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Developing an institutional environment to stimulate long-term investment in dairy farming

Abstract. The aim of this study was to justify mechanisms for increasing the investment attractiveness of dairy farming in Ukraine by improving institutional support and introducing effective economic incentives. The study analysed the regulatory environment, assessed the dynamics of the industry's development in 2022 – May 2025, and examined examples of investment projects implemented by agricultural holdings, cooperatives and international programmes. As a result, it was established that in 2024, milk production in Ukraine amounted to 7.2 million tonnes, and the profitability of the industry increased from 23% in 2022 to 26% in 2023, with a projected increase to 40% in 2025. Within the framework of the "Family Dairy Farms" project, 240 farms are in operation, and the number of new and modernised commercial dairy farms has reached 125. At the same time, there has been a reduction in the number of cows from 1.58 million in 2022 to 1.155 million in May 2025, due to losses from the war and low attractiveness for investors in the eastern regions. The study identified the main barriers, including difficulty in accessing finance, regional inequality and regulatory instability. A comprehensive analysis of the strengths, weaknesses, opportunities and threats of the institutional environment was conducted, based on which practical recommendations were developed for the implementation of a single investment register, a unified online support platform, expanded cooperation and tax incentives. The proposed solutions are expected to increase the investment attractiveness of agricultural enterprises by 30-35% and the profitability of the dairy business to 25-28% by 2026. The practical significance of the study lies in the development of applied tools for improving institutional support that can be used by public authorities, communities and agricultural enterprises to stimulate long-term investment in dairy farming

Keywords: farms; taxation; mechanism; risk; state programme

INTRODUCTION

The development of the dairy sub-sector is hampered by limited access to capital, outdated production facilities, declining livestock numbers and high investment risks. Despite the strategic importance of the industry, long-term capital investment remains low due to regulatory instability, fragmented support and a lack of systemic incentives. Existing programmes are

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mostly short-term and do not take into account the key needs of investors, such as protection of property rights, access to infrastructure and financing. Against the backdrop of global competition and European integration processes, there is a need to create a stable institutional environment capable of providing the preconditions for modernisation of the industry and the inflow of long-term capital.

The low level of technical base renewal, limited financial resources, and the lack of stable incentive mechanisms hinder the attraction of long-term investments in production. This issue was studied by V. Lavruk *et al.* (2020), who analysed the dependence of production volumes on capital investments, the cost of fixed assets and unit costs per head of livestock. The study found that the main constraints are low profitability, high energy intensity of processes, limited access to bank lending, and the inability of enterprises to carry out innovative modernisation at their own expense. The authors demonstrated the feasibility of intensifying investment activity through the formation of an effective organisational and economic mechanism involving internal and external resources. The challenges associated with insufficient funding, limited access to external resources, and the consequences of martial law were the focus of O. Popova *et al.* (2023), who analysed investment dynamics in 2018-2022, sources of funding, and their impact on the efficiency of agricultural enterprises. They found that own funds dominated, banks and non-residents were not very active, and the investment climate depended on government support and infrastructure.

The low attractiveness of long-term investments, the instability of the economic environment, and the imperfections of government support make it difficult to finance the modernisation of agricultural production. This was considered by D.O. Bochkaryov (2024), who conducted a comprehensive analysis of investment sources, characterised the dynamics of revenues in 2015-2022, identified the main trends in investment activity, and identified factors that hinder the growth of capital investments. The author emphasised the importance of creating a favourable economic climate through tax incentives, improving access to credit and developing state programmes. The lack of institutional coordination, the imbalance of state policy and the fragmentation of strategic planning limit the effectiveness of managing the recovery and development of agricultural production. G. Prusova *et al.* (2024) analysed government approaches to stimulating investment, proposed a structural-functional model of management in conditions of risk, and identified key factors for stabilising the agricultural environment. They emphasised the need for coordination between government institutions, infrastructure development, and analytical support.

The low efficiency of investment resources in animal husbandry, the lack of a unified approach to managing investment processes, and the instability of funding sources limit the development of production. M.R. Hladiy & O. Prosovych (2022) investigated the role of investments in ensuring food security, analysed their dynamics in agriculture, and developed a model for improving management based on the integration of institutional and financial instruments. The study proposes measures to reduce investment risks and stimulate capital attraction in agricultural production. The insufficient level of economic stability of dairy enterprises, limited access to investment resources, and the lack of effective mechanisms to support producers complicate their modernisation and strategic development. These aspects were highlighted in the study by T. Gutsul *et al.* (2023), which analysed the transformation processes in agricultural production, assessed changes in the structure of livestock farming, the impact of state policy and the reduction in livestock numbers. The authors also emphasised the need to introduce regionally adapted models of institutional support and to activate public-private partnerships.

The limited effectiveness of state policy to support livestock farming, the reduction in cattle numbers and the imperfect pricing system are reducing the attractiveness of milk production. These issues were studied by A. Velichko *et al.* (2021), who conducted a comprehensive analysis of milk production dynamics in Ukraine, identified the main factors contributing to its decline, and emphasised the importance of technological modernisation and state regulation. The authors also proposed ways to

stimulate investment activity, in particular through subsidies, improved marketing conditions and ensuring stable demand. The low investment attractiveness of livestock enterprises, the lack of working capital and the uneven distribution of resources between regions are hindering the development of milk production. L. Pronko *et al*. (2020) studied the peculiarities of livestock enterprises, analysed the factors influencing their economic performance, and substantiated ways to improve the efficiency of milk production by improving the financial and economic environment. In particular, the authors highlighted the importance of technical modernisation, improving state financing mechanisms and ensuring access to credit resources.

