

**Kateryna Melnyk<sup>1</sup>**

National University of Life and Environmental Sciences of Ukraine  
Kyiv, Ukraine

## **The peculiarities of formation and development of agricultural holdings in Ukraine**

**Abstract.** In the article the main tendencies of the development of agricultural formations in Ukraine are generalized. Types and groups of agricultural holdings are given. The system of management and the peculiarities in the functioning of some of the biggest agricultural holdings in Ukraine are analyzed. The main positive and negative aspects of their practices are identified. The effectiveness of agricultural holdings practices is compared. Company outlets on the stock exchange are characterized and the rate of the investigation involvement by the biggest agricultural holdings of Ukraine is shown.

**Key words:** agricultural holding, vertically and horizontally – integrated enterprises, EBITDA, real estate bank, investigations, IPO (initial public offering), governmental regulation, agricultural complex.

### **Introduction**

Nowadays we observe the intensive influence of global and investigational processes on state economics, which is accompanied by an increase in the price of subsistence supplies. According to calculations by international organizations, increase of product demand, which is mainly a result of fast-growing economies of such countries as China and India (definitely by increase of profits and consumer demand in those countries), is able to prove by the help of low-level countries, such as Russia, Ukraine and Kazakhstan.

Ukraine has strong potential possibilities for producing agricultural products through its suitable natural and climatic conditions and powerful human potential. Afterwards the following, and because of insufficient effectiveness of national procedures, for Ukrainian agriculture the concentration of agricultural formations becomes stronger, in so-called vertically and horizontally – integrated enterprises of holding type (agricultural holdings). The situation that was folded at the market of food, imperfect landed relations related to subzero demand on agricultural lands, together with their availability, and became basic pre-condition of becoming and development of the agricultural holding in Ukraine. As such enterprises for Ukraine are relatively new - their becoming, activity and adjusting need a corresponding scientific ground. In fact, research of management of the agricultural holding is especially actual in a period passing to the landed relations of market type, as it has not only economic but also social and ecological value. And the scales of bringing in of land are required the agricultural holding the detailed study of features of their activity and possibility of perfection of mechanism of regulations from the side of the state.

The separate aspects of this problem were investigated by prominent Ukrainian economists-agriculturalists such as V.Andriychuk, O. Gudz', M.Puhachiov, S.Demianenko,

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<sup>1</sup> PhD student, address: 59, '50 October St., Boyarka, 08150, Ukraine,  
e-mail: ket.melnik@mail.ru

M.Demianenko, P.Sabliuk, V.Haivoronskyi, O.Nychporuk, I.Kot'kova, P.Stetsiuk, O.Popova and others.

However, prospects of development of agricultural formations need further research from position of economic, ecological and social efficiency in the conditions of market transformation of the landed relations on a village. The state of development of range of problems functioning of the agricultural holding, represented in economic literature, does not expose all questions that stand before modern economic science in relation to this direction of research. In particular, paying attention to management of the agricultural holding doesn't fully answer to the level of public meaningfulness of this economic process. As both structural and destructive character shows up in activity of the agricultural holding, there is a necessity for an analysis and ground of control system of the agricultural holding.

The aim of the research was to analyse the control system by the vertically-integrated enterprises (agricultural holding), to define the features of construction of their business processes and ground events in relation to the improvement of mechanism of government control. Certain studies are undertaken on materials of the agricultural holding of Ukraine.

## **Research results**

With passing of economy of Ukraine to market principles, agriculture – as an industry with seasonal production and slow transaction of capital – is in worse terms comparatively with other industries.

Among major problems in an agro-industrial complex (AIC) it is possible to distinguish: subzero efficiency of agricultural production, that does not provide the extended recreation; absence of motivation to labour, unemployment, poverty and labour migration, decline of social infrastructure, extinction of villages; deindustrialization of agriculture (the provision of agrarian enterprises technique presents 45-59%, over 90% of present technical equipments need replacement through their worked out) [Sabluk 2008, pp. 4-6].

If we bear objective component origins and functioning of the agricultural holding in mind, then aspiration of diversification of production and action of law of economy have an indisputably stimulant value on scales. The short history of this type of agricultural formations testifies that the evolution of most of them was begun with trade, industrial activity, processing of agricultural produce and only afterwards did agricultural production become familiar to them. Well-known practice testifies that most effective are associations that form the reserved circle: production of agricultural goods, their storage and processing and realization of prepared finished goods. Just the same approach is the basis of forming of integration model of the Ukrainian agricultural holding.

