

#### 1.4. RISKS IN THE PROCESS OF MANAGEMENT OF COMMODITY SPECIALIZATION OF AGRICULTURAL ENTERPRISES

Specialization of production gives to every enterprise the opportunity to grow those crops that can be produced most effectively in the corresponding natural and climatic conditions and the presence of socio-economic factors. It is historically objective and logical process and is determined by the social division of labor, which arises because of the contradiction between unlimited growth of needs and limited production resources. Placement and specialization are the main forms of social division of labor. Scientifically grounded distribution of agricultural production by natural and economic zones and areas allows the most effective use of natural resources, that is, to achieve high efficiency of the use of productive resources.

The emergence of specialization is associated with the development and division of tools, which directly affects the differentiation of labor resources. Differentiation of labor activity takes the form of the introduction of an effective and productive system of division of labor. It has a hierarchical principle on its basis and in the scale of society includes two hierarchical levels:

- higher level - the general division of labor, which involves the division of labor in large numbers (industry, agriculture, construction, etc.);
- lower level - a partial division of labor into separate branches, which involves the division of labor activities into species and subspecies (division of agriculture into crop production, animal husbandry, poultry farming, etc).

The sectoral structure of agrarian enterprises is not sustainable. The value of industries is constantly changing under the influence of natural, economic and social conditions. The factors of formation of specialization in agrarian enterprises include the following groups:

- *economic* (level of development of production, infrastructure, labor supply);
- *natural and climatic* (natural zone of production placement, type and quality of soils, amount of precipitation and duration of frost-free period during the year):

The obstacle for progressive transformations in the organizational system of economic activity is the national outdated views on the newest processes of concentration, specialization and integration of commodity production, the formation of powerful regional and interregional world markets with the intensification of competition, and especially high-tech and high-tech goods of the post-industrial era.

The experience of the developed countries testifies that the deepening of the specialization of agricultural production and the growing importance of cooperation and agro-industrial integration objectively require the departure of narrow-sector and departmental regulatory systems. An important element in the development of the agrarian sector is the renewal of management of its subdivisions, the deepening of the specialization and structuring of the economy of commodity livestock taking into account the necessary coordination between sectors and spheres of agro-industrial complex. To do this, a new agrarian policy based on land reform, the development of a multi-faceted economy in the countryside, ensuring the priority of the agro-industrial complex in the national economy, and addressing the social problems of the village on the basis of deepening the social division of labor.

Today in Ukraine, along with large farms of mostly collective ownership (joint-stock companies, limited liability companies): medium-sized private companies (agro-firms, peasant farms) and small farms of peasants operate. When choosing the production direction of the enterprise and its level of specialization, management and owners of agricultural enterprises are not always guided by scientifically substantiated recommendations, guided by the desire to get the maximum profit, concentrate on the production of only highly liquid products. In our opinion, the specialization of agricultural enterprises should be in advance thought out, coordinated with the strategic plan of the enterprise, to correspond to its goals and mission. Formation of specialization and production direction of the enterprise should be based on the nature-climatic conditions, on the basis of detailed study of the market of agricultural products. In developed countries, agricultural

producers make preliminary contracts, which largely follow the production direction of their management.

Undoubtedly, the specialization of agrarian production has its advantages and disadvantages (Figure 1): But, despite a greater number of benefits, a number of risks in the management of specialization should not be ignored (Table 1):