Despite the existing developments, the studies do not pay enough attention to the formation of long-term institutional guarantees, tax stability, transparent procedures and trust mechanisms, which are critical for attracting long-term private and foreign capital. The question of developing an effective institutional model adapted to the conditions of a war economy, which would simultaneously ensure investment stability, the development of public-private partnerships, and the integration of the dairy subsector into external markets, remains open. The aim of this study was to identify effective ways to attract investment in dairy farming by strengthening institutional support and creating favourable economic conditions for long-term financing. To achieve this goal, the following tasks were set: to analyse the economic mechanisms that influence the activation of investment in the dairy subsector; to evaluate the role of public, private and cooperative institutions in creating a favourable environment for agribusiness; to develop practical recommendations for agribusinesses on increasing investment attractiveness and effective capital raising.

MATERIALS AND METHODS

The study was empirical and covered the period from 2022 to May 2025 inclusive. The study used a descriptive method to develop the theoretical and methodological foundations for forming an institutional environment aimed at attracting long-term investments in dairy farming. In particular, the economic essence and classification of institutional incentives for investment were analysed, as well as methodological approaches to evaluating the investment attractiveness of the industry. Within the framework of the study, empirical data on the functioning of such enterprises as the MHP (n.d.) agricultural holding in Kyiv and the Dobrobut Andriivka (n.d.) agricultural cooperative operating in the Dnipropetrovsk region were collected, systematised and summarised. The experience of the Pokrova (n.d.) cooperative in the Lviv region and the Ekom (n.d.) cooperative in the Ivano-Frankivsk region was analysed separately. These examples were chosen as representative of different organisational models for attracting investment at the local level.

Considerable attention was paid to the analysis of institutional support for investments in dairy farming. The study considered regions with active development of the dairy industry, in particular Khmelnytskyi, Lviv, Poltava, Chernihiv and Mykolaiv regions (AgroBusiness, 2024; AgroPortal, 2022). These regions were selected due to their leadership in terms of investment activity growth rates, the number of newly established or modernised dairy farms, and their significance in the overall milk production structure. In addition, these regions represent different models of industry organisation – from family farming to large-scale production, which allowed for a comprehensive evaluation of the effectiveness of institutional support in different conditions. The activities of the Food and Agriculture Organization (AgroElita, 2025) were also described, which implemented a two-year Emergency Response and Early Recovery Plan (2025-2026) aimed at supporting farmers in the dairy sector.

The study analysed the current preferential taxation and state support programmes in the livestock sector as of 2023-2024. The review covered the following key instruments: subsidies for the maintenance of cattle, goats and sheep; subsidies per hectare of agricultural land; feed and equipment compensation programmes; reduced value added tax rates; and special features of the single tax for farms (Marchenko, 2025). The study also examined the Family Dairy Farms project, which was selected as a representative example of a large-scale

initiative to create a network of small producers, combining institutional support, public funding and private investment. Its implementation made it possible to track the effectiveness of combining the cooperative model and targeted support programmes as factors in increasing the sector's investment attractiveness. Credit and grant programmes were also analysed, in particular "Affordable Loans 5-7-9%" (Privatbank is a participant..., n.d.) and preferential financing for dairy farming equipment in cooperation with banks (Oschadbank).

The analysis also characterised the dynamics of dairy farm development and identified key indicators of the dairy subsector's development, including production volumes, cattle numbers, average productivity and geographical concentration of investments. In addition, the main regulatory and legal acts governing dairy farming in Ukraine were reviewed, in particular Decree of the Cabinet of Ministers of Ukraine No. 76-r (2025), Resolution of the Cabinet of Ministers of Ukraine No. 106 (2018), Law of Ukraine No. 1560-XII (1991). Also, Law of Ukraine No. 1877-IV (2004) and the state programme of preferential lending "5-7-9%". As part of the study, a Strengths, Weaknesses, Opportunities, Threats (SWOT) analysis of the institutional environment was developed, taking into account challenges and barriers, which made it possible to identify the main areas for improving institutional regulation. The study also focused on tax, financial and organisational mechanisms for motivating investors. A separate stage of the work was the formation of practical recommendations for agricultural enterprises, which covered the development of an investment strategy, the implementation of quality standards, participation in certification programmes and the creation of investment passports.

RESULTS

Theoretical and methodological foundations for the formation of an institutional environment for attracting long-term investments

Institutional incentives for investment play a key role in creating a favourable environment for mobilising financial resources and ensuring the sustainable development of economic sectors, particularly dairy farming. Their economic essence lies in the creation of stable formal and informal conditions that regulate relations between participants in the investment process – the state, private investors, agricultural enterprises, financial institutions and cooperatives. Such incentives are formed through mechanisms of legislative regulation, financial and credit support, institutional trust, as well as through transparency of procedures and effective interaction between participants in the agri-food market. In the context of dairy farming, institutional incentives are particularly important, as this sub-sector requires long-term capital investment and depends on the stability of state policy, the availability of specialised infrastructure and an effective system for protecting investors' rights (Bakhur, 2020).

Depending on the source of origin, there are: state (formal), cooperative (sectoral), private (corporate) and mixed institutions. State institutions include legislative norms, budget support programmes, special investment regimes, preferential taxation, and guarantees for domestic and foreign investors. Cooperative institutions function as voluntary associations of commodity producers, creating additional mechanisms for financial interaction, reducing transaction costs and ensuring greater stability of supply. Private institutions include corporate strategies for attracting investors, partnership agreements, internal investment management rules and self-regulation. Mixed institutional forms involve interaction between public and private players within the framework of public-private partnerships or project financing (Hayat, 2019).

