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Efficiency of small farms functioning in Ukraine

Abstract. A considerable share of agricultural products in Ukraine is produced by 32.1 thousand farm enterprises, 97.5% of which are small farms. The domestic legislation does not clearly determine the classification of farms by size into large and small ones. Because of this uncertainty, there are often difficulties in choosing the tax system, forms of accounting and reporting, as well as in identifying efficiency indicators of economic activity. The purpose of the article is to determine an approach to the classification of farms by size and analyse economic activity indicators of small farms. The authors' viewpoint is that the farm enterprises that are reported by the statistical form No.50-agr belong to large farms and those farm enterprises which submit statistical reporting on Form No.2-farm are small ones (with an agricultural area of less than 1 thousand hectares each and a number of employees less than 50 people). Small farm enterprises are an integral part of the domestic agro-industrial complex of Ukraine and play an important role in ensuring food security. It has been found out that small farm enterprises cultivate 55.5% of arable land and produce 52.2% of gross agricultural output in the structure of domestic farming. More than 93% of the revenue of small farms is formed through the sales of crop production. As a result of using the method of grouping we recommend carrying out economic activity for small family farms on covering an area of no less than 100 hectares which will ensure the greatest economic efficiency indicators.

Keywords: Classification; Small Farms; Economic Efficiency

JEL Classification: D24; M41; O13; Q12

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Ефективність функціонування малих фермерських господарств в Україні

Анотація. У статті розглянуто різні методологічні підходи до класифікації фермерських господарств за розміром. Обґрунтовано власний підхід до розподілу фермерських господарств на великі та малі. Визначено частку малих фермерських господарств у землекористуванні, виробництві валової продукції сільського господарства. Здійснено оцінку економічної ефективності їх функціонування в цілому та за видами продукції. За допомогою методу групування досліджено залежність між розміром площі сільськогосподарських угідь та показниками економічної ефективності. Рекомендовано оптимальні розміри малих фермерських господарств.

Ключові слова: класифікація; малі фермерські господарства; економічна ефективність.

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Эффективность функционирования малых фермерских хозяйств в Украине

Аннотация. В статье рассмотрены различные методологические подходы к классификации фермерских хозяйств по размеру. Обоснован собственный подход к распределению фермерских хозяйств на большие и малые. Определены доли малых фермерских хозяйств в землепользовании, производстве валовой продукции сельского хозяйства. Осуществлена оценка экономической эффективности их функционирования в целом и по видам продукции. С помощью метода группировки исследована зависимость между размером площади сельскохозяйственных угодий и показателями экономической эффективности. Рекомендованы оптимальные размеры малых фермерских хозяйств.

Ключевые слова: классификация; малые фермерские хозяйства; экономическая эффективность.

1. Introduction

The world practice shows that the classical farm is a small farm founded by one or more family members who are both owners and workers. The magnitude and the size of the family business depend on its members' ability to manage independently without any kind of involvement of a large number of employees on a regular basis. In Ukraine, a significant part of agricultural production is produced by farms based primarily on a family based business. They play a vital role in the socio-economic development of rural areas.

According to the legislation [1] of Ukraine, a farm is a form of entrepreneurial activity of citizens with establishing a legal entity who wish to produce marketable agricultural production, engage in processing and selling for profit on land plots given to them for farming. A farm enterprise can be created by one or more citizens of Ukraine who are relatives or members.

The development of family farming is a promising form of management in the countryside. This form of organisation provides for consolidation of an owner, a host and a worker in one person and eliminates the possibility of concentration of large areas of agricultural lands in the same hands (Zubar, 2015) [2]. During the period of reforms in Ukraine small farm enterprises are mainly formed by the owners whose families and employees are personally involved in the production. In addition, there are large farms that have emerged on the basis of the country's reformed enterprises.

Issues related to the search of methodological approaches to the classification of farms in size are still relevant because their correct division into groups depends on the reliability of the research, identification of trends and phenomena in doing business of similar enterprises of family type. Distinguishing small among other farms will enable to identify their indicators of economic efficiency and compare them with similar indicators of activities of large farms.

2. Brief Literature Review

A number of scientists have been engaged in studying theoretical and methodological questions regarding organisation. Among them are V. G. Andriychuk (2006) [3], M. Ya. Demyanenko (2004) [4], H. E. Doran, (1985) [5], V. P. Goriyvi (2007) [6], B. F. Hall and E. P. LeVeen (1978) [7], S. K. Lowder, J. Skoet and S. Singh (2014) [8], V. Ya. Mesel-Veseliak (1996) [9], A. S. Mohnenko (2012) [10], P. T. Sabluk (2011) [11], D. A. Sumner (2014) [12], T. I. Yavorska (2009) [13], A. V. Zbarska (2014) [14], V. M. Zhuk (2009) [15] and others. Let us consider some of the approaches.

