

Problems of households' integration into the system of value chains creation in the agrarian sector of the economy of Ukraine

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Summary

On the example of the agrarian sector of the economy of Ukraine we have shown that the solution of problems for households' increasing efficiency and its stability is possible only by their technical and technological re-equipment, by carrying out a complex of educational actions in a rural areas, by creations of conditions for reestablishment old and establishing new integration, intereconomic relations.

We generalized the five main models for households' integration into the system of value chains creation in the agrarian sector of the economy as the cooperative-based, the cooperative-integrated-based, the mini-cluster-based, the intraeconomic lease or labor contract based and the production contracting-based. It is shown that the most effective and perspective for use in Ukraine is the production contracting-based model. We have also defined positive and negative aspects of production contracting, offered the main conceptual models of its realization, depending on a form of ownership of agricultural producers indiscriminately.

Key words: household, integration, cooperation, cluster, contractation, value chains, Ukraine

Проблеми на интегрирането на домакинствата в системата на стойностните вериги в аграрния сектор на икономиката на Украйна

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Резюме

По примера на аграрния сектор в икономиката на Украйна сме показали, че решението на проблема с повишаване ефективността и стабилността на домакинствата е възможно само чрез тяхното техническо и технологично преоборудване чрез провеждане на комплекс от образователни дейности в селските райони, чрез създаване на условия за възстановяване на стара и изграждане на нова интеграция и икономически взаимоотношения.

Обобщихме петте основни модела за интегриране на домакинствата в системата от създадени хранителни вериги в аграрния сектор на икономиката като: на базата на кооперации; на базата на интегрирани кооперации; на базата на мини-кълъстери; на базата на вътреикономическа аренда или на базата на трудов договор; на базата на договорено производство. Показано е, че най-ефективен и перспективен в Украйна е моделът на базата на договаряне. Ние определихме също позитивните и негативните аспекти на производственото договаряне, посочихме главните концептуални модели на осъществяването му, в зависимост от формата на собственост на земеделските производители, без разграничение.

Ключови думи: домакинство, интеграция, кооперация, кълъстер, договаряне, ценностни вериги, Украйна

Due to providing agrarian and land reforms, the main task of which was a peasant becoming a true owner of the agricultural land, large state agricultural enterprises were mainly reformed and their lands shared, the existing intereconomic relations were broken, and whole food subcomplexes of the agrarian and industrial complex were disintegrated. The experience of the East Germany, where family farms are a basis of the agrarian system, was fundamental for our reforms. Despite of the state support for farmers and cooperative movement in Ukraine, the available standard and legal base, their development are not sustainable and economic activity is not effective. Small agricultural producers and especially households are not able to compete with large agro-industrial formations, are often focused on self-sufficiency. This fact means that the research problem of their integration into the system of value chains creation is currently relevant.

The subject of study is the theoretical and methodological, and also scientific and practical aspects of households' integration into the system of value chains creation in the agrarian sector of the economy of Ukraine.

The methodological basis of research is the dialectic method of knowledge, system approach to studying problems of households' integration into the system of value chains creation, fundamental thesis of the economic theory and works of foreign and native scientists. For achievement of a goal we applied such methods as abstract and logical, historical, monographic, theoretical generalization, the system analysis and synthesis.

Results of the study

The retrospective analysis of agrarian transformations in Ukraine demonstrates that the statement about the primacy of small-scale production in the form of household over large-scale capitalist agriculture, which was based on almost unlimited opportunities for sharp increase in production volumes on the basis of using own labor and material resources of the public sector of the economy, without the state and enterprise investments – did not come true.

For 2003–2014, the accurate tendency of decreasing a role of households was outlined in the agrarian sector of the economy of Ukraine, which became especially considerable in 2010–2014 (Table 1).

Unit weight of households in the gross agriculture production of Ukraine in the year 2014 compared with the year 2000 was reduced on 16.9 percentage points, including the crop production – on 10.1 percentage points, animal production – on 24.5 percentage points.