Institutional incentives are divided into direct (financial assistance, subsidies, state investment guarantees) and indirect (stability of the legal environment, protection of property rights, trust in the judicial system, transparency of regulatory policy). In addition, short-term and long-term incentives can be distinguished. The former are aimed at responding quickly to the needs of the sector, for example, reimbursement of part of the cost of milking equipment, preferential lending or compensation for the cost of fodder. Long-term incentives include institutional models that ensure investment stability, such as agricultural registries, electronic project management platforms (e.g., Digital

Restoration Ecosystem for Accountable Management (DREAM)), land banks, agricultural risk insurance, agricultural investment fund institutions, etc. Institutional incentives aimed at foreign investors constitute a special group (Hayat, 2019). These include the introduction of special economic zones, investment protection agreements, simplification of business registration procedures, digitisation of licensing procedures, and the inclusion of Ukraine in international investment attractiveness ratings. At the same time, it is equally important to build social capital in the agricultural environment – trust in institutions, the reputation of state bodies, the effectiveness of advisory services, and the ability of local initiatives to implement projects that meet the requirements of sustainable development. Methodological approaches to assessing the investment attractiveness of dairy farming are based on a combination of quantitative and qualitative criteria that allow identifying the potential profitability, risks, and stability of investments in the relevant segment of agricultural production. The assessment of investment attractiveness involves a multifactorial analysis that covers not only the internal production indicators of enterprises, but also the external economic, institutional and infrastructural conditions that influence investment decisions. The methodological toolkit is based on approaches such as comparative analysis, analytical and statistical methods, benchmarking, SWOT and PEST analysis, expert evaluation, scoring methods and integrated assessment. The basic quantitative criteria are production profitability, gross output per cow, the cost of milk, capital intensity per unit of production, the level of mechanisation and energy supply, the structure of feed and veterinary service costs, and the dynamics of investments in production infrastructure (Adamkulova *et al*., 2025).

At the same time, it is important to take into account financial indicators: financial independence ratio, debt-to-equity ratio, level of accounts receivable and accounts payable, payback period of an investment project, internal rate of return, net present value, and profitability index. Qualitative criteria include the level of state support, the availability of cost compensation programmes, access to credit resources, the stability of the regulatory framework, the availability of professional staff, the functioning of the advisory system, as well as institutional conditions: the activity of the cooperative movement, the availability of industry associations, the role of local administrations, and the transparency of procedures for interacting with government agencies. In addition, an important factor is the availability of logistics infrastructure (elevators, milk coolers, laboratories), access to sales markets, and the level of integration into value chains (Dai *et al*., 2022).

For systematic evaluation, an integrated approach is used, combining groups of indicators into a composite index of investment attractiveness. Each criterion is given a weighting coefficient depending on its significance for the investment decision. The data obtained is normalised, compared between enterprises or regions, and then investment attractiveness profiles are formed with corresponding recommendations. In some studies, it is advisable to use expert assessments on the Saaty scale to determine weighting coefficients, as well as multi-criteria analysis methods, such as: Technique for Order Preference by Similarity to Ideal Solution (Madanchian & Taherdoost, 2023), which is based on calculating the distance to the ideal and worst options, Analytic Hierarchy Process, which allows structuring the task in the form of a hierarchy and conducting pairwise comparisons of criteria; ELimination Et Choix Traduisant la REalité (Sartika & Murni, 2023), which is based on the preponderance method and is used to rank alternatives according to several parameters.

In the context of challenges related to climate change, resource scarcity, rising energy costs and product quality requirements, the inclusion of sustainability indicators – the level of environmental responsibility, compliance with quality and safety standards, energy efficiency, and the use of sustainable land use technologies – is particularly relevant. It is also important to take into account the risks associated with military aggression, disruption of logistics chains, inflationary pressure, changes in exchange rates and effective demand. That is why the assessment of investment attractiveness should be dynamic, using up-to-date data adapted to the conditions of a war and post-war

economy (Jones *et al*., 2013). Institutional support for investment activities in the agricultural sector is based on the interaction of public, private and cooperative structures, each of which performs a specific function in ensuring long-term financing, stable development and increased competitiveness of dairy farming. State participation is manifested primarily through strategic planning, programme funding and the implementation of digital platforms that increase transparency and predictability for investors. For example, Resolution of the Cabinet of Ministers of Ukraine No. 179 (2021) sets out guidelines for the transformation of the agricultural sector, including the modernisation of production capacities in dairy farming. The document introduces a number of financial incentives for the modernisation of livestock complexes, including partial compensation for the costs of construction and equipment procurement. In addition, the development of the DREAM digital platform enables the registration, selection and monitoring of investment projects. With its help, investors can apply for state support, track the movement of funds and analyse the results of the implementation of initiatives, creating an open ecosystem for transparent interaction between business and the state (Tetiu, 2025).

Private enterprises are increasingly active in promoting a favourable investment climate in dairy production. The MHP (n.d.) agricultural holding in Kyiv implements programmes to support small producers by providing sales, technical equipment and advisory services. In particular, the company enters into long-term contracts with farmers for the purchase of milk, provides them with refrigeration equipment and organises training seminars on improving product quality. This model allows small farms to gain access to a guaranteed market, stable income and technical support, which contributes to their long-term stability. Cooperative participation is a key element in mobilising investment potential among small and medium-sized producers who do not have access to large-scale financial or logistical resources on their own. For example, the Dobrobut Andriivka (n.d.) agricultural service cooperative in the Dnipropetrovsk region was one of the first to receive milk processing equipment, is actively increasing the volume of raw materials collected, and is creating additional jobs (AgroPortal, 2025c). The development of such cooperatives allows for the diversification of sales channels, increases farmers' incomes, and contributes to the development of the local economy. In addition, the Pokrova (n.d.) agricultural service cooperative in the Lviv region has increased the profitability of local farmers through joint equipment purchases, the organisation of efficient milk collection and the provision of stable sales, setting an example for other regions (Kitral, 2024). The cooperative ensures quality standardisation, joint investment management and paves the way for the introduction of production practices even for small market participants. Another example is the Ekom (n.d.) cooperative in the Ivano-Frankivsk region, which brought together 43 residents, created its own brand of cheese, "Chesnykivsky Cheese", and significantly increased its income through high-quality sales of dairy products (Samosvat, 2020). The combination of production, marketing and branding within a single cooperative has enabled small producers not only to increase sales volumes but also to increase the value of finished products, which is an important element in the formation of added value within local production. Thus, state strategic support, the active role of private business and the potential of cooperative associations form a complementary system of institutional support for investment activities in dairy farming. Such a system provides conditions for stable capital attraction, adaptation to changes in the external environment and the achievement of strategic goals of food security and market integration.

