cows (7,000 UAH), special budget subsidy for keeping goats and/or sheep (2,000 UAH) for small agricultural producers who cultivate up to 120 hectare of land or keep up to 100 cows, 500 goats and/or sheep;
- UAH 1.370 billion – providing grants to small and medium-sized agricultural producers for the creation or development of horticulture, berry and viticulture, greenhouse farming, and processing enterprises on co-financing terms;
- UAH 1 billion – financial support for the development of livestock and agro-processing industries at the expense of funds from the Land Bank Project, which will come from auctions for the lease of state agricultural lands;
- UAH 1 billion – state compensation for costs for humanitarian demining of agricultural lands;
- UAH 200 million – financial support for the restoration and construction of reclaimed systems and water user organizations;
- UAH 80 million – preferential interest-free loans to farms;
- UAH 5 million – financial support for family farms through the mechanism of additional payment of the Single Social Contribution.

Therefore, the influence of war factors, limited budget funds to support and stimulate the development of the industry during the war period, as well as the need for an effective state response to new military and European integration challenges led to a post-war institutional transformation of the mechanism and instruments of direct budget support for domestic agro-industrial producers in the following main directions:

- introduction of a state grant support instrument for agricultural producers in priority areas for the development of the domestic agricultural sector (creation or development of horticulture, berry and viticulture, greenhouse farming, processing enterprises) provided that they achieve socially significant socio-economic results

(creation of new jobs to support employment and incomes of the population, assistance in filling the revenue part of the state and local budgets through payment of taxes in the amount of grants received, carrying out entrepreneurial activities in territories affected by hostilities to ensure their reconstruction, etc.);

- priority budget support for the sector of small farms and personal peasant farms to rebuild and restore sustainable development of rural areas, guarantee the country's food security, support employment of the population, in particular through the provision of non-refundable financial support per unit of agricultural land and for keeping cattle, as well as budgetary stimulation of the development of their credit provision through the state guarantees;

- differentiation of instruments and volumes of budget support for agricultural producers, taking into account the territorial criterion, depending on the coverage of military operations, the level of destruction and losses suffered (rear areas, de-occupied territories, territories affected by hostilities and territories close to combat zones);

- priority budget stimulation of the development of credit support for agricultural producers and their preferential lending with the participation of the state, in particular through the launch of the Fund for Partial Guarantee of Loans in Agriculture, state programs "Affordable Loans 5-7-9%", "Affordable Financial Leasing 5-7-9%", "Affordable Factoring" and the expansion of their action in de-occupied, affected and close-to-combat zones territories;

- digitalization and automation of the processes of providing direct budget support to agricultural producers, in particular through the digital platform of the State Agrarian Register of Ukraine, the Diya Portal;

- active involvement of international assistance to provide financial support to domestic agricultural producers, in particular, involvement of financial assistance from the EU, IMF, World Bank, FAO, USAID, donor countries, and other international financial organizations.

In 2024-2025, positive trends should be noted towards an increase in the volume, expansion of directions and instruments of budget support for agricultural producers compared to the previous war years. The development of horticulture, berry growing, viticulture, greenhouse farming, agro-processing enterprises, production activities of small agricultural producers, production of domestically produced agricultural machinery and equipment, development of land reclamation systems, demining of agricultural lands were identified as priorities.

However, the level of consistency and scientific validity of planning the volumes and sectoral areas of budget support and their interrelation with the strategic priorities of the country's agrarian and rural development still remains insufficient, which poses risks to the sustainability of domestic agro-industrial production, especially in wartime conditions, as well as to curbing its negative structural imbalances, in particular, the decline in the volume of livestock production and its sub-sectors, the low share of the agro-processing industry with products with high added value, low productivity of small agricultural producers, etc.