Now the gross agriculture production of Ukraine in the context of business patterns is almost similar to the prereform level in the year 1995. At rather constant sizes of agricultural areas, the level of its use intensity on households was significantly lower, than in agricultural enterprises in the years 2010–2014. In addition, the efficiency of land using is much lower by estimation by the main crops yield's indicator, except food melons, fruits, berries and grapes. Production efficiency of animal products is also higher in the agricultural enterprises. Thus, even at slightly lower expenses for forages per centner of milk production, its average annual milk yield per cow in households in the year 2014 was 13.2% lower than the average level in agricultural enterprises. Considerably higher expenses of forages per one conventional head of cattle and per centner of pigs gains show possible imbalance of a ration of animals feeding, an over expenditure of forages and as a result – the low payback of their production and the material costs return (by net income).

The formation of households' inefficiency is provided also through the system of prices of product sales.

According to the data of the State Statistics Service of Ukraine, the average prices of realization (excluding VAT, grants, transportation, forwarding and overhead costs) of grain were lower in households, than in agricultural enterprises, by 1.4%, of oilseeds – by 15.0%, of sugar beets – by 31.9%, of wool of all types – by 34.1% in 2014 (Prokopenko, 2015). However, the perspective niche direction of specialization for households remains production of labor-consuming types of agricultural products, where their potential on the

Table 1. Share, sizes and efficiency of agricultural production in agricultural enterprises and households in Ukraine

	Agricultural enterprises			Households		
	2010	2012	2014	2010	2012	2014
Unit weight in total agricultural land, %	49.5	49.7	49.5	38.2	38.1	38.2
- incl. arable land, %	59.2	59.6	59.3	36.0	35.8	36.2
Use of fodders in animal production, <i>centners of fodder units</i> :						
- per centner of cattle gains	96.3	96.5	96.7	96.5	96.4	96.4
- per one conventional head of cattle	48.3	50.7	55.3	51.7	49.3	44.7
- per centner of pigs gains	53.6	55.0	59.4	46.4	45.0	40.6
- per centner of milk production	38.8	41.8	45.5	61.2	58.2	54.5
Material costs return	498.7	501.9	489.2	1.2	1.2	1.2
- employment size on agricultural production, <i>persons</i>	14	13	12	3	3	3
- livestock inventory, <i>conventional heads of cattle</i>	107.1	109.2	107.2	1.4	1.5	1.4
Yield, <i>centners per hectare</i> :						
- grain & leguminous crops	27.6	33.4	47.5	25.0	25.4	33.9
- sugar beet	281.5	420.6	490.2	257.3	329.6	350.7
- oilseeds	15.6	17.6	21.3	13.3	13.0	15.1
- potatoes	171.0	192.0	256.4	131.7	160.1	174.6
- vegetables, total	207.0	313.7	346.4	169.9	187.8	195.2
- food melons & gourds	73.8	72.1	65.4	94.2	102.0	90.9
- fruits and berries	38.2	51.4	53.7	98.5	108.1	112.5
- grapes	47.4	53.2	76.4	115.6	127.0	154.2
Annual average milk yield per cow, <i>kg</i>	3975.0	4676.0	5027.0	4110.0	4276.0	4363.0
Annual average wool clipping per sheep, <i>kg</i>	2.3	1.9	1.6	3.8	3.8	3.5
Use of fodders in animal production, <i>centners of fodder units</i> :						
- per centner of cattle gains	15.7	15.5	15.1	9.2	9.6	10.7
- per one conventional head of cattle	26.7	26.8	25.1	34.0	34.6	34.9
- per centner of pigs gains	6.0	5.4	4.6	8.3	8.1	8.4
- per centner of milk production	1.2	1.1	1.0	1.0	0.9	0.9
Material costs return	0.71	0.71	0.67	0.43	0.50	0.48

level of a labor security exceeds the corresponding indicator in the agricultural enterprises in average by 10.2 times. Households can realize the capacity of the local commodity markets on such groups of agricultural products, where the prices of realization are higher purchasing and essentially depend on a factor of lead-time.