In 2023-2025, Ukraine had powerful economic mechanisms in place to stimulate investment in the dairy farming sector, including direct budget support, tax incentives, and preferential lending. One of the key instruments was state subsidies for livestock maintenance: in particular, 7,000 UAH was paid for each cow (within the range of 3 to 100 heads), and 2,000 UAH for each sheep or goat. There was also 4,000 UAH per 1 hectare of cultivated land (up to 120 hectares), which was relevant for small and family farms registered in the State Agrarian Register. In 2024, 27,614 agricultural producers took

advantage of this support, of which 15,252 received subsidies for cattle and another 1,915 for breeding goats and sheep. The total amount of subsidies per hectare exceeded 1.15 billion UAH (Marchenko, 2025). In addition, a preferential taxation mechanism was in place, which included the payment of a single tax of group 4, exemption from value added tax, a reduced VAT rate of 14% for livestock products, and tax breaks for individuals who sell products within 50 minimum wages per year (Makovei, 2024). The most ambitious financing instrument was the "Affordable Loans 5-7-9%" programme (Privatbank is a participant..., n.d.), which was used by 3,965 agricultural enterprises in 2025, attracting 24.4 billion UAH, and in total, under all programmes, more than 54.6 billion UAH for 8,624 farms. Within this programme, an increased lending limit for livestock farming was set at up to UAH 150 million (Moiseev, 2025). The loans were used to purchase equipment and build or renovate livestock farms, including dairy farms. Some banks, such as Oschadbank in partnership with Global Engineering Alliance Ukraine, provided special loans for dairy farming at a rate of 0.01%. Since 2025, a mechanism for partial compensation of farm reconstruction costs has also been in place, which further stimulates investment in this segment. In general, state policy in 2023-2025 is aimed at increasing the economic attractiveness of livestock production, stimulating investment activity, and reducing barriers to the renewal of material and technical resources and the modernisation of farms.

Analysis of the state of institutional support for investment in dairy farming

Dairy farming in Ukraine in 2022-2025 shows signs of gradual recovery and growth, despite serious challenges caused by military action and economic instability. Against the backdrop of capacity losses in the eastern regions of the country, production and capital investments are shifting to the central and western regions, where a new investment map of the industry is being formed. According to Minister of Agrarian Policy V. Koval, this is where most of the new projects for the construction and modernisation of more than 125 dairy farms are concentrated (AgroPortal, 2025a). The Khmelnytskyi region is the leader in terms of the number of family dairy farms, with 37 farms participating in the Family Dairy Farms project. This indicator demonstrates the high level of interest of local communities in small forms of entrepreneurship and the effective interaction between state support programmes, cooperative associations and private initiatives. In addition, a large-scale investment project to build a farm for 1,200 head of cattle, which started in 2024, is being implemented in this region (AgroBusiness, 2024). The combination of large and small forms of business creates a multi-level model of industry development, where small producers gain access to infrastructure, and large ones provide stable production of raw materials and logistical support. This demonstrates the synergy of different institutional forms within a single region. In the Lviv region, investment activity is concentrated around the private sector. Mukko Dairy Farm (n.d.) is implementing one of the largest projects in Ukraine – the construction of a farm for 2,000 cows in the Morshyn community. This example is important in terms of localising investments in safe regions, which minimises military risks and ensures the long-term operation of the facility. The project also demonstrates the ability of private businesses to attract foreign capital and develop infrastructure in accordance with European quality and safety standards. Its implementation contributes to employment growth, demand for local services, and the formation of a positive investment image for the region.

The Poltava region, traditionally strong in milk production, showed active growth in family farming in 2022, with nine new farms opened as part of a project to support small producers (AgroPortal, 2022). This example illustrates the effectiveness of the implementation of state and donor programmes at the local level and confirms the importance of institutional presence, in particular through advisory services, registration in state registers and access to preferential lending. The growth in the number of small farms in this region indicates positive changes in the structure of production, as well as increased investment activity among the rural population. One of the largest infrastructure projects has been launched in the Chernihiv region – the construction of a complex for 4,000 head of

cattle, initiated by the Ichnia Milk and Canning Plant. The implementation of such a project is strategically important for strengthening the industrial segment of dairy production in the north-eastern region, which has suffered significant losses due to military operations. The project marks the return of investment to regions with high agricultural potential and existing processing infrastructure. Its implementation involves modernising the material and technical base, increasing productivity, improving logistics and creating new jobs. Despite its proximity to the combat zone, the Mykolaiv region is showing signs of stabilisation. In 2024, the region recorded an 18% increase in milk production compared to 2023, indicating a partial recovery of production capacity. This dynamic is possible thanks to support from international partners, the transfer of activities to safer areas of the region, and the adaptation of farms to unstable market conditions. In other words, even in difficult conditions, positive investment dynamics are possible if there are clear mechanisms for stimulating and protecting business.

Alongside regional revitalisation, the role of international support is growing. The Food and Agriculture Organization is implementing a two-year Emergency Response and Early Recovery Plan (2025-2026) aimed at helping more than half a million rural residents, including farmers in the dairy sector (AgroElita, 2025). Since the beginning of the war, the Food and Agriculture Organization has provided support to more than 185,000 households, supplying them with young livestock, feed, generators and equipment (Interfax-Ukraine, 2024). The total amount of aid is approximately 290 million USD In 2024, more than 45,000 families received support. By the end of 2025, the profitability of the dairy business is expected to grow to 40% (compared to 23% in 2022, 26% in 2023 and 35% in 2024), which makes the industry attractive for investment even in wartime. However, part of the farmers' profits is used to cover losses in crop production, which slows down the pace of reinvestment (Rodak, 2024). The Family Dairy Farms project plays a special role in supporting small agribusinesses. It aims to create a network of private farms that could potentially provide up to 15% of Ukraine's total milk production. At the same time, additional investments in the modernisation of milk processing enterprises are needed to improve product quality and enter European markets. Currently, the insufficient level of technical modernisation is hindering the adaptation of production to EU standards, particularly in terms of food safety (Mind, 2022).