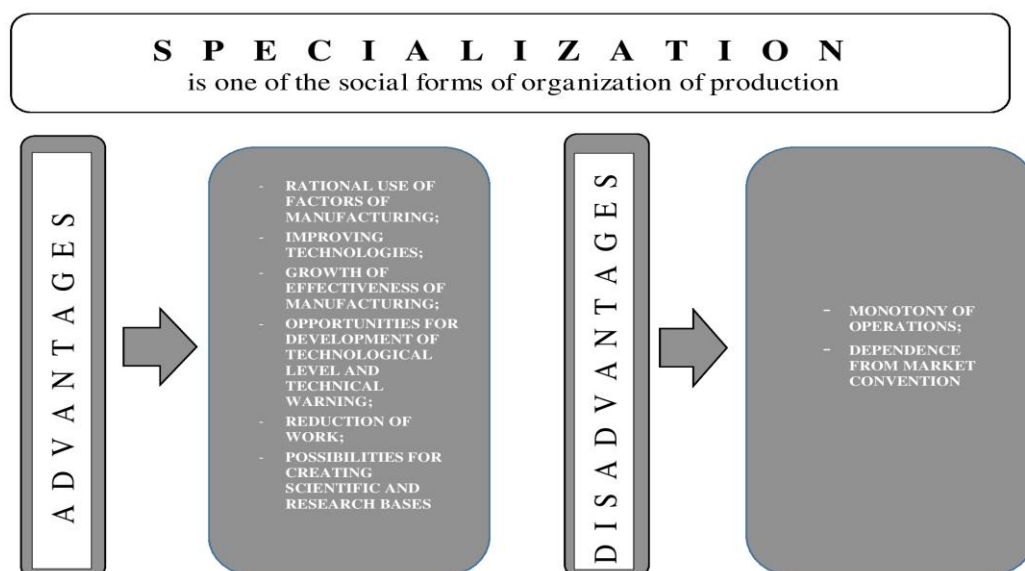


Fig. 1. Advantages and disadvantages of specialization

Table 1. Risks in the process of managing commodity specialization of agrarian enterprises

RISKS IN THE PROCESS OF MANAGEMENT OF COMMODITY SPECIALIZATION OF AGRICULTURAL ENTERPRISES	
<i>Major groups</i>	<i>The character of manifestation</i>
➤ Market risks	Selling prices, supply / demand ratios, cyclicity of the market and the course of its development
➤ Financial risks	Lending, insurance, accumulation of capital
➤ Legal risks	Normative-legal support, the threat of raiding
➤ Natural and climate risks	Climate change, variability of weather conditions, seasonal characteristics
➤ Material and technical risks	Technical and technical re-equipment
➤ Agrotechnological risks	Observance of crop rotation, depletion of soils
➤ Personnel risks	Seasonal agricultural production, labor migration
➤ The only mechanism of state regulation for many branches of agriculture	The appropriate direction of specialized production needs targeted unique support

*Market risk* in determining the product specialization for agrarian enterprises is the dynamic transformations that occur in the process of production and sales of products. Monitoring of market trends, peculiarities of its functioning, the nature and market conditions, factors of influence, causal relationships allows to study, analyze and form the information and analytical base for determining the priority directions of production of agricultural enterprises.

Market risks are manifested in the detailed practical analysis of the following parameters:

1. Proposal - volume, structure, dynamics; production and raw material potential; elasticity of the offer.
2. Demand - level of satisfaction, peculiarities of changes; market capacity; elasticity.
3. Proportionality of the market - the ratio of demand and supply; the ratio of markets, means of production, goods and services; commodity structure; market segments; regional market structure.
4. The course of market development - sales volumes, prices, inventories, investments.
5. Fluctuations, stability, cyclicity of the market.
6. Regional features of the state and development of the market.

According to the State Statistics Service<sup>1</sup>, the production of main types of agricultural products and the average prices of its implementation in Ukraine over the past 10 years have undergone significant changes under various factors (Table 2): To account for market risks, such information reveals the overall dynamics and gives the manufacturer the opportunity to determine the effective level of specialization.

*Table 2. The production of agricultural products and its average sales prices in Ukraine over the past 10 years*