Considering long-term international and national experience, the solution of problems of increasing efficiency and stability of households considers by their technical and technological re-equipment, providing a complex of educational actions in villages, creation of conditions for reconstruction and establishing new integration in-

tereconomic relations. We consider, that integration of the enterprises of the agrarian sector of the economy and households represents interrelation, mutual understanding, close dependence between them, that demonstrates unity and continuity of communications in the course of providing the population with products and the income, realization by them other economic and socially important for the state functions. Depending on conditions and nature of realization of these integration relations, the last ones can be more or less close, intensive, promote or counteract to realization of the integration relations.

We have developed five main models for households' involvement into the integration relations in the agrarian sector of the economy such as the cooperative-based, the cooperative-integrated-based, the mini-cluster-based, the intra-

economic lease or labor contract based and the production contracting-based (Gutorov, 2016).

The cooperative-based model provides the creation of the system of consumer cooperation. According to the article no. 2 of the Law of Ukraine "On cooperation" no. 1087-IV of 10 July, 2003, the consumer cooperative is formed by merging of natural and/or legal entities for the organization of trade service, preparations of agricultural production, raw materials, production and providing other services for the purpose of satisfaction of consumer needs of its members (The Verkhovna Rada of Ukraine, 2003) (Fig. 1). The advantages of consumer cooperation are the possibility of using services in transportation and sales of products, receiving consultative support by its members, collective protection of interests, etc. Besides, the cooperative-based mod-

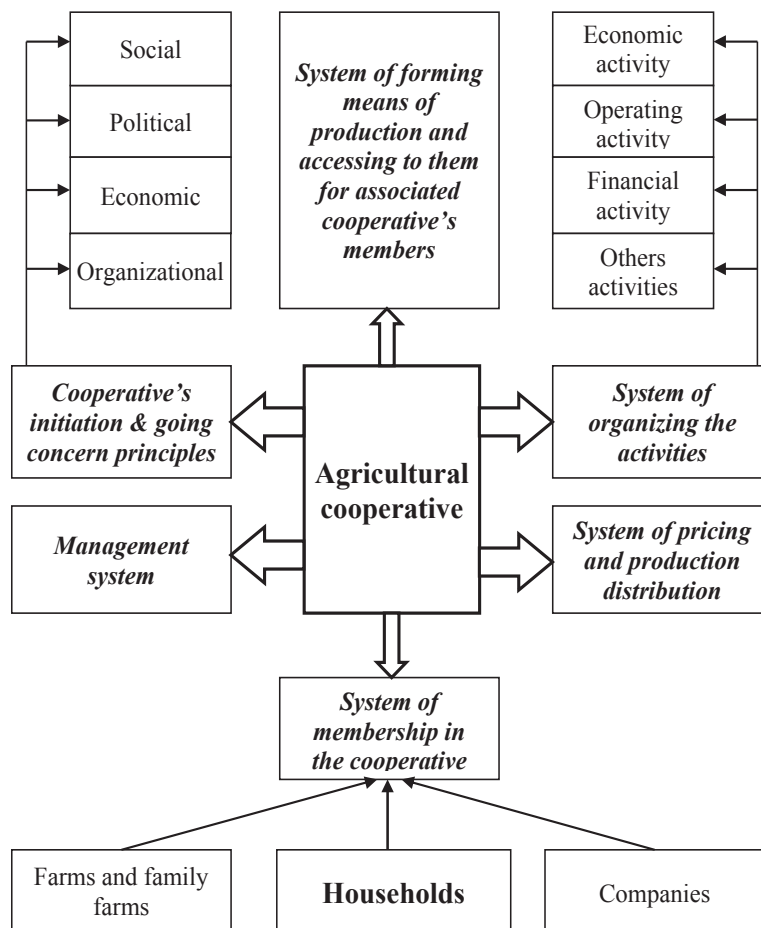


Fig. 1. Cooperative-based model for households' integration in Ukraine

el demands the creation of the legal entity, which pulls the corresponding expenses and legal consequences, needs regular membership due to development of cooperative, reducing economic benefits of its members.

The prototype of such model of integration have already existed at Zaporizhia region, based on the agricultural consumer cooperative “Cossack Grain Union” which belongs to members of the commercial partnership “The Agrarian Union of Ukraine” (Hadzalo, Zhuk, 2015).