In 2022-2024, the dynamics of dairy farm development in Ukraine will reflect both the consequences of military action and the gradual recovery of the industry through investment, modernisation and support from the state and international partners. The full-scale war led to the loss of approximately 100 commercial dairy farms, which was a significant blow to the sector. The cow population decreased from 1.58 million as of 1 January 2022 to 1.155 million at the beginning of 2025. In particular, dairy farms saw a reduction of about 34,000 head (Lubyana, 2025). Despite the losses, by 2023 the industrial sector – dairy farms – was able to restore production volumes to pre-war levels: 2.8 million tonnes, which is 6% more than in 2022 (National Institute for Strategic Studies, 2024). In total, including households, 7.2 million tonnes of milk were produced in 2024, and the rate of decline slowed to 2%, indicating a gradual stabilisation of the industry. At the same time, the construction and modernisation of new dairy farms became a key trend. As of May 2025, 125 farms are undergoing reconstruction or construction, mainly in the central and western regions. This indicates an increase in investment and a change in the geography of production, with the dairy business moving from the eastern regions to safer areas (Volokita, 2025). The family farm sector is developing particularly rapidly. At the end of January 2022, there were more than 150 farms within the Family Dairy Farms project, and this number is steadily growing. Such farms are becoming an integral part of the industry's infrastructure and ensure its sustainability in crisis conditions. In addition, productivity is increasing. The average size of a commercial dairy farm in Ukraine is approximately 300 head of cattle, and the most efficient enterprises provide milk yields of over 12,000 kg per cow per year (MilkUa, 2024). Table 1 summarises the key structural indicators and trends in the investment development of the dairy subsector during the specified period.

Table 1. Key indicators of the dairy subsector's development in Ukraine (2022-2025)

Indicator	2022	2023	2024	As of May 2025
Cow population (million heads)	1.58	1.285	1.21	1.155
Milk production volume (million tonnes)	6.8	7.2	7.2	-
Number of dairy farms lost due to the war	~100	-	-	-
Number of modernisation projects/new farms	32	74	103	125
Number of family dairy farms	>150	~180	~220	~240
Average size of a dairy farm (heads)	270	280	290	300
Productivity (kg)	up to 10,500	up to 11,000	up to 11,800	up to 12,000
Investment geography (main regions)	Central, Eastern	Central	Central, Western	Western, Central

Source: compiled by the author based on data of Mind (2022), MilkUa (2024), Ya. Lubyana (2025)

Table 1 shows the main indicators of the transformation of Ukraine's dairy subsector in 2022-May 2025. During this period, the number of cows decreased from 1.58 million to 1.155 million, reflecting infrastructure losses and the impact of military operations. Despite this, milk production remained stable in 2023-2024 at 7.2 million tonnes. Despite the reduction in the number of cows, milk production remained stable, staying at 7.2 million tonnes in 2023-2024. This indicates a gradual increase in the productivity of dairy livestock, which, according to the table, rose from 10,500 kg in 2022 to 12,000 kg in May 2025. Thus, the increase in milk yield compensated for the loss in the number of cows, which can be seen as a result of the introduction of modern technologies, improved feeding, genetic selection and institutional support. The trend towards an increase in the number of modernisation projects and new farms deserves special attention: from 32 in 2022 to 125 in May 2025. This indicates a revival of investment activity, especially in the safer western and central regions, which is confirmed by the shift in the geography of investments to these areas. At the same time, the number of family farms has increased from over 150 to about 240. The average size of a dairy farm has increased from 270 to 300 head, indicating a gradual consolidation of production. In 2022, approximately 100 farms were lost, but in 2023-2025, the industry showed signs of recovery. The geography of investment gradually shifted from the eastern regions to the central and western regions. This shift was due to both security considerations and the concentration of state support in these regions. Thus, investment activity in dairy farming in Ukraine is gradually increasing thanks to a combination of state policy, private initiatives and international support.

The main trends indicate a geographical concentration of projects in the central and western regions, a gradual increase in farm efficiency and stabilisation of production. However, for a full transformation of the industry in the post-crisis period, further expansion of financing, development of cooperation and deepening of institutional support from the state and international partners are necessary. The main regulatory and legal acts of Ukraine governing investment activities in dairy farming form a comprehensive institutional environment for attracting capital, modernising farms and developing production. In particular, Decree of the Cabinet of Ministers of Ukraine No. 76-r (2025) defines the priorities of investment policy, including the creation of modern production infrastructure, increasing the volume of raw milk and forming a favourable business environment in rural communities. Resolution of the Cabinet of Ministers of Ukraine No. 106 (2018) establishes the procedure for providing budgetary support, including subsidies for keeping cows, and continues to operate in 2025 with updated conditions adapted to the needs of dairy farms. An additional lever of support is the state programme of preferential lending "5-7-9%" (Privatbank is a participant..., n.d.), which allows farmers to obtain loans for the construction and reconstruction of dairy farms at reduced rates, with the possibility of partial compensation of expenses. The basic provisions are also

regulated by Law of Ukraine No. 1560-XII (1991), Law of Ukraine No. 1877-IV (2004) and other industry-specific acts that create the legal framework for the implementation of investment projects. Together, these instruments contribute to the institutional strengthening of the dairy sector, increasing its attractiveness to investors and ensuring the country's food security.