In the world, there are about 570 million farms of which 500 million farms are of a family type. 475 million households of those own the land in the amount of less than 2 hectares; 410 million households have the property of less than 1 hectare of land. According to the team of researchers represented by S. K. Lowder, J. Skoet and S. Singh (2014) [8], farm enterprises with the size of the land area of less than 2 hectares belong to small farms. They cultivate 12% of all area of agricultural lands in the world.

The United States Department of Agriculture (USDA) [16] defines a small farm as a farm organised as a sole proprietorship, partnership or family corporation with annual gross sales less than \$250,000. Thus, 91% of all U.S. farms are small; small farms supply 15% of all U.S. crop and animal production; small farms account for more than one-half of U.S. farmland; over 80% of individual farms are small in the United States.

T. I. Yavorska (2009) [13] recommends differentiating a small business in agriculture by area of agricultural lands into three groups:

- Group I (up to 20 hectares) - individual farms and small farm enterprises;
- Group II (from 20 to 100 hectares) - family farms;
- Group III (from 100 to 500 hectares) - farm enterprises and agricultural enterprises of different legal forms.

A. S. Mikhnenko (2012) [10] offers his methodological approaches to the

classification of farms into groups depending on proceeds received from the sale of agricultural products:

- a) small semi-product farms with the volume of commodity production up to 5.1 thousand UAH;
- b) small farms with their volume of production from 5.1 to 17.0 thousand UAH;
- c) middle-sized farms from 17.0 to 51.0 thousand UAH;
- d) large farms with their volume of production from 51.1 to 170.0 thousand UAH;
- e) very large farms with their volume of production of more than 170 thousand UAH.

At the same time, he notes that the gradation of farms by size accepted in materials of statistical reporting (I - up to 3 hectares; II - from 4 to 10 hectares; III - from 11 to 20 hectares; IV - from 21 to 30 hectares; V - from 31 to 40 hectares; VI - 41 to 50 hectares; VII - from 51 to 100 hectares; VIII - more than 100 hectares) accurately reflects their formation and development. However, the author does not specify to which of the groups such companies belong to by the size of land area.

In studying the size of small agricultural enterprises by land area, A. V. Zbarska and A. I. Lypoviak-Mielkozirova (2014) [14] divide entities into micro enterprises (from 0.11 to 1.00 hectares), little businesses (from 1.01 to 25.00 hectares) and small businesses (from 25.1 to 100 hectares).

While studying the issue of dividing farms into groups by size, most scientists used their own approaches taking of their acreage and the amount of sales revenue as a basis. As a result of their studies, the indicators of efficiency of activities of small and large farms differ one from another.

3. Purpose of the article is to create the authors' approach to division of farms into small and large ones in view of the current legislation including regulations related to accounting and presentation of financial and statistical reporting; determine the proportion of small farms in land use and gross output; evaluate economic efficiency of small businesses; find a link between the size areas of agricultural land and financial and economic indicators by using the statistical method of grouping.

4. Results

Inconsistencies in common approaches to the classification of business entities may result in difficulties in the selection of tax system, forms for accounting and reporting.

In the annual collection «Agriculture of Ukraine» [17] there are data on all farms of Ukraine performing agricultural activities in the reporting year: their number, the area of land use, the number of employees, their livestock and poultry, the availability of equipment, the volume of agricultural production and their share in the country's agriculture, the volume of sales of agricultural products, overall results of activities in the field of agriculture, the amount of state support and more. However, it is impossible to analyse indicators of activities of small farms.

The current legislation does not clearly regulate the issue of dividing economic entities in the agro-industrial complex by size and criteria for their division into small and large ones are not defined. Thus, according to the Commercial Code of Ukraine [18], farms are classified into 4 groups depending on the average number of employees and annual income from any activity (Table 1).

