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## **FORMATION OF NATIONAL REGULATORY POLICY IN ACCORDANCE WITH SECTORAL SPECIFICITIES**

**Abstract:** Modern agricultural policy in Ukraine is in a state of formation and execution. The research of the current regulatory framework allowed us to formulate a concept analysis of regulatory policy in the agricultural sector as a basis for the introduction of effective regulatory tools. It is proved that a comprehensive analysis of regulatory policy should consist of three main blocks: analysis of costs and results of agricultural policy; analysis of the aims and objectives of budget programs; analysis of the regulatory environment for agribusiness. It has been established that the regulatory policy in the agricultural sector differs from the general economic regulatory policy by the features that are due to the specifics of the agricultural business. The specific of the national regulatory policy is determined by the current level of socio-economic relations development in the agricultural sector, the structure of its production, integration and interaction with other sectors. Deepening the research, a set of indicators has been systematized that will allow tracking the tightness and quality of

the relationship between the main indicators of the agricultural policy costs and the effectiveness of agricultural production. The correlation coefficients are calculated. Three main levels of its implementation are established: global regulatory policy; national regulatory policy; sectoral regulatory policy. A preliminary analysis of the relationship between indicators of costs and the results of agricultural policy allows us to create a conceptual model of "cost-results" analysis. It is based on the idea of a positive relationship between the costs of state agricultural policy and the functioning of the agricultural sector of the economy. That is, the closer the relationship between budget spending on the agricultural sector and the results of its functioning, the more effective the agricultural policy.

**Key words:** national economy, agrarian sector, Ukraine, regulatory policy, sectoral specificities.

**JEL classification:** O22, O31, O32

### **Introduction**

The agrarian sphere has always been a specific but objectively necessary branch of the national economy. In most developed countries, state regulation of the agricultural sector is recognized objectively necessary, on the basis of which the system of normative legal acts that regulate both the development of agricultural production itself and the integrated development of rural areas is being formed.

Accordingly, in all developed countries of the world, various mechanisms and economic levers operate that provide constant state support to the agricultural sector. In Ukraine, the state regulatory policy requires a detailed systematization and improvement. That is why research on the regulatory policy of the agrarian sector is of particular relevance.

In our opinion, the basic aspects of the regulatory policy influence on the efficiency for the agricultural sector functioning are insufficiently studied, in addition, the general concept of the regulatory policy transformation and the formation of its organizational and economic mechanism in the agricultural sector requires further development.

The paper aims the formulation of a basic concept for assessing the effectiveness of the national regulatory policy implementation, taking into account the sectoral specificities in the agricultural sector of the economy.

**Research results.** The formation of a competitive agricultural sector in Ukraine requires the creation of an effective regulatory mechanism focused on the main criterion for the industry development – efficiency. So far, there is no single approach regarding the correlation of state and market levers in the regulation mechanism of the agrarian economy. Therefore, one of the most important tasks of economics is the theoretical justification of the interaction of market self-regulation and state regulation. In turn, "the state economic activity should be based on the principle: reduction of its scale should be adequate to the formation of the market mechanism and its core – competition" (Makarenko, 2006).

World experience proves the need to regulate the agricultural sector at the macro level. An analysis of modern agriculture in all developed Western countries gives a definite answer – the most appropriate form of production in most cases is a highly mechanized and intensive family-type farming (Topsakhalova, Hakunova, 2010). On the way to this type of production in the course of agrarian reforms in post-war Europe and Japan, on the one hand, the elimination of old semi-feudal latifundia took place, and on the other hand, peasant farms turned into farms, their characteristic features being high marketability, largely integrated mechanization of production and the corresponding level of intensity (Stehnej et al., 2013).

The regulatory policy in the agricultural sector differs from the general economic regulatory policy in features that are due to the specifics of the agricultural business. The specific of the national regulatory policy is determined by the current level of development of socio-economic relations in the agricultural sector, the structure of its

production, integration and interaction with other sectors. In addition, an important aspect is the tradition of regulating the situation.