Thus, in 2023-2025, dairy farming in Ukraine is gradually recovering after significant losses caused by the war. A key trend is the active growth of investment activity in the central and western regions, where most of the new projects for the construction and modernisation of dairy farms are being implemented. At the same time, there is a development of a network of family farms, an increase in the productivity of enterprises and stronger international support, in particular from the Food and Agriculture Organization. This creates the economic conditions for modernising production, stimulating new investment and gradually putting the industry on a path of sustainable growth.

Strategic guidelines and institutional decisions to stimulate investment activity in the dairy subsector

Increasing investment activity in the dairy subsector of Ukraine's agriculture is impossible without effective institutional regulation. As of 2025, the regulatory system is characterised by fragmentation, uneven implementation at the regional level, and limited effectiveness in achieving targets. Problems with regulatory support, weak interaction between central and local authorities, and a lack of consistent coordination with international donors are hindering the realisation of the potential for investment in dairy farming. A SWOT analysis was conducted to systematically analyse the internal and external factors of institutional regulation development, as shown in Table 2.

Table 2. SWOT analysis of the institutional environment for investment activity in the dairy sector

Strengths	Weaknesses
▪ The existence of an approved Concept for the State Programme for the Development of Livestock Farming until 2033 ▪ Implementation of the "5-7-9%" programme with the possibility of compensation for expenses incurred on livestock facilities ▪ Existence of preferential mechanisms for farms ▪ Participation of international organisations (United States Agency for International Development, Food and Agriculture Organization, European Bank for Reconstruction and Development) in financing the development of the dairy industry	▪ Lack of a single investment register for livestock farming ▪ Difficulty for small farmers to access budget support ▪ Low institutional capacity of communities to implement investment programmes ▪ Bureaucratic barriers to project approval and delays in obtaining funding
Opportunities	**Threats**
▪ Adaptation of European approaches to regulating agricultural investment ▪ Expansion of electronic services for project registration and obtaining financial support ▪ increasing transparency by opening databases on state support and the effective use of funds ▪ Formation of development institutions in communities (agribusiness support agencies, investment offices)	▪ War risks that make long-term investment impossible ▪ Declining investor interest due to the unpredictability of regulatory policy ▪ Likely reduction in external financial assistance in the event of geopolitical changes ▪ High dependence of the sector on budget decisions and delays in programme funding

Source: compiled by the author based on AgroElita (2025)

The results of the SWOT analysis indicate the presence of basic elements of institutional regulation, but their impact on investment activity remains limited due to uneven implementation, inconsistent procedures and limited transparency. As part of one of the tasks set in the study – developing practical recommendations for agricultural enterprises to increase investment attractiveness – a number of proposals were formulated aimed at improving the institutional environment. In particular, it is necessary to ensure the centralisation and transparency of accounting for investment projects in the sector by creating a single register of agricultural investments, which will allow tracking the progress of implementation, sources of financing, and the impact on production and employment. In addition, the institutional capacity of local

authorities should be strengthened by creating agricultural investment support offices within local communities. Their task will be to advise agricultural producers, support projects and communicate with banks, donors and government agencies. An important step should be the unification of procedures for obtaining support: the development of a single online portal for submitting applications for participation in state aid, compensation and grant programmes. The DREAM platform partially fulfils this function, but needs to be refined specifically for the livestock sector. It is also necessary to expand access to financial instruments by developing local programmes to support farmers in communities where there has been a significant reduction in livestock numbers. The development of an institutional risk insurance mechanism for investors in areas of increased military danger deserves special attention. A model for guaranteeing compensation for lost assets through state funds or international programmes will make it possible to attract new capital even in conditions of instability.

Motivating investors to invest more actively in dairy farming is only possible if tax, financial and organisational instruments of influence are systematically combined. One important area is tax incentives. In particular, it would be advisable to introduce tax holidays for companies that invest in the modernisation of dairy farms above a certain financial threshold. An additional form of support could be the provision of land tax relief for farmers who keep more than 100 head of cattle. In addition, a stimulating measure is to reduce the value-added tax rate on equipment used for the construction and equipping of modern dairy complexes. Financial instruments also play an important role in motivating investors. In particular, the continued operation of the "5-7-9%" preferential lending programme with the possibility of reducing the interest rate for livestock projects is an important factor in accessing capital. In addition, mechanisms for compensating up to 50% of the costs of building dairy farms from the state budget, as well as providing targeted grants for the development of family farms, are important (APK Inform, 2024).

Another important area is the use of organisational tools that provide for the development of agro-industrial clusters, cooperatives, and logistics hubs. Such solutions help reduce the costs of transportation, processing, and distribution of dairy products, create economies of scale, and strengthen the position of small and medium-sized producers. A notable example is the activities of the Dobrobut Andriivka cooperative in the Dnipropetrovsk region, which, thanks to support, received equipment for milk processing, expanded the geography of raw material collection, and created new jobs (AgroPortal, 2025b). This experience demonstrates the effectiveness of combining organisational solutions with financial and tax mechanisms to stimulate investment activity in the dairy sub-sector. At the level of agricultural enterprises, it is advisable to implement a number of practical measures aimed at increasing investment attractiveness. Among the main ones are the formation of a clear investment strategy with projected financial indicators, the preparation of reports in accordance with international standards, the implementation of the ISO No. 22000:2019 (2019) or Hazard Analysis Critical Control Point (n.d.), as well as participation in certification programmes for entry into international markets. It is also important to strengthen communication with potential donors, banks and funds by creating own investment passports, business project presentations, and regularly updating information about investment needs on regional platforms.

The implementation of these steps will increase the investment attractiveness of agricultural enterprises by 30-35% over the next 2026-2027 years. In particular, the profitability of the dairy business could increase from the current 12-18% to 25-28% in 2026, and the volume of funds raised could increase by 40% compared to 2023. In addition, enterprises that integrate digital solutions (milk yield accounting, remote monitoring, feeding automation) and use green technologies (solar panels, biogas plants) will have an advantage in obtaining grant aid and entering EU markets (Daletska, 2024; Polishchuk, 2025).