Chapter 3. Strategic directions of modernization of the budgetary mechanism of state support for Ukrainian agricultural sector

Dynamic transition of Ukraine to the functioning of the wartime budget after the introduction of the legal regime of martial law on February 24, 2022 led to a significant reduction in the volume of budgetary support for the development of the agricultural sector and the institutional transformation of the budgetary mechanism and budgetary instruments of state support for agricultural producers. The corresponding structural shifts were due to the influence of military factors, which caused a forced restriction of state support for economic activity due to the requirements of priority budget financing of the ever-growing needs of the defence complex and the social sphere, as well as the need to reform the model of state support for the industry in modern economic conditions to successfully overcome the latest military and European integration challenges.

At the same time, the urgent need to prevent threats to national and global food security, as well as the need for an effective state response to new military and European integration challenges for the sustainability of the agricultural sector, led to a post-war institutional transformation of the mechanism and instruments of budget support for domestic agro-industrial producers in the following main directions:

- modernization and gradual expansion of directions of state support for agricultural producers during the war period, taking into account the criterion of the expected effect in ensuring the processes of restoring the industry and rebuilding the affected territories, as well as stimulating its development using sustainable, innovative, ecological and inclusive approaches (in particular, the priority areas for 2024-2025 are the development of horticulture, berry growing, viticulture, greenhouse farming, support for the development of livestock farming and processing of agricultural products, the early development of small agricultural producers and a gradual increase in irrevocable state financial support for their entrepreneurial activities, the production of domestically produced agricultural machinery and equipment, the development of land reclamation systems and water user organizations, demining of agricultural lands, stimulating domestic demand for domestic goods and services, state support for the implementation of investment projects, state stimulation of industrial parks, providing state guarantees for compensation for damage caused as a result of the armed aggression to owners of sea vessels and inland navigation vessels);

- introduction of a state grant support instrument for agricultural producers on the basis of co-financing in priority areas for the development of the domestic agricultural sector (creation or development of horticulture, berry and viticulture, greenhouse farming, processing enterprises) provided that they achieve socially significant socio-economic results (creation of new jobs to support employment and income of the population, assistance in filling the revenue part of the state and local budgets through payment of taxes in the amount of grants received, carrying out entrepreneurial activities in territories affected by hostilities to ensure their reconstruction, etc.);

- priority budget support for small farms and individual peasant farms to stimulate the development of rural areas, rebuild and restore sustainable development of affected regions, support employment of the population, in particular through the

provision of irrevocable financial support per hectare of agricultural land and for keeping cattle, goats and sheep, as well as the development of preferential lending using the mechanism of state compensation of part of the interest rate on loans and the provision of state guarantees for the fulfilment of credit obligations;

- differentiation of instruments and volumes of budget support for agricultural producers, taking into account the territorial criterion, depending on the coverage of military operations, the level of destruction and losses incurred (rear areas, de-occupied areas, affected by military operations, close to combat zones or frontline areas) with an emphasis on assistance to the most affected regions and priority state support for areas with increased military risks;

- priority budget stimulation of the development of credit support for the production and export activities of agricultural producers and their preferential lending with the participation of the state, in particular through the launch of the Fund for Partial Guarantee of Loans in Agriculture, state programs "Affordable Loans 5-7-9%", "Affordable Financial Leasing 5-7-9%", "Affordable Factoring" and the expansion of their action in de-occupied, affected and close-to-combat zones territories;

- advanced development of digitalization and automation of the processes of planning and implementing budget programs to support agricultural producers, in particular through the digital platform of the State Agrarian Register of Ukraine, the Diya Portal, IT – a system for planning and monitoring budget execution, to increase the accessibility, transparency, and effectiveness of state support, and reduce the level of administrative costs when spending budget funds;

- active involvement of international assistance for financial support of domestic agricultural producers, in particular the EU, IMF, World Bank, FAO, USAID, donor countries, other international financial organizations, as well as financial support within the framework of the Ukraine Facility in 2024-2027, through the provision of consulting services in information on support opportunities within various programs, features of their implementation, assistance in the formation and submission of project applications.