Speaking about regulatory policy in any sector of the economy, first of all, one should evaluate the quality of formal institutions through which economic relations are realized in the form of transactions. An important assumption, which removes many methodological issues, is to equate formal institutions with legal norms, which are hierarchically enshrined in legislative acts.

The regulatory policy in the broad sense in the agro food sector is a complex phenomenon that reflects the measure and methods of government intervention in this area of the economy. The regulatory policy in the agro food sector consists, according to the proposed model, with:

- tax policy in the agricultural sector and its regulatory component;
- regulation of land ownership relations;
- financial and credit policy;
- policies to stimulate the export of agricultural products;
- permitting system, licensing;
- state supervision (control) in the field of economic activity;
- subsidized policies in the agricultural sector;
- state support for infrastructure, market, agricultural science and education.

Accordingly, the regulatory policy in the agricultural sector in the narrow sense consists of state control over regulatory acts affecting the economic interests of business entities in the agricultural sector. The main methods of this policy are regulatory impact analysis (RIA) and the M-Test.

State regulatory policy in all countries of the world is focused on the development of regulatory acts that achieve their goals at minimal cost. In 2016, the World Bank Group of Experts presented the "Global Indicators of Regulatory Governance" research (Worldbank, 2020a), which analyzes data from 185 countries: 46 in Africa, 30 in

Latin America and the Caribbean, 32 in the OECD high-income group, 25 in Eastern Europe and Central Asia, 25 in East Asia and the Pacific ocean, 20 in the Middle East and North Africa, and 7 in South Asia.

In the process of research, an assessment is made of the national rules practice regarding entrepreneurial activity. Detailed information is also provided on how and where the public can appeal the decision of regulatory authorities or gain access to the regulatory framework.

According to the results of the 2016 rating, Ukraine's indicators were at the level of such countries as Germany and Poland. The best results are obviously in the UK, Canada and the USA. Such an assessment of Ukraine, in the first place, is an indicator of the procedures implementation when making decisions by the Government.

The overall indicator of Ukraine according to the "Global Indicators of Regulatory Governance" is 5.2 points (5th place in the rating), which allowed us to evaluate the Ukrainian regulatory policy at the level of Western Europe.

From 0 to 1, the following indicators are estimated for Ukraine (UBR, 2020):

- promulgation of a draft regulatory act – 0.8;
- consultation – 0.8;
- information (report) on the results of consultations – 0.8;
- assessment of regulatory impact – 1;
- presence of a special body whose task is to carry out inspection and monitoring of regulatory impact assessments, is carried out by other individual institutions or government bodies – 1;
- publication of regulatory impact assessment – 1.

High assessment of Ukraine is based on the discipline of promulgation of draft regulatory legal acts, preparation and publication of analyzes of regulatory influence on draft regulatory acts and the availability of public consultation. The publication of the rationale in the form of an analysis of the regulatory impact and holding consulta-

tions is aimed at making the regulatory acts effective and efficient, that is, meeting the requirements of the Ukrainian economy.

Modern agricultural policy in Ukraine is in a state of formation and execution. After a significant reduction in fiscal pressure on agricultural producers by introducing a fixed agricultural tax (FSN) in 1999, what actually became a tax and regulatory reform in the field of agribusiness, agricultural production in Ukraine began to recover. This is evidenced, in particular, by a steady increase in the share of profitable agricultural enterprises since the beginning of the 2000s. The share of profitable enterprises decreased significantly in the period from 1995-2000, reaching its minimum in 1998. – 8.1%, whereas in 2000 their share was already 65.5%. That is, the need to implement an effective regulatory policy in the agricultural sector is an objective component of macroeconomic policy.