Years	Grain and leguminous crops	Oil seed	Sugar beet	Potatoes	Vegetable crops	Fruit and berry crops	Farm animals (live weight)	Milk	Eggs
1	2	3	4	5	6	7	8	9	10
<i>Production volume, thousand tons; eggs - million pieces</i>									
2009	46028	6364	10068	19666	8341	1618	1917,4	11609,6	15907,5
2010	39271	6772	13749	18705	8122	1747	2059,0	11248,5	17052,3
2011	56747	8671	18740	24248	9833	1896	2143,8	11086,0	18689,8
2012	46216	8387	18439	23250	10017	2009	2209,6	11377,6	19110,5
2013	63051	11051	10789	22259	9873	2295	2389,4	11488,2	19614,8
2014	63859	10134	15734	23693	9638	1999	2359,6	11132,8	19587,3
2015	60126	11181	10331	20839	9214	2153	2322,6	10615,4	16782,9
2016	66088	13627	14011	21750	9415	2007	2323,6	10381,5	15100,4
2017	61917	12236	14882	22208	9286	2048	2318,2	10280,5	15505,8
2018	70057	14165	13968	22504	9440	2571	-	-	-
<i>Average selling prices, UAH per ton; eggs - per thousand pieces</i>									
2009	778,6	1734,6	218,9	1154,3	2059,9	1877,4	10184,3	2065,1	377,4
2010	799,0	2086,2	409,9	1298,6	1790,0	1892,4	10362,9	1888,8	403,9
2011	1120,9	2942,6	478,5	2131,0	2551,6	2419,8	10797,1	2938,7	470,6
2012	1374,2	3312,0	516,0	2032,8	2139,1	3175,9	11967,2	3041,6	521,5
2013	1547,1	3584,0	426,8	1139,6	1956,6	2707,1	13456,9	2662,2	627,0
2014	1299,8	3087,5	397,8	1860,9	2354,0	3010,8	12901,3	3364,0	656,7
2015	1801,4	4062,8	494,2	2173,6	2514,3	2429,1	15736,9	3588,4	782,4
2016	2912,1	7531,5	788,6	2436,3	3903,4	5894,5	21966,2	4347,3	1333,2
2017	3414,0	8656,1	848,6	2631,8	3924,2	5863,8	22468,0	5461,8	1108,7
2018	3771,6	9132,0	825,3	3296,3	4136,1	8766,6	31838,4	7234,0	1145,9

<sup>1</sup> State Statistics Service of Ukraine [Electronic resource]. Access mode: <http://www.ukrstat.gov.ua/>

Table 3. State financial support of agroindustrial enterprises for Ukraine in 2018 <sup>1</sup>

Regions	Financial support of activities in the agroindustrial complex by reducing the cost of loans	Financial support for the development of farms	State support for the development of hops, the laying of young gardens, vineyards and the supervision of them	State support of livestock sector	State support of producers of agricultural products (technique)	Total for programs
Cherkassy region	19282,7	10354,9	5463,7	140348,4	34351,0	209800,7
Chernihiv region	7865,3	8446,8	2595,6	138336,4	57372,4	214616,5
Chernivtsi region	6764,7	3302,6	29916,7	12443,9	8149,6	60577,5
Dnipropetrovsk region	8219,4	10179,4	46518,3	75796,7	44317,7	185031,4
Donetsk region	2435,6	3463,5	5061,1	22546,7	23085,3	56592,3
Ivano-Frankivsk region	9474,1	3672,3	9033,5	68944,3	5147,4	96271,6
Kharkiv region	10060,4	10182,1	9641,8	76949,9	42717,9	149552,0
Kherson region	5761,9	9169,3	13123,7	32089,0	37396,9	97540,8
Khmelnitsky region	24760,6	10841,8	34748,3	136326,6	46824,5	253501,8
Kievskaya region	19954,9	4709,9	41723,8	118419,2	34734,6	219542,4
Kirovogradskaya region	7860,7	10539,1	0,0	48459,4	37700,6	104559,8
Lugansk region	4755,5	4646,9	0,0	22804,4	39942,4	72149,2
Lviv region	6314,0	8415,6	36467,1	41459,2	13687,0	106343,0
Nikolaev region	7722,1	13600,8	10645,6	29796,4	58410,2	120175,1
Odesa region	8292,1	12135,5	11344,8	25181,4	68274,6	125228,5
Poltava region	20548,6	14300,4	2024,1	77784,4	44181,8	158839,2
Rivne region	9147,2	4315,2	710,6	32374,0	15816,0	62363,0
Sumy region	9431,1	7974,6	716,2	34902,3	56150,3	109174,5
Ternopil region	28639,5	7122,4	11454,3	90641,4	35431,1	173288,6
Transcarpathian region	321,3	3835,9	34165,8	11978,5	1 217,7	51519,2
Vinnitsia region	10389,0	19753,4	55609,8	997578,9	114669,7	1198000,8
Volyn region	18521,7	10838,3	12421,7	66138,2	11426,1	119345,9
Zaporozhye region	12412,2	8160,3	2561,3	23061,9	48920,7	95116,4
Zhytomyr region	6978,5	4346,0	15718,6	68933,2	33014,8	128991,1
<i>Total</i>	<i>265913,0</i>	<i>204306,9</i>	<i>394964,5</i>	<i>2393294,8</i>	<i>912940,2</i>	<i>4171419,4</i>
Number of companies that have taken advantage of the program	723	5100	171	154074 (including individuals)	7 043	-