The staple resource base of agricultural production is soil. Obviously, its cost or charges for bringing in substantially influence the realization of any agrarian project. Agricultural enterprises are before created actually gratuitously got lot lands in the usage. Therefore in evaluation procedures of expediency and efficiency of agricultural activity this component of bringing in of financial resources practically is not taken into account. Only taken into account is the size of rent, which in obedience to curent legislation can not be more subzero 3% from the cadastre estimation of lot land [Stetsiuk 2010, pp. 17-25].

Table 1. Some biggest agricultural holding of Ukraine, thousand ha

| The name of the agricultural holding | Description of company   | land-bank, thousand ha |
|--------------------------------------|--|------------------------|
| PLC Ukrland farming                  | Specialized on growing of agricultural cultures and production of sugar, grows a cattle, production of beef and milk, produces seed, skin. Proprietor of majority share holding of the agricultural holding of Avangard(eggs and egg products)   | 480                    |
| New Century Holding (NCH)            | All agricultural enterprises are incorporated in six agricultural holdings: Bio Agro, Promin Agro, Lat Agro, Golden Svitanok, Charivny Svitanok, Kraevyd Invest. They are specialized on growing of wheat, pinaky, corn, sunflower, soy. Separate enterprises develop a stock-raising  | 350                    |
| Ukrainian Agrarian Investments       | Grows wheat, corn, sunflower, ripak, soy and barley, unites 24 companies, accompanies own products "from the field to port"  | 240                    |
| Mironivsky Hliboproduct              | Breeding of poultry, production and sale of meat of hen is under the brand of "Nasha Ryaba"(from 2002) and products from it (TM "Legko"!); Grows grain for the production of the mixed fodders; makes forage for the poultry factories from growing of paternal population and factories from the production of meat of poultry.   | 280                    |
| HarvEast Holding                     | Basic directions of activity of holding: plant-grower (growing of wheat, sunflower, barley, long-term herbares, corn) and suckling stock-raising.  | 220                    |
| Kernel Holding S.A.                  | It is the most supplier of sunflower-seed oil and shrot to the international market, by the key supplier of bottled oil to the internal market and leading operator in area of grant of services for agricultural producers for storage of grain on elevators, and also services in a transloading and export of grain, vegetable oil and shrot on terminals in ports of the Black sea. In 2011 a company doubled the agricultural assets as a result of acquisition of company Ukrros | 170                    |
| Private Agro Holding                 | Unites 24 companies, occupies, by both a plant-grower: growing of grain and technical crops(winter wheat, winter-annual ripak, winter-annual barley, furious barley, soy, sunflower, corn, hybrid corn of silo direction) and stock-raising  | 116                    |
| Mriya Agro Holding                   | Agro Holding grows wheat, sugar beet, potato, pinak, corn, barley and buckwheat, has an own seminal production, builds a powerful complex for storage of potato  | 298                    |
| Astarta-Kyiv                         | A basic sphere of activity is a production of sugar and concomitant products (molasses and granular bagasse), growing and realization of grain and oil-bearing crops, and also meat and milk.  | 200                    |
| Agroton                              | Agroton is a regional leader from growing of agricultural cultures (corn, ripak, barley, rye, sorghum, oat, peas, buckwheat, millet, coriander, soy, flax and agricultural cultures on a feed to the cattle), stock-raising and to the production of foodstuffs  | 151                    |

Source: own work on the basis of public information of the agricultural holding.

To accelerate development and introduction of new instruments of management would provide further development of agricultural production, maybe by development of its new legal forms. Absence of the institutional providing of motion of lot lands from one side and imperfection of leasing legislation and any control from the side of the state for land-tenure, from the other, allowed to develop the processes of concentration of agricultural lands in the hands of the agricultural holding, including with foreign capital, with the use of hundreds of thousands of hectares of these lands in especially the commercial interests. It is mainly multiple product companies the primary purpose of which consists of the increase of capital of their founders, activity is sent mainly to export, and size of land-tenure arrive at 500 thousand ha of the landed lands. From data of the Ukrainian Club of Agrarian Business, in Ukraine counted 60 large agricultural holdings that process more than 4 million hectares of lands. As a transparent system of account of property rights on ground in Ukraine does not exist, estimation of the landed lands in Ukraine, that really belong or are in the management of that or other company or group of persons, as yet yields mainly only to the expert estimation, thus can be strongly underestimated.