The study of the current regulatory framework gave us the opportunity to formulate a concept analysis of the regulatory policy in the agricultural sector as a basis for the introduction of effective regulatory tools. We believe that a comprehensive analysis of regulatory policy should consist of three main blocks (Fig. 1):

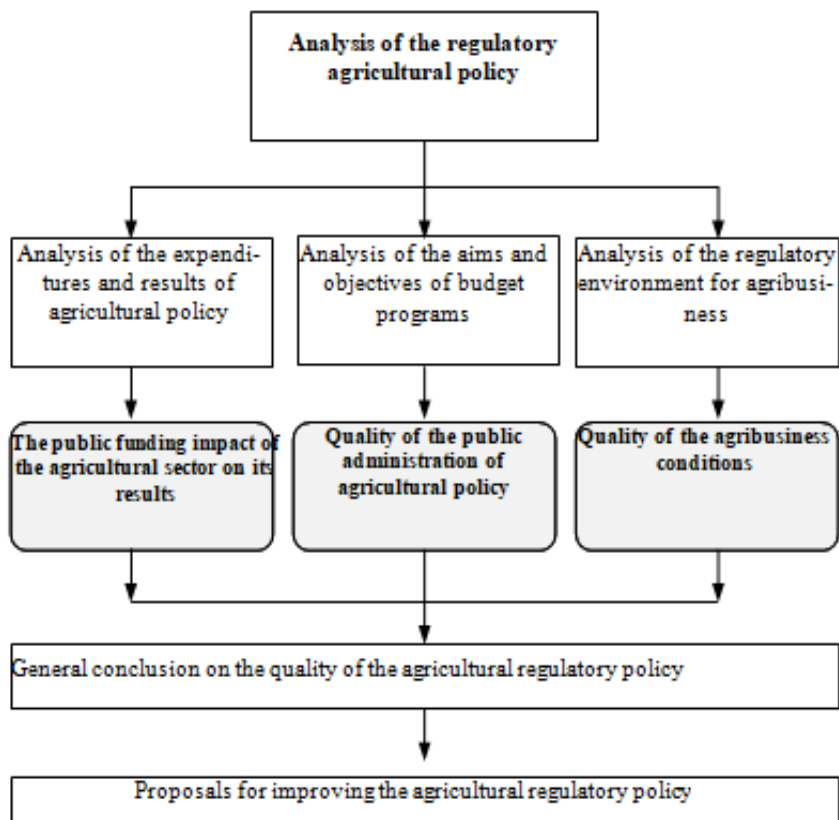


Figure 1: Schematic flow diagram of the analysis of agricultural regulatory policy

Source: developed by the author.

1. Analysis of the expenditures and results of agricultural policy. This analysis unit should give an idea of the presence and density of the relationship between the state budget expenditures for the agricultural sector and the results of the functioning of the agricultural sector. The main issue of this analysis unit is the question of the impact of budget expenditures on the results of the agricultural sector.

2. Analysis of the aims and objectives of budget programs. In this block, an analysis is made of budget programs that form public

spending on agricultural policy. This analysis unit is based on the data of the program-target method (PTM) – for each budget program, its aims, objectives, funding volumes, and effective indicators are considered. This analysis unit should answer the question about the quality of public administration in the agricultural sector, since budget programs have been developed that detail the overall state agricultural policy, and the quality of the development of their aims, objectives and performance indicators demonstrates the quality of public administration in the agricultural sector.

3. Analysis of the regulatory environment for agribusiness. This unit of analysis of agrarian regulatory policy examines the "pure" regulatory component of agrarian policy: in what regulatory environment does agribusiness work, how favorable or unfavorable are it. The basis of such an analysis is the data of general international ratings assessing the conditions for doing business in the country as a whole, data from specialized indices that evaluate conditions in the agricultural sector, and data from specialized studies. An important element of this analysis unit is the comparison of national regulatory conditions for agribusiness with the conditions of other economic systems.

A comparison of the decline rate in the share of agricultural production in Ukraine and in the world using linear trends shows that in Ukraine it is falling at a faster pace. At the same time, one should take into account its very high rate in the early 1990s – the share of agricultural production in gross value added exceeded 20%.