*Financial risks* are faced by agrarian enterprises in the process of determining the production direction most acutely. The problems of finding start-up capital, its further accumulation, insurance and lending activities need to be neutralized in many respects.

<sup>1</sup> Ministry of Agrarian Policy and Food of Ukraine [Electronic resource]. Access mode: <https://minagro.gov.ua/ua/pidtrimka>

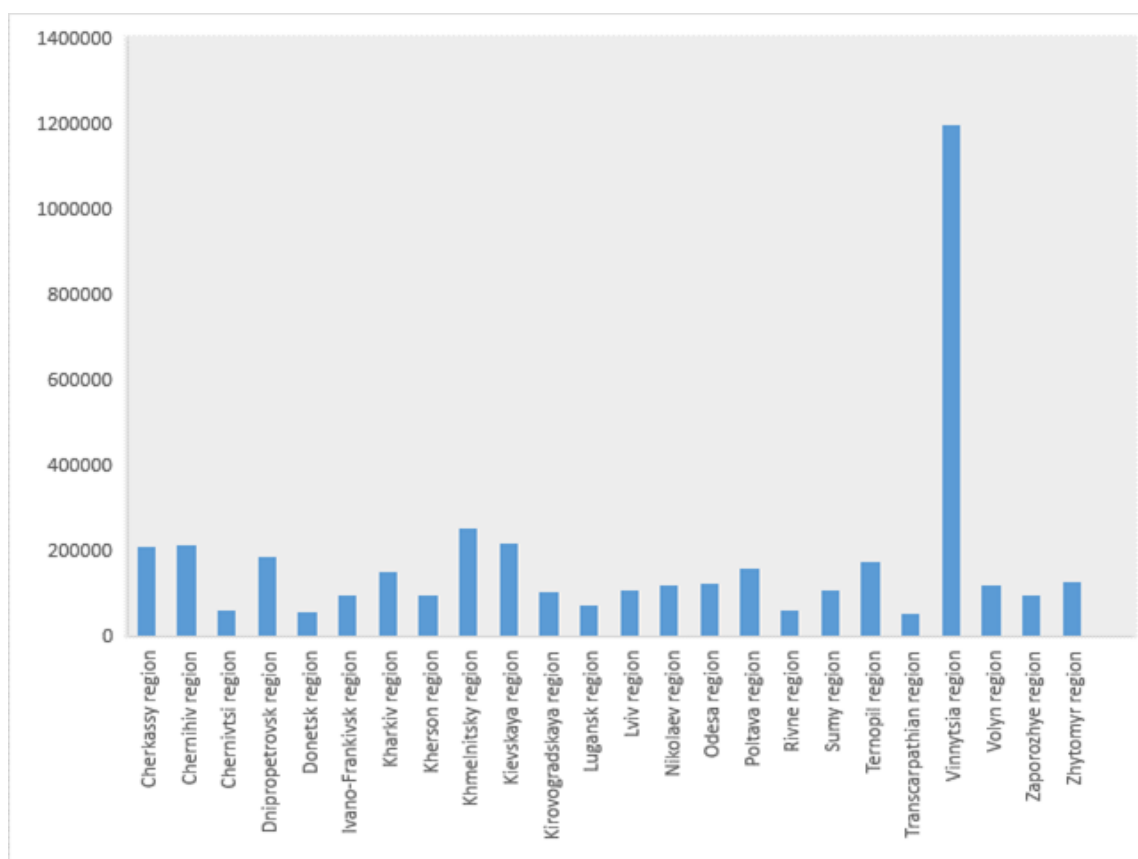


Fig. 2. The direction of state financial support in the field of agroindustrial complex by regions <sup>1</sup>

Agri-production is very sensitive to the cost of lending. The main reason behind the growing role of credit funds in the formation of financial resources of agrarian enterprises is the excessively high cost of this source of financing. In Ukraine interest rates on loans for agricultural enterprises consistently exceed the level of cost of credit resources for the economy as a whole.