For the cooperative-integrated-based model the consumer cooperative, which is integrated with the productive, processing or marketing enterprise of the agrarian sector of the economy, is also created. Deeper level of integration with preservation of independence for an economic entity is the main advantage, and, at the same time, the disadvantages are the lacks of opportunities for participation in integration interaction by individual rural households that are not members of the cooperative. The variants of such households' integration through the form of vertical cooperation based on agro-industrial formations were developed by professors M. Khorunzhyj and V. Zabolotnij (Khorunzhyj, Zabolotnij, 2005), and also improved by the Yu. Nesterchuk (Nesterchuk, 2011) and M. Pitiulych (Pitiulych, 2014). It should be noted, that the cooperative-integrated-based model gives the chance to use the self-government and mechanisms of public control that acquires special relevance in the conditions of decentralization of the authority in Ukraine. The adjustment of organizational and economic principles of such organization to conditions of the agrarian sector of the economy are developed by academicians Ya. Hadzalo and V. Zhuk in the form of the Institute of rural self-government (Hadzalo, Zhuk, 2015).

For overcoming of negative formal aspects of cooperation and application of horizontal and vertical integration in an informal shape, the world practice acquired mini-cluster-based models. In this context, the cluster is understood as the group of the interconnected and complementary economic agents concentrated in a certain territory (Kropyvko, 2013). The enterprise-integrator, which forms cluster's internal infrastruc-

ture of a certain direction of specialization acts as a cluster core. There are households, family farms, small farms, cooperatives, which are involved into the integration relations and take part in management of cluster formation, on the periphery of a cluster. The think tank of the National Scientific Centre “Institute of Agrarian Economics” that led by academician Yu. Lupenko has developed such models of mini-clusters for production of rabbit meat, pork, fruit and vegetable products (Kropyvko, 2014). Mini-cluster-based model for households' integration for animal production in Ukraine, as an example, with our improvements and betterments are shown in the Figure 2.

Now the main lack and the limiting factor of the agrarian mini-clusters' development is their informal character, which does not allow to classify and register them as the legal entities. However, in our opinion, cluster associations form is a theoretical platform for understanding of essence and mechanisms of integration, de facto, can exist by enter into contracts for production and supply by separate types of agricultural products.

The model of households' interaction with integrators through the contracts of hiring work can be realized in two ways: by the conclusion contracts for intraeconomic rent and external employment contracts. It should be noted, that the practice of an intraeconomic lease contract was widespread in the USSR in the 1980s. The experience of cattle and bird breeding on a contract basis by households of Tatarbunarskyi district of Kherson region of Ukraine was the best practice at that time and widely lit in the press.

Such rural households were presented by employees of collective farms and state farms, represented as self-supporting units; and a plan target was led up, means and objects of the labor, necessary material resources, etc. were given to them.

Since 2014, the intraeconomic lease contract was legalized in Ukraine via the mechanism of agricultural production cooperatives' creation, but only in the veiled form (Fig. 3).

So, according to the model charter of the agricultural production cooperative, approved by