Deepening the research, we systematized a set of indicators that will allow us to monitor the tightness and quality of the relationship between the main indicators of the agricultural policy costs and the effectiveness of agricultural production (Fig. 2).



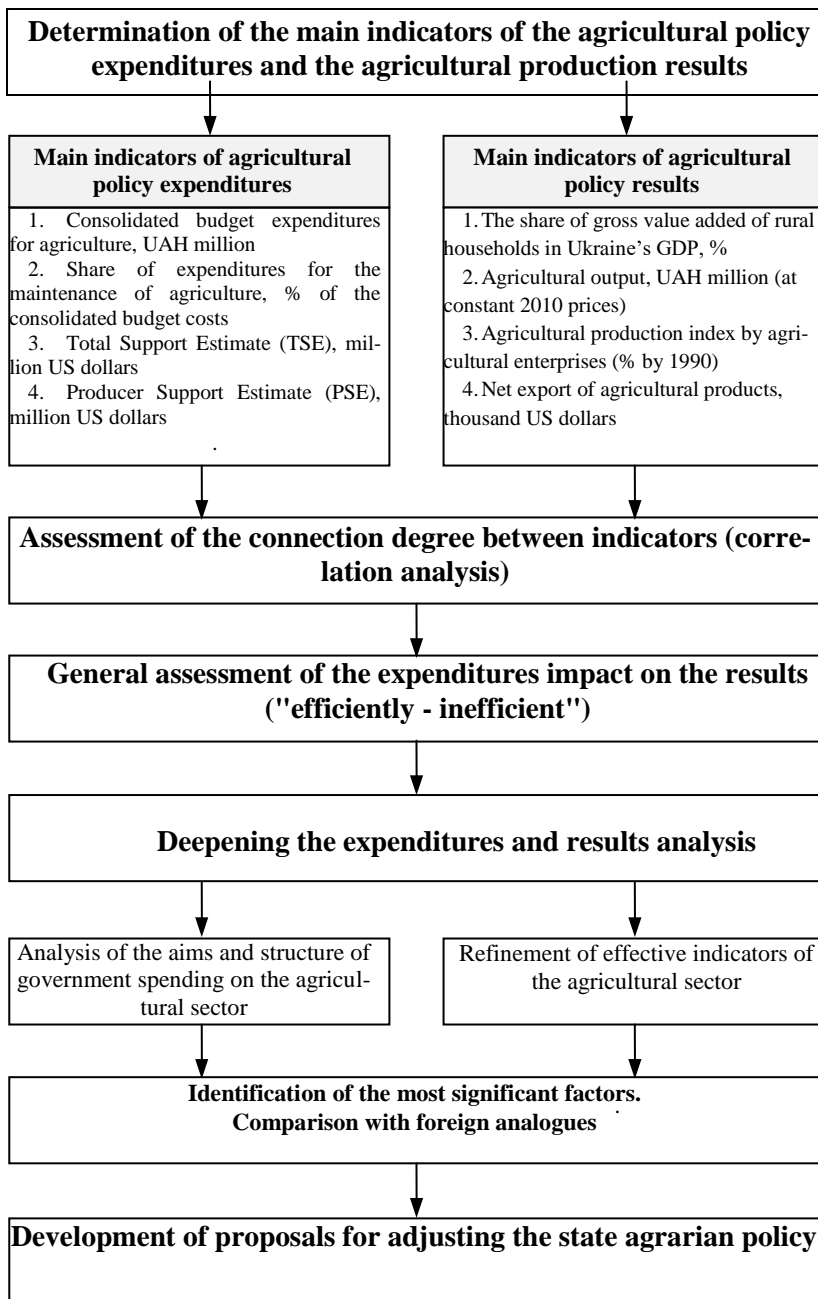


Figure. 2. Schematic flow diagram of the analysis of agricultural policy costs and results

Source: developed by the author

At the same time, since the beginning of the 2000s, to find the dependence of the growth of agricultural production in Ukraine on other than fiscal measures of agricultural policy seems to be an insoluble task. Despite the fact that the integral indicator of agricultural policy according to OECD standards is TSE (Total Support Estimate), for Ukraine it shows significant fluctuations and a change in sign (+, -).