Without regard to considerable distribution of the agricultural holding, in the Ukrainian legislative base there is not only interpretation of their essence to this time. In particular, V.G. Andriychuk in his work "Capitalization of agriculture: the state and economic adjusting of development" marks that often integral enterprises that does not answer the name "holding" legally name the agricultural holding actually [Andriychuk 2007]. By the law of Ukraine "About holding companies in Ukraine" [Law... 2009] but by the Commercial code of Ukraine [Commercial... 2003] by a holding company a joint-stock company, that owns, uses, and also disposes of holding corporate shareholding (parts, shares) two or more corporate enterprises, is "open". Thus under holding corporate share holding understand such share holding, that exceeds 50% of the general amount or is sufficient for decision influence on its economic activity of enterprise.

Presently multiple product enterprises and their associations give advantage to creation of limited liability company and does not declare own business from position of holding, that is why officially to watch them complete list it is impossible. Coming from it, consider that more exact decision of the new multiple product agro-industrial forming is the agricultural "holding", as a group of associate enterprises of agrarians to the sector with a considerable land-bank, that carries out a multiple production, processing, storage and realization of agricultural produce, thus controlling interest belongs to the main company. Most agricultural holdings of Ukraine became leaders in the domestic market of agricultural produce and occupy a perceptible place in the world market [Didus 2011, pp. 96-101].

The results of analysis of already existent practice of functioning of the agricultural holding allow to divide them into three groups:

1. The mixed form is a holding that unites practically unconnected interest structures. For example, banks that participate in an investment project.

2. A horizontal form is a holding, structures homogeneous after direction of activity enter in that. Such form of holding has mainly sale character. Structurally such holding shows mostly main enterprise and its branches that is united together by the general logistic system and network of places of production distribution. Due to the use of effect of scale such form of enterprises organization gives an opportunity to bring down a unit and transactional expense cost, and its advantages consist there. As a defect can be marked that

such form of organization of enterprises can be the object of intent control from the side of antimonopoly institutions.

3. Apeak form – it is possible to reckon enterprises for it, which are united in a general technological chain in making of eventual products, for example its foodstuffs. Holdings of such type remind business concerns on the essence.

Here is a high degree of concentration of capital, price stability and possibilities of mushroom innovative growth of all participants of holding [Cherevko 2012, p. 32]. Complete vertical integration guarantees high quality of products on every stage of production and allows to offer a most acceptable price. In the total holding controls the complete cycle of production and offtake, beginning from the purchases of raw material and production of prepared goods, and ending realization of commodities to the eventual customer.

Certainly, functioning of the agricultural holding has a range of both positive and negative descriptions.

Table 2. Advantages and disadvantages of practice of the agricultural holdings in Ukraine

| Advantages  | Disadvantages  |
|---|--|
| <ul style="list-style-type: none"> <li>-is an ideal platform for an exit on exchange stocks for the receipt of investments;</li> <li>-assists involving strategic investors, partners and professionals</li> <li>-can carry out manoeuvrability of property asset, rationalization of the usage of resource potential;</li> <li>-combines production with processing and realization that promotes efficiency of work considerably;</li> <li>-has an access to the markets of sale and possibility of exit on an export.</li> </ul> | <ul style="list-style-type: none"> <li>-the development of infrastructure of village is not supported;</li> <li>-the level of employment of rural population diminished considerably;</li> <li>- price on land and food will become high, as the large landed interests, as a rule, conduct itself as monopolists;</li> <li>-inefficiency of the operating system of expense of state facilities is in support agricultural industry is existed;</li> <li>-the decrease of fertility, ecologization, property rights for peasants, monolevel of culture, advancement of GMO;</li> <li>- source (sailed) of capital to the foreign country, profit concealment of the agricultural holding are seen etc.</li> </ul> |

Source: own research

However the results of activity of such structures testify to their considerable influence on the economy of country, and scales of bringing in of the landed lands – about the necessity of government control of process of their creation and functioning [Dankevich 2011, pp. 11-16].