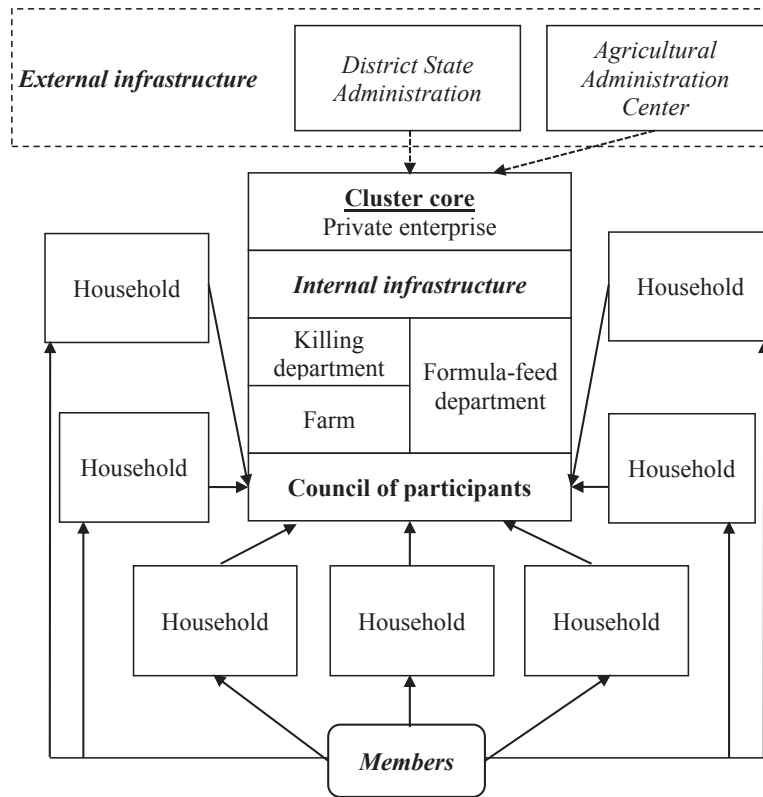


Fig. 2. Mini-cluster-based model for households' integration on the example of animal production in Ukraine

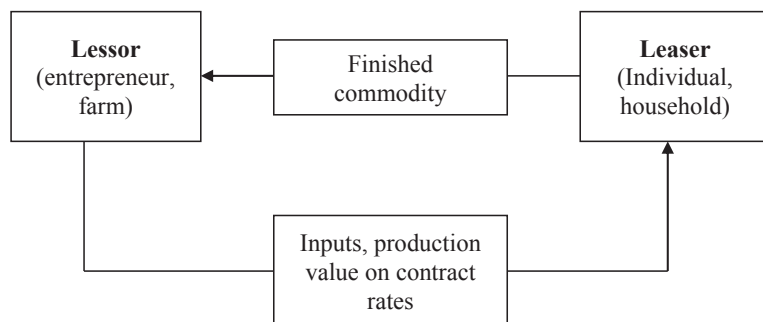


Fig. 3. Intraeconomic lease model for households' integration in Ukraine

the Order of the Ministry of the Agrarian Policy and Food of Ukraine no. 1 of 8 January, 2014, the peasant can transfer farm animals as the cooperative's share and, at the same time, to get them for maintenance and breeding under the contract for the corresponding compensation in the form of cooperative payments back, when entering the cooperative (The Ministry of Agrarian Policy and Food of Ukraine, 2014).

Several other options of registration of the integration relations between households and enterprises of the agrarian sector of the economy are the awarding labor contracts with households' members. Under such contract peasants, de jure, become the workers of the enterprise; de facto, provide work for production of a certain type of agricultural products. At the same time, the enterprise-integrator undertakes obligations

for providing workers with necessary fixed and current assets, guarantees them compensation according to the established standards.

On the one hand, production contracting is the simplest form of association of production interests of two sectors of the economy from ensuring production of agricultural products to its preparation; on the other hand, it forms strong cooperative and integration production and marketing links in the agrarian sector of the economy (Namnek, 1928). In addition, it means the increasing competitiveness of production and its profitability in the market. According to the IFAD UN, because of involvement of small agricultural producers into the contract quasi-integration relations, they get the qualified support in creation of organizational and personnel potential, the reliable mechanism for disputes settlement, have possibilities for planning and coordination of the activity, mutual participation in execution of expenses and obtaining benefits (European Bank for Reconstructing and Development, 2015). As for contractants, they gain the benefit from guaranteed volumes of agricultural production deliveries by necessary quality that gives them the chance to lower all types of risks, to limit the market power of suppliers and to improve indicators of sale efficiency. Besides, they realize the potential of increase in scales of the production activity without essential capital investments.

However, imperfection of contracts, standard and legal base, market failures, conflict of interests of production contracting participants generate opportunistic behavior and have certain negative consequences. The main risk for households is the probability of hit in enslaving operational dependence on contractors (Steven, Macdonald, 2015). The global experience has cases of the growth of contractants' credit dependence, understating of compensation, losing of autonomy in adoption of economic decisions, and other displays of opportunism are also recorded from contractors. Thus, the last ones increase the transactional costs related with the conclusion and service of production contracts, expose to bad faith from contractants, which are expressed in inappropriate using or plundering of the material and

monetary resources provided to them under the contract, failure of the schedule of deliveries or production with poor quality.