Special forms of direct and indirect state support play a role in providing access to the crediting resources of the agrarian enterprises. The system of agricultural lending in Ukraine, under the current economic conditions, is characterized by a combination of market and preferential lending mechanisms. The preferential mechanism for lending to farmers is provided by special programs aimed at increasing the efficiency of agrarian production, increasing it provided that the production process is continued and the country's food security is ensured. Participants of the market of bank credit resources in the agricultural sector of the economy are banks (lenders) and agricultural enterprises (borrowers): Each participant in the credit market defends his own interests: lenders are interested in selling the most expensive loans, and borrowers - the cheapest to attract them. If for the enterprises of the agrarian sector banks are the most influential sellers of credit resources, for banks agricultural enterprises - only a part of the total number of subjects of lending.

In the course of lending to agrarian enterprises, banks put forward specific conditions:

- experience in the agrarian market;
- availability of a source of loan repayment;
- stability of money movement;
- Participation in a loan project at own expense.

In the process of determining the production direction the state should be the mainstay of solving financial problems of agrarian enterprises. Despite the fact that over a significant period of time most of the financial institutions called partnership with the agrarian sector one of the most

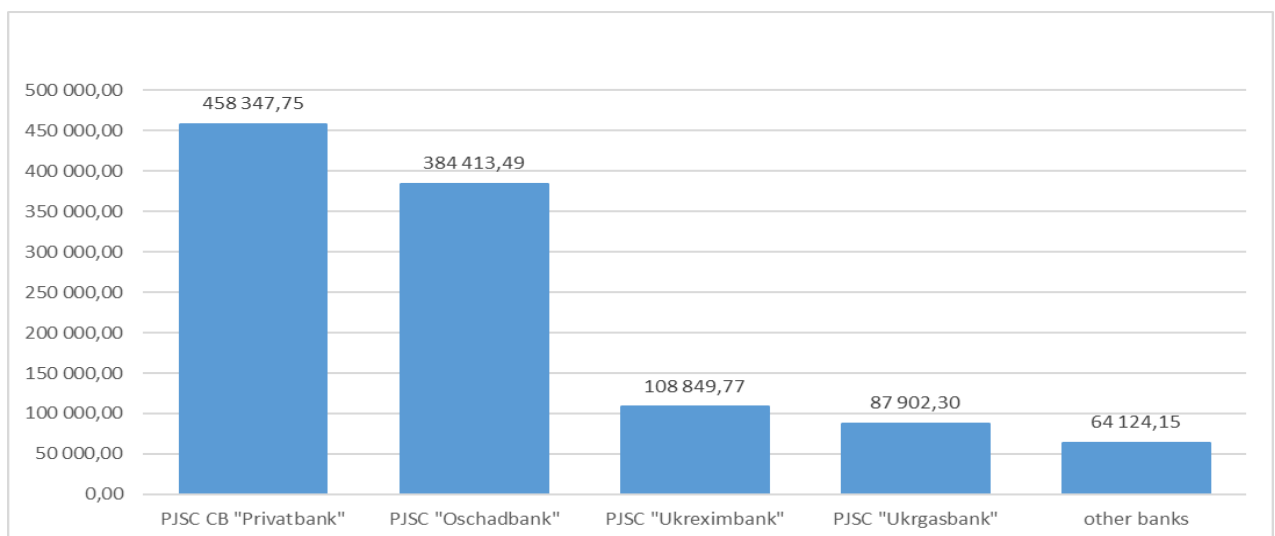
<sup>1</sup> Ministry of Agrarian Policy and Food of Ukraine [Electronic resource]. Access mode: <https://minagro.gov.ua/ua/pidtrimka>

risked, more than 20 banks signed the Memorandum with the Ministry of Agrarian Policy and Food of Ukraine on the issues of implementation of state support to agricultural producers in the year 2019 (Table 2):