Uncertainty regarding the duration and intensity of hostilities on the territory of our country, which may lead to further complication of the entrepreneurial activities of domestic agricultural producers, an increase in the cost of production, an increase in the needs of farmers in financial resources to ensure uninterrupted functioning in conditions of limited budgetary opportunities to support their activities, which, in turn, may lead to a reduction in the volume of domestic agri-food production, a decrease in its competitiveness and investment attractiveness, an increase in losses of agricultural production and export potential in general, and carry significant risks for national and global food security, necessitates the improvement of the budgetary mechanism for supporting the industry in the following main areas:

- strengthening the strategic focus and scientific validity of the processes of forming and implementing the state's agrarian policy through the introduction of strategic indicative planning for the development of domestic agro-industrial production, priority areas of development and reform of its subsectors, as well as specifying the mechanisms and instruments for their implementation, in particular

budget policy, in order to direct limited budget resources to the implementation of strategically important industry development programs that will have a tangible socio-economic effect in the context of stimulating post-war reconstruction and reform of the industry according to innovative, ecological and inclusive standards;

- introduction of a mandatory assessment of the effectiveness and socio-economic efficiency of the implementation of agricultural budget programs from the point of view of obtaining specific sectoral and socio-economic results, which will allow research and assessment of the socio-economic effect of spending budget funds on the development of the industry, increase the validity and effectiveness of planning budget programs to support the industry, and strengthen the interrelationship between the strategic priorities of the country's agrarian and rural development and the results of the activities of state administration;

- increasing the volume of direct budget support for agricultural producers to the level of 1% of agricultural output with an emphasis on affected territories, and in the medium and/or long term, gradually bringing its level up to the standards of the EU Common Agricultural Policy in order to create the prerequisites for increasing the competitiveness of domestic agricultural producers with the aim of their further successful integration into the European and world agri-food markets;

- increasing the scientific validity of planning directions and volumes of budget support for agricultural producers based on assessing its impact on the indicators of the functioning of agro-industrial production sectors, the level of financial stability and productivity of domestic agricultural producers, indicators of socio-economic development of rural areas, population employment, volumes of tax sectoral revenues to budgets of various levels, which will allow supporting the development of those sub-sectors and areas that provide the greatest socio-economic effect for the country, generate high added value and make a significant contribution to the growth of the national economy and ensuring an adequate level of food security;

- further improvement of the instrument of state grant support for agricultural producers in the direction of expanding its sectoral list, provided that specific significant socio-economic results are achieved, in particular, supporting employment and income of the population through the creation of a certain number of new jobs and employment of the population, contributing to the replenishment of the revenue part of the budget through the payment of taxes in the amount of grants received, carrying out entrepreneurial activities in the territories affected by hostilities to ensure their reconstruction, etc.;

- deepening the differentiation of the volumes, mechanisms and instruments of budgetary support for agricultural producers depending on the territorial coverage of military operations, the level of destruction and losses incurred (rear areas, de-occupied territories, front-line territories, combat zones, front-line buffer zones) with an emphasis on the most affected territories, in particular by introducing preferential taxation regimes based on industry and/or territorial characteristics, partial exemption from taxation, a priority regime of direct budgetary support for agricultural producers and budgetary financing of infrastructure reconstruction, in order to stimulate the economic revival of the affected regions, employment of the local population and internally displaced persons, the formation of stable sources of

income for the population, and a gradual increase in tax revenues to the budgets of the most affected territorial communities;

- optimization of the use of available financial instruments of state support for the agricultural sector by increasing the level of mutual coordination, synchronization, adaptability and flexibility of the application of budgetary, tax, credit and investment, and insurance instruments, taking into account the criterion of effectiveness in the implementation of strategic goals and objectives of the country's agrarian and rural development;

- actively stimulating further decentralization of state financial management of the development of the industry by increasing the level of involvement of territorial communities and financial resources of local budgets in the processes of forming and implementing programs to support local agricultural producers and creating a favourable institutional environment for their functioning, especially in the most affected areas, in order to eliminate the risks of the results not meeting real local needs due to violation of the principles of decentralization and subsidiarity, which are standards of the EU CAP;

- priority budgetary support for small farms and individual peasant farms, taking into account the difficulty of their access to support programs of financial and credit institutions, in particular by maintaining the practice of providing irrevocable support per hectare of agricultural land and for livestock maintenance, activating the Fund for Partial Guarantee of Loans in Agriculture and restoring budget lending to farms as compensators for the insufficient effectiveness of the "Affordable Loans 5-7-9%" program in areas close to hostilities and de-occupied territories due to the existence of significant military risks;