The unstable dynamics is also demonstrated by the indicator of the expenditures share on agricultural support of the consolidated budget of Ukraine, which can also be considered as an integral indicator of agricultural policy. If we take the share of gross added value of agriculture in GDP as an indicator of growth of the Ukrainian agricultural sector, then the graphical model shows a pronounced antiphase of indicators of agricultural policy expenditures and the development of agribusiness in Ukraine.

We determined the correlation coefficients between the indicators of costs and the results of agricultural policy in Ukraine (Table 1).

**Table 1 Correlation coefficients between indicators of agricultural policy expenditures and results in Ukraine**

Indicators of agricultural policy expenditures	Indicators of agricultural policy results			
	The share of gross value added of rural households in Ukraine's GDP, %	Agricultural output, UAH million (at constant 2010 prices)	Agricultural production index by agricultural enterprises (% by 1990)	Net export of agricultural products, thousand US dollars
Consolidated	-0,64	-0,36	-0,57	-0,45

budget expenditures for agriculture, UAH million				
Share of expenditures for the maintenance of agriculture, % of the consolidated budget costs	-0,85	-0,77	-0,82	-0,85
Total Support Estimate (TSE), million US dollars	-0,85	-0,95	-0,98	-0,82
Producer Support Estimate (PSE), million US dollars	-0,80	-0,96	-0,98	-0,81

Source: Built by the author on the basis (State statistics service of Ukraine, 2019; Eurostat, 2019; Worldbank, 2020b)

In the process of the research, we used a retrospective analysis of indicators for the period 2007-2018. The relationship was determined between the indicators of expenditures – to which we assigned the consolidated budget expenses for agriculture, UAH million; share of expenditures for the maintenance of agriculture, % of the consolidated budget costs; Total Support Estimate (TSE), million US dollars; Producer Support Estimate (PSE), million US dollars.

As performance indicators, we calculated – the share of gross agricultural added value in the GDP of Ukraine, %; agricultural production, UAH million (at constant 2010 prices) agricultural production index by agricultural enterprises (% by 1990) net agricultural exports, thousand US dollars.

The graphically obtained results are presented by us in Fig. 3.

In the course of the research, the indicator "Share of expenditures for the maintenance of agriculture, % of the consolidated budget costs" was calculated by us as the ratio of the actual values of the

consolidated budget articles of Ukraine "0420 Agriculture, forestry and hunting, fisheries" and "0482 Research and development in the field of agriculture, forestry and hunting, fisheries" as a result of the actual expenditures of the consolidated budget.