In connection with an increase on the world arena of competitiveness of many Ukrainian markets of agricultural production, for the agricultural holding, for today, the question of effective management of enterprises that enter to him activity appears sharply. The biggest problem within the framework of holding is a management of the regional manufacturing enterprises. We can distinguish a few types of the holdings:

- the financial holdings, that consist of independent business-units that have loosely-coupled interfaces with a managing company. The functions of managing company consist for this type, first of all, in financial control by budgeting of profit and money stream

- the branch holdings that usually develop one direction of business only, but have a few production subdivisions, that or work in different regions, or produce different commodities. In those companies, management, as a rule, is centralized.

Between these two types there are holdings that have mixture of the financial or branch holdings in different proportions.

The appropriate characteristic is forming of the apeak integrated holding from a trading company. Thus often with the increase of scales of activity there is only an increase of quantity of employees of company that manages, without any substantial changes in the structure of management. For example, in the large commercial and industrial holding by successful fascinations and absorptions the far of industrial enterprises that work in one industry was purchased. It is possible to name this agricultural holding the example of such forming "Avangard" which, although practically does not have the landed lands, however is the biggest producer of poultry and organic eggs in Ukraine.

Efficiency of activity of the agricultural holding can be traced by means of index of EBITDA (Earnings of before Interest, Taxes, Depreciation and Amortization) - analytical index, that the volume of profit to deduction of charges after percents, tax payment and depreciation decrees. EBITDA allows to trace forming of profit on all levels. In addition, by means of EBITDA it is possible to compare alike sort of activity and sizes of company. An index settles accounts on the basis of the financial reporting of company and used for the estimation of that, as far as profitable basic activity of company.

Table 3. Index comparison of EBITDA among some Ukrainian agricultural holdings, millions of dol. USA

| Company name                  | 2010   | 2011   | Changes, % |
|-------------------------------|--------|--------|------------|
| Kernel                        | 190    | 310    | 63         |
| Mironivsky Hliboproduct       | 325    | 401    | 24         |
| Avangard Co                   | 193,5  | 245,8  | 27         |
| Mriya Agro Holding            | 167    | 188,3  | 13         |
| Astarta-Kyiv                  | 127,2  | 140    | 10         |
| Industrial Milk Company (IMC) | 20,598 | 29,349 | 42         |
| AgroGeneration                | 2,216  | 1,68   | -24        |

Source: own work on the basis of public information of the agricultural holding.

An index is used for making a comparison with branch analogues, allows to define efficiency of activity of company regardless of its debt before different creditors and state, and also from the method of charging amortization.

An index is not part of standards of record-keeping, it targets the analysis of attractiveness of operations from absorption on loan facilities and is widely used as an instrument for the analysis of companies. The statistics of Table 3 testify to success of both development of company and agricultural potential of Ukraine.

The presence of own financial resources comes forward as a solid argument in the mutual relations of the agricultural holding with creditors and investors. So, powerful external sourcing for practice of the Ukrainian agricultural holdings is the main issue. Their actions being in the quotation marks of such well-known grounds as London, Frankfort and Warsaw exchange stocks.

Table 4. Investments bringing by the biggest agricultural holdings of Ukraine

| Company                              | Exchange with the actions  | The attracted investments through exchanges   |
|--------------------------------------|--|---|
| PLC Ukrlandfarming                   | Avangard Co - is quoted in London Stock Exchange, Land West Company it is included Kremney Public Co listed for Frankfurt Stock Exchange | Selling 23% shares of stock, "Avangard Co" attracted 188 million dol. (general capitalization is 938 millions of dol.)                    |
| Mironivsky Hliboproduct              | London Stock Exchange  | "Mironivsky Hliboproduct", that sold 22,32% shares of stock, rescued 371 million dol. (general capitalization is 1,662 milliards of dol.) |
| Kernel Holding S.A.                  | Warsaw Stock Exchange  | Selling 33% shares of stock, "Kernel" got 218 million dol. (general capitalization is 661 million of dol.)                                |
| Mriya Agro Holding                   | Frankfurt Stock Exchange   | Selling 20% shares of stock, Mriya Agro Holding attracted 310 million dol.  |
| Astarta-Kyiv                         | Warsaw Stock Exchange  | Selling 20% shares of stock, company Astarta - Kyiv got 30 million dol. (general capitalization is 158 million dol.)                      |
| Agroton                              | Warsaw Stock Exchange (26,2%), Frankfurt Stock Exchange (25%)  | After 26% of the sold shares of stock, Agroton got 54 million dol. (general capitalization is 207 million dol.)                           |
| Milkiland                            | Warsaw Stock Exchange  | Selling 22% actions, a company got 98 million dol. (general capitalization is 438 million dol.)   |
| Ukrainian Agrarian Investments (UAI) | Prepares to IPO <sup>2</sup> on Warsaw Stock Exchange  |   |

Source: [Skolotianyi 2011].