According to Accounting Standard 25 «Financial Reporting of a Small Business» [19] entities can make the simpli-

Tab. 1: Classification of farm enterprises by size in Ukraine

| Business entity | Indicators | |
|--------------------------|--|---|
| | Average number of employees during the reporting period (year) | Annual income from any activity |
| Micro business entities | not exceed 10 people | not exceed an amount equivalent to 2 million Euros, determined by the average annual rate of NBU |
| Small business entities | not exceed 50 people | not exceed an amount equivalent to 10 million Euros, determined by the average annual rate of NBU |
| Medium business entities | not exceed 250 people | not exceed an amount equivalent to 50 million Euros, determined by the average annual rate of NBU |
| Big business entities | exceeds 250 people | exceeds an amount equivalent to 50 million Euros, determined by the average annual rate of NBU |

Source: Compiled by the authors using [18]

Tab. 2: The share of small and large farms in Ukraine (in the total number of farm enterprises)

| Indicator | 2012 | 2013 | 2014 |
|---|--------|--------|--------|
| The number of farm enterprises – all farms, units | 40,676 | 40,752 | 32,133 |
| The number of small farms, units | 33,627 | 33,147 | 31,324 |
| The share of large farms, % | 17.3 | 18.7 | 2.5 |
| The share of small farms, % | 82.7 | 81.3 | 97.5 |

Source: Compiled by the authors using [17; 20]

fied financial reporting (forms No. 1-m, 2-m) and must give statistical reporting No. 2-farm «The Main Indicators of Economic Activity of the Farm, a Small Enterprise in Agriculture» [20] or refer to large business entities, use the National Accounting Standard 1 «General Requirements for Financial Reporting» [21], the common chart of accounts, the keep of records on the journal-order form and the report on the form No. 50-agr «Report on Major Economic Indicators of Agricultural Enterprises» [22].

All legal entities whose area of agricultural lands is no less than 1.000 hectares and the list of staff members is at least 50 people submit statistical reports with compliance to the form No. 50-agr. In our opinion, these agricultural companies including farms can be classified as large enterprises. Therefore, it is logical to classify all other farms as small entities. They submit statistical reporting on the form No. 2-farm because their area of agricultural lands is less than 1.000 hectares and there are less than 50 people in the staff list. The statistical data on the form No. 2-farm related to the present article are used to study the efficiency of functioning small farms and the data on the form No. 50-agr are used to determine the indicators of activity of large farms. At the same time, given the peculiarities and specifics of farms in the classification of farm enterprises by size into small and large businesses, in the future such a classification should be based on the area of agricultural lands, not on the number of employees and annual revenue. The global trends indicate an annual growth of scientific and technical progress in agriculture which leads to a reduction in the average number of workers per farm. Therefore, the criteria taken as the basis for the classification in the existing legislation do not fully show the size of the enterprise as a whole. The annual income at annual selling price fluctuations for agricultural products and changes in the volume of their sales do not show the real financial situation of enterprises. It should be emphasised that any changes in the classification should be agreed at the legislative level.

Ukraine has 32.1 thousand of farm enterprises including small farms which occupy a significant area (Table 2).

The calculations show that the number of small farms increased from 82.7% in 2012 to 97.5% in 2014 indicating gradual development of small businesses in rural areas. Accordingly, the share of large farms decreased from 17.3% in 2012 to 2.5% in 2014.

The share of small farms in land use and production of gross agricultural production for all farmers, as well as the volume of gross output per 100 hectares of agricultural land in the dynamics from the year 2010, is given in Figure 1.

According to the studies, in the period of 2010-2014 the volumes of gross production by small farms increased significantly: from 240 thousand UAH to 383 thousand UAH per 100 hectares of agricultural lands. It is worth noting the fact that in 2014 97.5% of farms classified as small agricultural enterprises cultivated 55.5% of arable land and produced 52.2% of gross agricultural output of all farms. Accordingly, the rest of the farms (2.5% of large agricultural enterprises) carry out economic activity using 44.5% of arable land and produce 47.8% of gross output. Grouping of small farms by area of

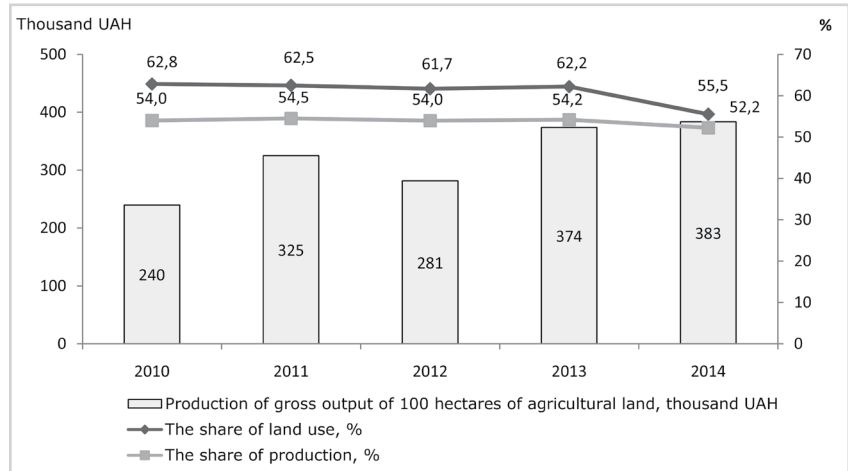


Fig. 1: The share of land use and gross agricultural production of small farms in Ukraine (in the total number of farms)

Source: Compiled by the authors using [20]

agricultural lands is conducted to obtain more detailed analysis and determine the effectiveness of land use (Table 3).