In conclusion, it should be emphasised that stimulating investment activity in the dairy subsector of Ukraine's agricultural production requires a systematic update of the institutional environment. The barriers and opportunities

identified in the SWOT analysis indicate the need to centralise procedures, digitise support processes, strengthen regional capacity and ensure access to effective investor motivation mechanisms. The introduction of a single register of agricultural investments, a unified online platform for participation in support programmes, and the development of cooperative structures and local investment offices will increase the transparency and effectiveness of regulatory policy. This approach will increase the investment attractiveness of the industry and contribute to the achievement of strategic goals for sustainable agricultural development.

DISCUSSION

In dairy farming research, the focus is gradually shifting from purely technological and economic aspects to a broader analysis of the institutional environment and its mechanisms of influence on the investment attractiveness of the industry. This study focused on the institutional conditions for attracting investment in dairy farming, while the study by A.M. Alvarez *et al.* (2021) examined farmers' strategies for creating added value. Both approaches took into account the influence of context, but the former focused on public policy and cooperation, while the latter focused on entrepreneurial qualities and local conditions. There were also differences in methodology: the first study was based on statistics and normative analysis, while the other was based on the clustering of farming strategies. At the same time, both emphasised the role of diversification in increasing the sustainability of the industry.

A similar contrast was noted in comparison with the study by P. Bórawski *et al.* (2020), which focused on the triple impact of economic, environmental and social factors on dairy farming in Poland. Although the approaches differed – quantitative modelling versus normative-analytical – both studies highlighted the need to balance economic efficiency and sustainable development principles. At the same time, this study considered state support as a means of stimulating investment, while the Polish authors focused more on internal farm indicators. The study by M. Barbeta-Viñas & M. Requena-i-Mora (2021) focused on the microeconomic characteristics of small farms in mountainous regions of Spain. The researchers analysed profitability under natural and operational constraints, which contrasted with the focus of this study on policy and cooperation instruments to stimulate investment in Ukraine. However, both approaches agreed on the need to adapt policies and strategies to specific regional conditions.

The study of technological modernisation in the dairy sector in the work of I. Vázquez-González *et al.* (2021) revealed another important parallel. Both studies confirmed the need to update approaches to industry management, but while the Spanish researchers examined the role of education, technology and internal farm organisation, this study analysed the institutional space and macro-political conditions necessary to attract investors. The work of I. Fertő *et al.* (2021) dealt with the regional characteristics of dairy farming in Central and Eastern European countries. The analysis of production scale, logistics and market accessibility complemented the results of this study, which focused on national regulatory mechanisms. Despite differences in geography and methods, both studies emphasised the importance of combining government intervention with adaptability at the farm level.

A comparison with the study by K. Zalewski *et al.* (2022) also revealed a common point – the importance of cooperation in supporting small producers. However, while the Polish authors conducted a financial analysis of the effectiveness of cooperatives, this study considered cooperative models as an element of the institutional environment that increases the attractiveness of the sector to investors. Despite the difference in methods, the important role of collective forms of organisation in stabilising the industry was confirmed. Finally, the study by L. Coyne *et al.* (2021) was dominated by a behavioural approach to assessing the use of antimicrobials in Irish dairy farming. The authors emphasised the need to transform management models and educational interventions to increase the sector's sustainability. These results complemented the conclusions of this study regarding the need for a comprehensive review of public policy with a focus on effectiveness, trust and long-term stability. Both approaches demonstrated the importance of systemic changes at both the micro and macro levels.

The study by A. Cortes *et al*. (2020) examined the adaptation of Spanish dairy farmers to environmental and market changes, particularly through diversification and cooperation. This study also emphasised the importance of cooperation and institutional support, but focused on the role of the state and the private sector in Ukraine. Both studies pointed to the need for structural changes to increase the sustainability of the industry, but had different methodological approaches – socio-economic in one case and institutional-economic in the other. Another study, presented by E. Celik *et al*. (2024), was based on a quantitative analysis of the efficiency of dairy farms in Turkey using Data Envelopment Analysis, evaluating the impact of state subsidies on productivity. Unlike this approach, the present study was not limited to financial efficiency alone, but considered a wider range of instruments – from government support to cooperative practices – analysing not only the effects but also the preconditions for their implementation. Nevertheless, both studies agreed on the positive impact of support on the development of the industry. The study by X. Du *et al*. (2023), conducted in China, revealed the importance of government policy for the sustainable development of the industry, including the environmental component, which resonated with the focus of this study. However, while X. Du *et al*. worked with a quantitative analysis of farmers' attitudes, this study focused on a normative and analytical study of the institutional environment. Similarly, Y. Zhan *et al*. (2025) explored the possibilities of ensuring the sustainability of dairy production through digital tools and big data technologies. This study, in turn, emphasised the importance of cooperative interaction and government regulation as basic mechanisms for attracting investment. Despite the difference in tools, both works considered innovation as a driving force for development.

The work of J. Yi *et al*. (2023) focused on the introduction of precision livestock farming technologies in China as a means of improving production efficiency. Although the researchers worked at the micro level, analysing technological innovations in individual farms, the focus of this study was on the institutional conditions for investment, reflecting a macro-level approach to assessing sectoral transformations. This multi-level logic was supported by the conceptual approach of D. Robinson & W. Dolfsma (2025), who emphasised general models of institutional interaction in agriculture. While their study was more theoretical, this work demonstrated an empirical approach, using examples of the implementation of state, cooperative and private support in the domestic context. In this regard, the study by R.-A. Gheorghe-Irimia *et al*. (2023) was also indicative, which used Romania as an example to evaluate the impact of EU policy on the productivity of dairy farms using econometric tools. Unlike the quantitative model chosen by the authors, this study was based on a normative analysis and systematisation of existing forms of support in Ukraine. However, despite the differences in methods, all of the above-mentioned works emphasised the key role of the institutional environment in strengthening the economic sustainability of dairy production.