- further active budgetary stimulation of the development of credit support for agricultural producers and their preferential lending with the participation of the state using the mechanism of partial compensation of interest rates and the provision of state guarantees, in particular through further improvement of the state programs "Affordable Loans 5-7-9%", "Affordable Financial Leasing 5-7-9%", "Affordable Factoring" by deepening the differentiation of support taking into account the criteria of industry and territorial affiliation, organizational and legal forms of business of agricultural producers, as well as expanding the activities of the Fund for Partial Guarantee of Loans in Agriculture and its distribution in de-occupied and close-to-hostilities territories;

- introduction of budgetary instruments to stimulate the development of agricultural insurance and its institutional support, in particular through the activities of the Export Credit Agency, in order to reduce the level of risks of entrepreneurial activity, transform the agricultural sector into an investment-attractive industry and stimulate the attraction of domestic and foreign investment and credit resources to its development;

- introduction of budgetary instruments to stimulate the modernization of the material and technical base and the use of progressive technologies of agro-industrial production in order to increase its productivity and competitiveness to the level of advanced world indicators, in particular by improving the use of the instrument of

budgetary financing of agricultural scientific research, the use of effective tax and budgetary incentives for the implementation of their results in production processes in order to ensure the ahead growth of the innovative component of the domestic agricultural industry;

- advanced development of digitalization and automation of the processes of planning and implementing budget support programs for agricultural producers, in particular through the IT budget planning and monitoring system, the digital platform of the State Agrarian Register, the Diya Portal, to increase its accessibility, transparency and validity, as well as reduce the level of administrative costs when spending budget funds;

- ensuring the effective use of available financial and technical assistance from international partners and donors, in particular FAO, USAID, EU, IMF, World Bank, donor countries, as well as financial support under the Ukraine Facility in 2024-2027 by creating favourable institutional conditions to simplify access of domestic agricultural producers to EU's financial and credit programs through the provision of consulting services on information about support opportunities under various programs, the features of their implementation, assistance in the formation and submission of project applications, in particular through the digital platform of the State Agrarian Register of Ukraine, the Diya Portal, and relevant EU's digital platforms.

Conclusions

The determining influence of the agricultural sector on the dynamics of Ukraine's socio-economic development and its rural areas, as well as its key role in ensuring the country's food security and maintaining the stability of the national economy during the war period, prove its strategic priority and significant internal potential for maintaining and further increasing the volume of production and export activities even in the face of wartime risks and challenges of post-war recovery.

Uncertainty regarding further hostilities in our country may lead to a reduction in the volume of domestic agri-food production, a decrease in its competitiveness and a threat to food security. It is necessary to constantly modernize approaches, mechanisms, and tools for budgetary regulation of the industry in the areas of increasing flexibility and dynamism of processes for determining directions, volumes, and budget support instruments for a rapid response to growing military threats and challenges to the sustainability of the industry; increasing the effectiveness and efficiency of budget programs to support the industry based on assessing their impact on the level of financial stability and productivity of domestic agricultural producers, indicators of socio-economic development of rural areas, and employment of the population, which will allow supporting the development of those sub-sectors and areas that provide the greatest socio-economic effect for the country and make a significant contribution to the post-war reconstruction of the country; increasing the volume of direct budget support for agricultural producers to the pre-war level with an emphasis on affected territories and territories with increased war risks, and in the medium and long term, gradually bringing its level up to the standards of the EU Common Agricultural Policy.

This will create the prerequisites for effective support and stimulation of the development of domestic agro-industrial production as a key factor in the stability and growth of the national economy, employment and income of the population, ensuring uninterrupted production of agricultural products and guaranteeing an appropriate level of national and global food security, as well as curbing negative sectoral structural imbalances, in particular, a decline in livestock production volumes, a low share of the processing component with a high content of added value, insufficient development and low productivity of the small farms and personal peasant farms.

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