The market value of the public agricultural holding that work in Ukraine has grown and by the state on early April estimated in 6,3 milliards of dollars. Data from the "Ukrainian Club of Agrarian Business" association shows that index on 10% less index of early, 2011 (7,02 milliards of dol.) September. Although in the same time, for the last four months their capitalization grew on 26%, which testifies to the improvement of situation at the market of equities of agrarian companies.

The derivative of exit on foreign exchange stocks is opening of access to the credit resources of foreign banks, the cost (paying is for the use) of that below, than the Ukrainian banks in 2,0 - 2,5 times. It is worth noting that in this context, the Ukrainian banks gave out credits to the agricultural holding on considerably more attractive terms in comparison with to other agrispises.

Stimulating influence on development of market integration in agriculture of Ukraine was addressed by a current tax legislation. It is known that for enterprises in the structure of realization of that agricultural production and products of its processing occupy not less than 75%, operated row of tax deductions. Among them an agricultural tax is fixed, zero rate of tax value-added, privileges on separate obligatory payments in a budget. In total, on

<sup>2</sup> An initial public offering (IPO) or stock market launch is a type of public offering where shares of stock in a company are sold to the general public, on a securities exchange, for the first time

the estimations of specialists, it provided to the agrarian enterprises the tax loading in 3 times below that of other industries of the Ukrainian economy.

For today, according to expert estimations, the average cost of one hectare of agricultural land in Ukraine is about 500 dol., while in Russia there are 800 dol., in Bulgaria - 3100 dol., in Romania - 5000 dol., in Poland - 6600 dol. In the most developed countries this index is higher: the USA - 11000 dol., France - 12500 dol., England - 17100 dol. for a hectare. And a world tendency steadily heads for the further rising in price of the landed resources, among that Ukrainian black soil, as known, stands on the special place. Even if cost of agricultural lands after appearance of market will coincide with a prognosis (from 12 to 20 thousand hrn. for a hectare), it however will be closely to the real cost value of the most strategic Ukrainian resources [Skolotianyi 2011].

## Conclusions

Thus, forming and development of the vertically integrated forming - agricultural holding is the realization of agrarian reforms predefined by logic and preferable economic their operating conditions.

Nowadays imperfection of current national agrarian legislation is often discussed. However, an accent is constantly placed toward absence of legal norms in relation to the purchase-sale of land [Stetsiuk 2010, pp. 17-25].

The conducted analysis of activity of the agricultural holding testifies that the form of vertical integration of structural subdivisions has indisputable advantages before other agricultural enterprises, it is more successful and more effective. It is arrived at due to the best found supply of production. The presence of free money gives an opportunity of investing in innovative technologies and expansions of production. Due to own production capacities, the agricultural holding has the opportunity to create the reserved cycle of production, which will give an opportunity to decrease the productive expenses, unit cost, price, and in the future due to it to promote the competitive edges at the market.

Next advantages that arise due to the inlaid investments, the row of lacks of functioning of the agricultural holding appears, in particular, companies are oriented to growing of highly remunerative agricultural cultures, with violations of crop rotations and rational structure of sowing, the fertility-improving of soils and improvement of agricultures does not come true, a social constituent is not provided.

Thus, after the rational and high-efficiency use of agricultural earth agricultural holding, it is necessary to carry out structural agrarian politics in relation to development of agriculture, perfect a land legislation and relations of property on earth and control of its use, set the norms of penalty approvals for unusing or improper use of land, to regulate export-import activity of the agricultural holding and to counterbalance tax payment to the local budgets. Indisputably, by an important factor, also there is defense of national commodity producer, improvement of the system of crediting of enterprises in an agrarian sphere, and having a special purpose program of state support of small and midsize businesses development in the country.



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