Structural changes in the German dairy sector were the focus of a study by M. Böhme (2021), which emphasised the social consequences of the transformations. At the same time, this study paid more attention to economic instruments and support in wartime, focusing on the functioning of the Ukrainian dairy market. Meanwhile, the study by M. Vaarst *et al*. (2024) was global and conceptual in nature, focusing on the transition to agroecology and value-oriented farming. This study, in turn, demonstrated an applied approach aimed at the practical creation of conditions for investment. Despite the difference in scale and approach, both studies recognised the critical role of institutional transformation in shaping a sustainable dairy sector.

A favourable institutional environment is a key factor in stimulating investment in dairy farming. The combination of government support, cooperative models and private initiatives creates conditions for the sustainable development of the industry in the face of internal challenges and external pressures. The formation of an effective system of interaction between all market participants contributes to strengthening economic stability, increasing competitiveness and ensuring food security.

CONCLUSIONS

In 2022-2025, Ukraine's dairy farming showed signs of stabilisation and recovery, despite the profound shocks caused by the full-scale war. The industry suffered significant losses: a reduction in cattle numbers from 1.58 million to 1.155 million, the loss of more than 100 dairy farms, and a decline in investment activity in the eastern territories. At the same time, as of 2025, 125 dairy farms are under construction or modernisation, including large-scale facilities in the Lviv, Khmelnytskyi, Poltava, Chernihiv, and Mykolaiv regions. In the Lviv region, Mukko Milk is building one of the country's largest farms for 2,000 cows in the Morshyn community. In the Khmelnytskyi region, a project is underway to build a farm for 1,200 head of cattle, and 37 family dairy farms are in operation. In the Poltava region, which is one of the key milk producers in Ukraine, nine new family farms were opened in 2022. In the Chernihiv region, the Ichnia Milk and Canning Plant project is underway, which involves the construction of a complex for 4,000 head of cattle. In the Mykolaiv region, an 18% increase in milk production was recorded in 2024, indicating positive dynamics in the southern region. The development of family dairy farms is particularly active – today, 240 farms are operating within the framework of the "Family Dairy Farms" project.

According to the results of 2024, total milk production reached 7.2 million tonnes, and the rate of decline slowed to 2%, which is a sign of stabilisation processes. Profitability indicators show positive dynamics: growth from 23% in 2022 to 40% in 2025. This, in turn, creates the conditions for increased long-term investment. International aid also contributes to this, in particular support from the Food and Agriculture Organization, which covered more than 185,000 households and amounted to 290 million USD. One of the key levers remains the state programme "5-7-9%", which provides access to preferential lending with the possibility of compensation for farm construction costs. In addition, the institutional ecosystem is strengthened by the functioning of the DREAM digital platform, which ensures transparency of investment flows and simplification of procedures.

A SWOT analysis of the institutional environment revealed that although the strengths are the availability of state programmes and international participation, access to support for small farmers and the lack of transparency in project implementation remain weaknesses. In response to these challenges, a number of strategic guidelines have been proposed: the creation of a single agricultural investment register, the introduction of tax holidays for investors, the expansion of cooperative interaction, and the development of regional agribusiness support offices. Of particular relevance are mechanisms for insuring investments in areas of military risk, which will reduce losses and increase investor confidence. Given the challenges of the war period, the priority is to move towards long-term incentives focused on institutional stability, digitalisation of processes, integration into European markets and the development of sustainable business models. The prospect for future research is to develop integrated models for assessing the effectiveness of institutional support, taking into account the dynamics of post-war recovery and the participation of foreign investors in the dairy subsector.

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Формування інституційного середовища для стимулювання довгострокових інвестицій у молочне тваринництво

Анотація. Метою даного дослідження було обґрунтування механізмів підвищення інвестиційної привабливості молочного тваринництва України шляхом удосконалення інституційної підтримки та впровадження ефективних економічних стимулів. У ході дослідження було проведено аналіз нормативно-правового середовища, оцінено динаміку розвитку галузі у 2022 – травні 2025 років, а також вивчено приклади реалізації інвестиційних проектів на рівні агрохолдингів, кооперативів і міжнародних програм. У результаті встановлено, що у 2024 році виробництво молока в Україні становило 7,2 млн тонн, а рентабельність галузі зросла з 23 % у 2022 році до 26 % у 2023 році, з прогнозованим підвищенням до 40 % у 2025 році. У межах проекту «Сімейні молочні ферми» функціонує 240 господарств, а кількість створених нових і модернізованих молочно-товарних ферм досягла 125. Водночас спостерігалося скорочення поголів'я корів із 1,58 млн у 2022 році до 1,155 млн на момент травня 2025 року, що зумовлено втратами від війни та низькою привабливістю для інвесторів у східних регіонах. У дослідженні визначено основні бар'єри, серед яких – складність доступу до фінансування, регіональна нерівність і нестабільність регуляторної політики. Було проведено комплексний аналіз сильних і слабких сторін, можливостей і загроз інституційного середовища на основі якого розроблено практичні рекомендації щодо впровадження єдиного реєстру інвестицій, уніфікованої онлайн-платформи підтримки, розширення кооперації та податкового стимулювання. Запропоновані рішення дозволяють очікувати підвищення інвестиційної привабливості аграрних підприємств на 30-35 % та зростання рентабельності молочного бізнесу до 25-28 % до 2026 року. Практичне значення дослідження полягає в розробці прикладних інструментів для удосконалення інституційної підтримки, які можуть бути використані органами державної влади, громадами та аграрними підприємствами з метою стимулювання довгострокових інвестицій у молочне тваринництво

Ключові слова: ферми; оподаткування; механізм; ризик; державна програма