According to Table 3, the results of the conducted analysis give grounds to conclude that there exist a direct proportional dependency beginning with a group of small farms distributed by an area of 5.1-10 ha of agricultural lands. With an increase of the average farm size by 1 hectare of agricultural lands, the amount of profit per 1 hectare of agricultural lands, as well as profitability, grows. According to the indicators, economic efficiency is the most effective in two groups of small farms with an area of agricultural lands from 100.1 to 500 hectares (profit per 1 hectare of agricultural lands is 1,099 UAH, the level of profitability is 29.3%) and with the area more than 500 hectares (respectively with the income of 1,395 UAH and the level of profitability equal to 31.3%). It should be noted that the share of land use of two groups of small farms is 69.3% of the total area. Although 6.3% of farms received the largest profit of 1,596 UAH per 1 ha of agricultural lands having an area of

Tab. 3: Distribution of small farms by area of agricultural lands in Ukraine (2014)

| Groups by area of agricultural lands, ha | Share of enterprises, % | Area of agricultural lands, thousand ha | Share of land use (land area), % | Average size of farms, for 1 ha of agricultural lands | Obtained profit per 1 ha of agricultural lands UAH | Level of profitability, % |
|--|-------------------------|---|----------------------------------|---|--|---------------------------|
| 0.1-3 | 6.3 | 4 | 0.1 | 2.1 | 1596 | 2.6 |
| 3.1-5 | 5.7 | 8 | 0.3 | 4.2 | 684 | 11.6 |
| 5.1-10 | 9.3 | 23 | 0.8 | 7.7 | 325 | 9.8 |
| 10.1-20 | 11.8 | 58 | 2.1 | 15.7 | 390 | 14.6 |
| 20.1-50 | 35.9 | 429 | 16.4 | 38.2 | 435 | 21.8 |
| 50.1-100 | 13.2 | 294 | 10.9 | 71.2 | 729 | 24.8 |
| 100.1-500 | 14.5 | 1051 | 40.5 | 232.1 | 1099 | 29.3 |
| More than 500 | 3.4 | 748 | 28.8 | 704.5 | 1395 | 31.3 |
| Total | 100.0 | 2614 | 100.0 | 83.4 | 1010 | 27.7 |

Source: Compiled by the authors using [20]

0.1 hectares to 3 hectares (the average size of a farm is only 2.1 hectares), their profitability is the lowest - 2.6%, whereas the share of land use is only 0.1%.

The indicators of economic efficiency of small farms are considered in Table 4.

According to the data sales revenue of agricultural products is from 97.3% to 98.1% of the total revenue received by small farms during the studied years. More than 93% of it is the sales revenue of crop production indicating the high level of specialization. Accordingly, from 97.5% to 99.0% of total income is received from the sale of crop production and the level of profitability is quite high: from 22.1% to 32.3%. Unfortunately, small farms are practically not involved in livestock production.

Table 5 presents information on the comparison of efficiency indicators of agricultural production of large and small farms.

The studies show that in 2014 at small farms the cost of 1 quintal of grain and leguminous crops was lower by 42.0 UAH, sunflower seeds - by 12.2 UAH, fruit and berries - by 123.5 UAH, cattle meat - by 472.7 UAH and pork meat - by 7.3 UAH compared to large farms. For higher middle prices they sold sugar beets, vegetables, cattle and poultry for meat. Unlike the large and medium-sized farm enterprises, all kinds of products brought profits to owners at small farms. The production of fruit and berries (54.5%) was the most profitable and sunflower seeds (38.1%), whereas the least profitable was the production of poultry meat (only 0.6%). These data indicate that milk production (12.6%) turned out to be the most profitable in livestock production of such farms.