*Table 4.* The list of banks that signed the Memorandum with the Ministry of Agrarian Policy and Food of Ukraine on the implementation of state support to agricultural producers <sup>4</sup>

№	Name of bank	Date of signing the Memorandum
1	Public joint-stock company Joint-Stock Bank "Pivdennyi"	23.03.2018
2	Public Joint Stock Company "Bank SICH"	23.03.2018
3	Public Joint-Stock Company "First Ukrainian International Bank"	23.03.2018
4	Public Joint-Stock Company Joint-Stock Bank "UKRGAZBANK"	02.04.2018
5	Public Joint-Stock Joint-Stock Commercial Bank "INDUSTRIALBANK"	02.04.2018
6	Public Joint-Stock Joint-Stock Commercial Bank "PrivatBank"	23.03.2018
7	Public Joint Stock Company "State Export-Import Bank of Ukraine"	03.04.2018
8	Public Joint Stock Company "Raiffeisen Bank Aval"	10.04.2018
9	Public Joint Stock Company "State Savings Bank of Ukraine"	03.04.2018
10	Public Joint Stock Company "KREDOBANK"	18.04.2018
11	Public Joint Stock Company "MTB BANK"	24.04.2018
12	Public Joint Stock Company "MetBank"	23.05.2018
13	Public Joint Stock Company "Credit Agricole Bank"	24.05.2019
14	Public Joint-Stock Company Joint-Stock Commercial Bank "Lviv"	19.11.2018
15	Joint-Stock Company "Piraeus Bank ICB"	12.12.2018
16	Joint-stock company "Motor-Bank"	20.02.2019
17	Toscombank Joint-Stock Company	20.03.2019
18	Joint-Stock Company "OTP Bank"	14.05.2019
19	Joint-stock company "BANK ALLIANCE"	21.05.2019
20	Joint-Stock Company "EAST-UKRAINIAN BANK" GRANT "	08.04.2019
21	Private Joint-Stock Company "BANK VOSTOK"	04.07.2019

The implementation of state support to agricultural producers in 2018 in the context of banks is shown in Figure 2.



*Fig. 2.* State financial support of agri-industrial enterprises in 2018 in the context of banks

Given the existing budget constraints and problems with the implementation of the program for cheapening bank loans, it is necessary to develop alternative financing mechanisms for the agrarian sector (leasing, factoring, etc.): as well as to promote modernization of own bank lending in order to strengthen its target character. In this perspective, promising forms of lending to the agrarian sector, in our opinion, are project and mezzanine financing, as well as pre- and post-export financing. Project financing in Ukraine is widespread in Ukraine with a small number of financial institutions. It involves long-term lending of investment projects, under which the object of collateral for a loan are the proceeds from the project. Despite the complicated procedure for issuing a loan, the advantage of project financing lies in a lower level of risk of lending to a financial institution and, consequently, a lower cost of credit resources for a borrower.

Choosing the direction of its activities, the company automatically falls under the influence of *legal risks*. The legal regulation of the specialization of agricultural production is carried out through the legal norms of both general and special laws and by-laws. According to Article 20 of the General Law "On Enterprises in Ukraine", Article 1 of the special Law "On the Priority of Social Development of the Village and the Agro-Industrial Complex in the National Economy" and Article 13 of the Special Law "On Collective Agricultural Enterprise", agricultural enterprises independently determine the directions and structure of agricultural production, and, consequently, his specialization and volume.<sup>8</sup>

The necessity of systemic legal influence on the management of commodity specialization of agrarian enterprises is determined by the following factors:

- appropriate use of natural resources;
- ensuring unification in the characteristics of the received products of the specified species;
- observance of principles and requirements of technologies;
- product quality control;
- the relationship between the elements of the mechanism of management of commodity specialization of agrarian enterprises;
- support of target sales of manufactured products and regulation of normative-contractual relations in this context.