Realization of production contracting in the agrarian sector of the economy procedurally differs depending on the structure of participants of these quasi-integration relations, and form of ownership and managing. Under conditions when contractors and contractants have non-governmental form of ownership, their interaction is reduced to four stages: conclusion of agreement of production contracting, granting to the contractant by necessary for production resources, reception-transmission of finished commodities or goods in process and making control and final payments (Fig. 4).

At the same time, there are two options of quasi-integration interaction, which differ among themselves by extent of integration – the “soft” and the “hard”. At the “soft” form of contract quasi-integration producers of agricultural products get the minimum resource providing and advance support from contractors. They with their own risk obtain the credit on the security of property in the market of credit resources, buy necessary production resources and carry out production in volumes and with the parameters sufficient for realization of production contract terms. Their interaction happens to contractors mostly only in dates of transfer of finished commodities and final payment for contractual products. At the “hard” form of production contracting is carried out completely under management, and at the expense of the customer, who advances production, exercises control of target use of material resources, and the contractant, de facto, loses the market independence and undertakes to observe strictly signed contract.

Realization of arrangements for resource providing of the contractant demands from the contractor their existence at a certain time point in necessary volumes. In case of lack of available current assets, the contractor has the right to apply multilateral production contracting model (Fig. 5).

According to this model, after the conclusion of agreement on production contracting, the customer of production concludes business deal with

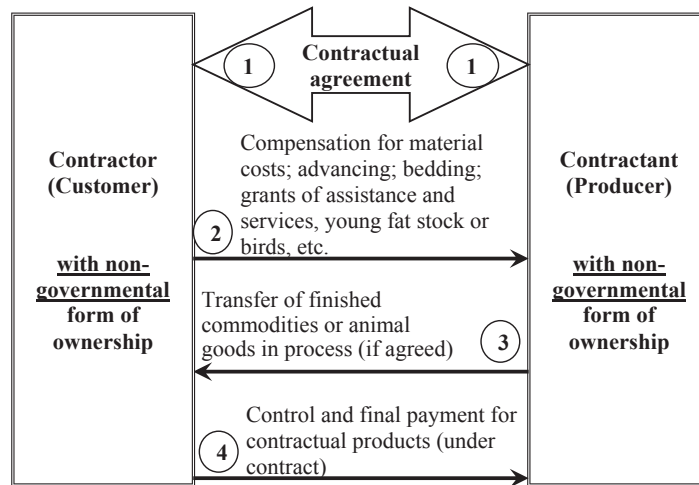


Fig. 4. Conceptual model of simple production contraction for economic agents with non-governmental form of ownership in the agrarian sector of the economy of Ukraine

Note. Production contracting project milestones are numerated.