Tab. 5: Comparison of efficiency indicators of agricultural production at farms in 2014

| Type of product | Farm enterprises | | | | | |
|-----------------------------|------------------------------|---------------------------------------|---------------------------|------------------------------|---------------------------------------|---------------------------|
| | large | | | small | | |
| | Cost price of 1 quintal, UAH | Average sales price of 1 quintal, UAH | Level of profitability, % | Cost price of 1 quintal, UAH | Average sales price of 1 quintal, UAH | Level of profitability, % |
| Grain and leguminous crops | 136.7 | 171.6 | 25.5 | 129.6 | 159.3 | 22.9 |
| Sunflower seeds | 266.3 | 378.8 | 42.2 | 254.1 | 351.0 | 38.1 |
| Sugar beets (factory) | 33.5 | 40.8 | 21.7 | 34.7 | 41.7 | 20.0 |
| Potatoes | 168.4 | 235.4 | 39.8 | 175.5 | 199.9 | 13.9 |
| Vegetables | 127.8 | 179.8 | 40.6 | 160.3 | 186.3 | 16.2 |
| Fruit and berries | 349.7 | 427.5 | 22.2 | 226.2 | 349.4 | 54.5 |
| Cattle and poultry for meat | | | | | | |
| cattle | 1862.0 | 1337.2 | -28.2 | 1389.3 | 1495.3 | 7.6 |
| pigs | 1757.4 | 1707.6 | -2.8 | 1642.2 | 1750.1 | 6.6 |
| poultry | 1108.9 | 1267.1 | 14.3 | 1621.5 | 1630.8 | 0.6 |
| Milk | 281.0 | 348.4 | 24.0 | 297.4 | 334.9 | 12.6 |

Source: Compiled by the authors using [20; 22]

farm enterprises, 97.5% of which are small farms. In the structure of domestic farming they cultivate 55.5% of arable lands and produce 52.2% of gross agricultural output. Accordingly, other farm enterprises, 2.5% of large farms, cultivate 44.5% of arable lands and produce 47.8% of gross agricultural output of all farms. The overwhelming share of the revenue of small farms (93%) comes from the selling of crop production indicating the high level of specialisation in the field. The analysis showed that the most profitable types of products in crop production at small farms are fruit, berries and sunflower seeds, as well as milk in livestock production.

By means of grouping, it has been found that economic efficiency is most effective at small farms with an area of agricultural lands from 100.1 to 500 hectares (profit per 1 hectare of agricultural lands is 1,099 UAH and the level of profitability is 29.3%) and with an area of more than 500 hectares (respectively the income is 1,395 UAH and the level of profitability is 31.3%). Accordingly, we recommend carrying out economic activity for small family farms on the area of not less than 100 hectares which will ensure the greatest economic efficiency indicators.

The improvement of theoretical and methodological approaches is important for the classification of farms dividing them into small and large ones. Also, it is relevant to its agreement with the legal framework, the requirements of accounting and international financial reporting standards.

Tab. 4: Economic efficiency of small farms' economic activity

| Indicator | 2010 | 2011 | 2012 | 2013 | 2014 |
|--|---------|---------|---------|---------|----------|
| Net income (revenue) from sales of agricultural products and services, million UAH | 5,574.5 | 7,197.8 | 9,774.8 | 9,286.9 | 12,423.9 |
| including agricultural products | 5,463.7 | 7,001.1 | 9,560.2 | 9,117.2 | 12,163.9 |
| including: | | | | | |
| crop production | 5,117.9 | 6,484.2 | 8,960.5 | 8,401.9 | 11,395.7 |
| livestock production | 345.8 | 516.9 | 599.8 | 715.3 | 768.2 |
| Profit, loss (-) of agricultural products and services, million UAH | 1,195.5 | 1,593.6 | 2,154.6 | 1,601.0 | 2,691.5 |
| including agricultural products | 1,181.2 | 1,604.1 | 2,097.7 | 1,558.7 | 2,640.5 |
| including: | | | | | |
| crop production | 1,169.9 | 1,582.2 | 2,087.9 | 1,519.9 | 2,588.2 |
| livestock production | 11.3 | 21.9 | 9.8 | 38.8 | 52.3 |
| The level of profitability of agricultural activity, % | 27.3 | 28.4 | 28.3 | 20.8 | 27.7 |
| including agricultural products | 27.6 | 29.7 | 28.1 | 20.6 | 27.7 |
| including: | | | | | |
| crop production | 29.6 | 32.3 | 30.4 | 22.1 | 29.4 |
| livestock production | 3.4 | 4.4 | 1.7 | 5.7 | 7.3 |

Source: Compiled by the authors using [20]

5. Conclusions

Small farm enterprises are an integral part of the domestic agro-industrial complex of Ukraine and occupy an important place in ensuring food security. A considerable share of agricultural products in Ukraine is produced by 32.1 thousand of

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