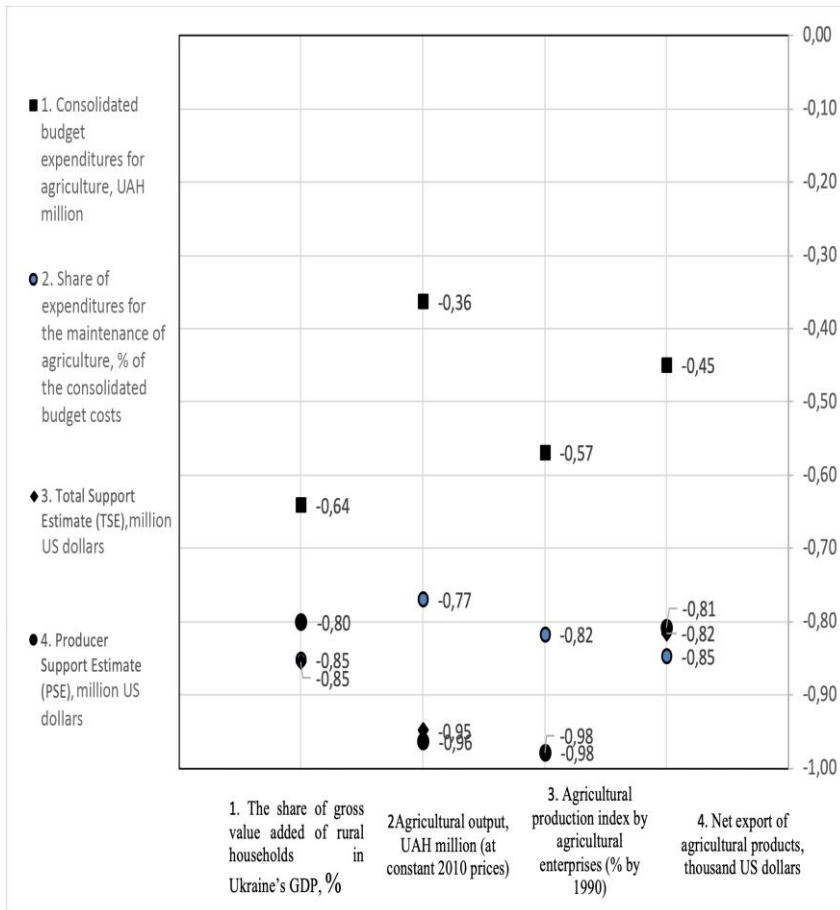


Figure. 3. Correlation coefficients between indicators of agricultural policy expenditures and results in Ukraine

Source: Built by the author on the basis (State statistics service of Ukraine, 2019; Eurostat, 2019; Worldbank, 2020b)

The indicators we studied demonstrate that the support level for agricultural producers in Ukraine in terms of PSE during 2010-2016 has a pronounced tendency to decrease, as evidenced by the corresponding line of the linear trend. Against the background of this tendency to reduce support for agricultural producers, it contrasts the tendency to increase indices of agricultural production (the index until 1990). Important is the fact that the PSE indicator for Ukraine since 2012 is stably negative, which indicates the taxation predominance over subsidized agricultural production.

Data on the opposite trends of two indicators of state support for agricultural producers – expenditures share of the consolidated budget and PSE – in relation to agricultural production indices indicate that a decrease in government support for agricultural producers does not interfere with their development. The correlation coefficients between expenditures of the state agrarian policy and results of agricultural production are calculated, which indicates that the measures of agricultural policy in Ukraine lead to opposite results: with a decrease in budget expenditures of agricultural policy, the indicators of agricultural production increase.

Analysis data indicate that the least negative impact on the results of agricultural production is caused by the expenditures indicator of the consolidated budget of Ukraine for agriculture. In particular, the correlation coefficient of -0.36 between expenditures of the consolidated budget for agriculture and agricultural products and -0.45 between expenditures and net export of agricultural products show a previously weak relationship between these indicators.

A dense negative relationship with the results of the agricultural sector is demonstrated by such indicators of agricultural policy expenditures as PSE and TSE – the correlation coefficients between them and the agricultural production index are -0.98. This is the most striking example of the inverse effect of support for agricultural pro-

duction by the government – the more support, the less the effect of it.

### **Conclusion**

So, in our opinion, at the current stage of regulatory policy development, three main levels of its implementation can be defined:

- global regulatory policy, explores, in the framework of the World Bank's Global Indicators of Regulatory Governance project, the interaction of governments of different countries of the world with the public in the process of forming regulations affecting the business environment;

- national regulatory policy, which at the level of Ukraine is formed by the state regulatory service;

- regulatory policy at the sector level, carried out by relevant institutions in the framework of national legislation.

A preliminary analysis of the relationship between indicators of expenditures and the results of agricultural policy allows us to create a conceptual model of analysis of "cost-results".

It is based on the idea of a positive relationship between the expenditures of state agricultural policy and the functioning of the agricultural sector of the economy. That is, the closer the relationship between budget spending on the agricultural sector and the results of its functioning, the more effective the agricultural policy.

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