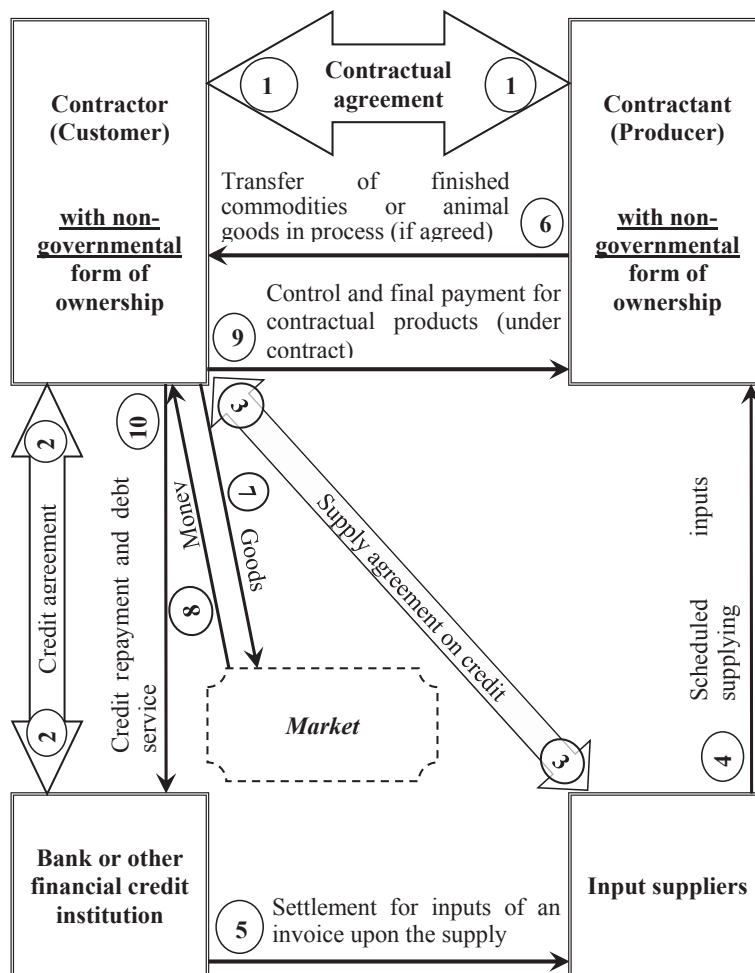


Fig. 5. Structural model of multilateral production contraction in the agrarian sector of the economy of Ukraine

Note. Production contracting project milestones are numerated.

credit institution finds necessary suppliers of inputs and transfers the relevant documents to the creditor. Having received documentary confirmation of the fact of resources delivery or work performance or services rendering, the creditor pays their cost to the supplier. After receiving finished commodities from the contractant and carrying out final settlements, the contractor realizes it in the market, and then repays debt obligations to the creditor. It should be noted, that such model of multilateral production contracting has the increased risk level, which completely lies down on the contractor, thereby essentially increasing his costs and the cost of the project of custom-made agricultural products. On the other hand, the contractor receives greater capital maneuverability, which needn't to be accumulated and withdrawn from circulation for the period of production contracting.

For effective development of the integration relations on the basis of households' involvement into the system of value chains creation in the agrarian sector of the economy, we offer to make changes in the article 713 of the Civil Code of Ukraine, having changed its name to "The Agreement of Production Contracting of Agricultural Products", and also to establish, that under the contract of production, contracting of agricultural products, the producer of agricultural production (contractant) undertakes to make the agricultural products defined in the contract in terms, in the volume, in the assortment and the corresponding quality, which are provided by the agreement, and to transfer it to the ownership of the supplier (contractor) or to the recipient determined by it; and the contractor undertakes to assist the contractant in production of the specified products, to accept this production and to pay it for the established prices according to terms of the agreement. With the aim of equal conditions' creation for production contracting realization, we offer to add the Civil Code of Ukraine with the new article 7131 "Significant Conditions of the Production Contracting Agreement of Agricultural Products", where all the significant conditions of the contract are defined.

We have developed the draft of the "Regulations on Production Contracting of Agricultural

Products" that consists of eight sections and includes 89 points, which define the general principles of production contracting, the principles of its realization, the requirement to the parties, their rights and a duty, the order of the conclusion and realization of the agreements, the form and pricing mechanisms, the mechanisms of making payment under contracts of production contracting, responsibility of the parties for non-performance of contractual obligations, the order of adjudication of the disputes, etc. At the same time, production contracting of agricultural products has to be based on such principles as legality, formality, responsibility, equality, openness and transparency, ensuring competition, efficiency, controllability, cannot be done to the detriment of environment.

It is necessary to make corresponding changes to the statistical reporting forms for providing the appropriate competent authorities with reliable information, and realization of scientific maintenance and expeditious monitoring on the development condition of production contracting of agricultural products.

Conclusions

During agrarian reform in Ukraine, the priority was given to the development of small and average-sized economic agents based on a private property and a priority of a personal interest over public. Destruction of the integration relations in the agrarian sector of the economy negatively affected, first, on rural households, which are at survival border. The international practice convincingly demonstrates that the sustainable development of all spheres of the agrarian and industrial complex and the village is possibly only based on strong intereconomic links in which all told agricultural producers are involved.

Among the five main models of households' involvement into the integration relations in the agrarian sector of the economy, the most effective and perspective for using is the production contracting-based model, which harmoniously fits for processes of liberalization, globalization and agrarian transformations, al-

lows uniting of interests of all producers indiscriminately.

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