Indirectly generalize these factors can be noted in the methods of legal influence on the production and economic activities of agrarian enterprises. Generating element in such a generalization are state bodies, which, through laws, regulations, regulations, guidelines or standards regulate production and economic activity. Enterprises, taking into account the established legal field, as well as under the influence of economic and natural and climatic factors, evaluate their capabilities and determine the structure of gross output, receive the appropriate level of specialization and production direction.

The category of legal risks should also include the threat of raider attacks. Unfortunately, in recent years such an illegal form of ownership by agrarian enterprises and property rights has become a widespread phenomenon. Raiding as a type of legal risk for agribusiness is a consequence of imperfect regulatory and legislative framework. If the company has an effective structure of gross output, high profitability, then it is very likely to become an object for raiders.

The existing legislative mechanism does not provide the owners of agrarian business with adequate protection, therefore they have to protect themselves independently by internal preventive measures. Attention should be paid to inspections of controlling bodies, requests from other enterprises, shareholders, participants. It is necessary to analyze the basic and circulating assets, provide protection of real estate, build an effective organizational structure, maintain and control the mode of observance of information confidentiality.

*The natural and climatic risks* in the process of management of commodity specialization are climate change, variation of weather conditions, seasonal characteristics (heat, frost, high or insufficient rainfall): as well as the interaction of the selected agricultural production with the natural-climatic zone. This risk category is the most unpredictable among others.

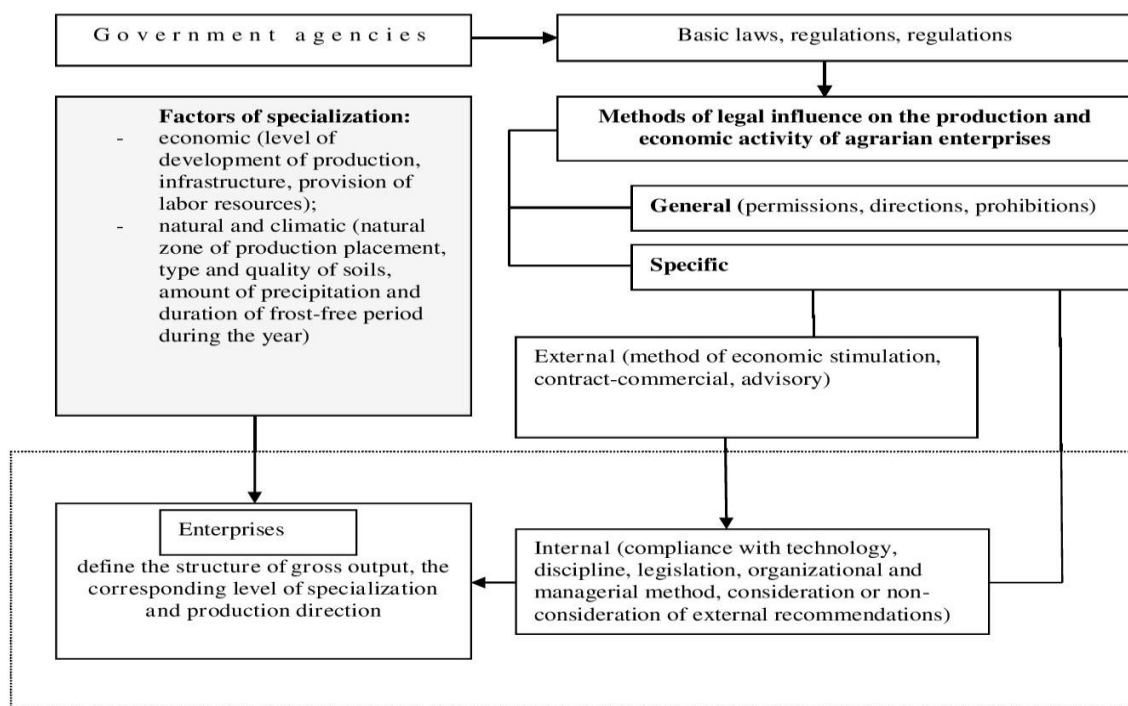


Fig. 3 The influence of the legal field on the formation of the industrial direction of enterprises and their specialization<sup>1,2,3</sup>

An enterprise can influence it on its own by adjusting technology, but in this case it may encounter *agrotechnological risks*. They include non-compliance with agrarian technologies due to lack of equipment, plant protection products, mineral fertilizers, qualified personnel, non-fulfillment of agricultural production technologies, and the risk of soil fertility is characteristic only for agricultural production, which is becoming increasingly relevant due to non-implementation of crop production technologies, excessive or insufficient introduction of mineral and organic fertilizers, non-compliance with crop rotation, viruses ends crops that deplete the earth.

Technological and technological re-equipment of the enterprise in determining the production direction is the cause of *material and technical risks*. Updating machines, equipment and technological lines involves not only the modernization of various components of these systems, but also their internal harmonization. In many fields of agrarian production, there is a renewal of the machine-tractor park, updated technologies of cultivating crops are being introduced, modern methods of primary processing of products, their storage and transportation are used. Techno-technological modernization of business entities in the agrarian sector is to a certain extent supported by the state. Thus, agricultural enterprises and farms can purchase certain types of equipment on the basis of financial leasing. It is also expected to compensate for the budget funds of a part of the funds for the construction and reconstruction of livestock complexes.

Agro-technological and logistical upgrades can not be implemented without proper human resources supply to the agrarian sector. To the process of managing commodity specialization it is necessary to add a personnel component, and as a consequence, *personnel risk*, in the case of a shortage of labor and scientific and intellectual resources. Today, Ukraine has a generally complex labor force situation. Seasonal agricultural production causes temporary unemployment. It is one of the reasons for the outflow of labor abroad, as well as its intra-regional displacement. This is risky

<sup>1</sup> Stativka, A.M. (2015): *Pravove rehulyuvannya vyrobnytstva sil's'kohospodars'koyi produktsiyi: navchal'nyy posibnyk* [Legal regulation of agricultural production: a textbook]. – Kharkiv: Yurayt, 272 p.

<sup>2</sup> Kaninsky, P.K. (2005): *Spetsializatsiya sil's'kohospodars'kykh pidpryemstv* [Specialization of agricultural enterprises]. Monohrafiya – monograph. K.: NNTS IAE, 348 p.

<sup>3</sup> Yanchuk, V.Z. *Ahrarne pravo Ukrayiny* [Agrarian Law of Ukraine]. Electronic resource. Access mode: <http://uristinfo.net/agopravo/6-2010-12-17-08-43-10.html>



for specialized agricultural enterprises. Their operation can not be effective without proper stable personnel support.

Maximally neutralize the impact of these risks is possible not only through internal organizational methods, but also external influence of the state. Taking into account the diversity of production lines and levels of specialization of domestic enterprises, the only mechanism of state regulation is also risky. It is necessary to differentiate the aggregate of agrarian enterprises by their production characteristics and needs, and on this basis develop unique programs of support for each type of specialized agricultural enterprises.

Investigation of risks in the activities of agrarian enterprises is a necessary process, as the financial and economic state of the country is unstable. Agrarian enterprises in their activities meet certain risks and try to overcome them.

To be effective, companies should try to avoid risks, but to find methods for risk management, assess risks and develop ways to overcome them, so companies must adapt to the changing external and internal environment in order to reduce their risk. In order to maintain positions in the market, competitiveness must be able to effectively minimize the risks in the activities of the agrarian enterprise.

Effective management of commodity specialization and improvement of the system of interconnections between all participants in agrarian production can take place under the condition of creating a system of risk neutralization. The basis of the process of making managerial decisions in determining the product specialization, taking into account the risks, are as follows:

- the production direction of the enterprise should correspond to the strategy, mission and goals set by the enterprise;
- compliance of the structure of production with market conditions;
- taking into account the climatic conditions in order to ensure the highest performance of production (productivity of crops, productivity of animals);
- conformity of production line of the enterprise to regional and national programs of economic development;
- ensuring environmental safety and environmental management.

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