

THE INVESTMENT ATTRACTIVENESS OF THE AGRICULTURAL SECTOR OF UKRAINE

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Kulynych Yu. M., Shirinyan L. V. The Investment Attractiveness of the Agricultural Sector of Ukraine

The aim of the article is to analyze the positions of Ukraine in the basic rankings of investment attractiveness and competitiveness; identify the key obstacles restraining the attraction of financial resources to the agro-industrial complex; suggest the ways for solving the main problems concerning investment attractiveness of the domestic agricultural sector. The evaluation of the efficiency of an agrarian policy is carried out with the help of the Total Support Estimate (TSE), which indicates the volume of gross transfers received from taxpayers and consume. The amount of and trends in capital investment into agriculture of Ukraine within 2010–2017 are analyzed. The main drawbacks of the existing investment management system of agricultural enterprises in Ukraine are determined. Based on the research results, the authors put forward suggestions for improving the investment climate in Ukraine, which will contribute not only to a greater openness of the Ukrainian economy but to a complete inclusion of the agricultural sector of Ukraine to the global food security system as well.

Keywords: investment attractiveness, investment, agro-industrial complex, Total Support Estimate, food industry, agriculture, economic development.

Fig.: 3. **Tbl.:** 5. **Bibl.:** 8.

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Кулинич Ю. М., Ширинян Л. В. Інвестиційна привабливість аграрного сектора України

У статті проаналізовано позиції України в основних рейтингах інвестиційної привабливості та конкурентоспроможності; визначено ключові перешкоди, які стримують залучення коштів у агропромисловий комплекс; запропоновано шляхи вирішення основних проблем інвестиційної привабливості вітчизняного сільського господарства. Виконано оцінку ефективності аграрної політики за допомогою показника сукупної підтримки сільського господарства (Total support estimate – TSE), який визначає загальну суму трансфертів, що надходять від платників податків і споживачів. Здійснено аналіз обсягів і динаміки капітальних інвестицій у сільське господарство протягом 2010–2017 рр. Визначено основні недоліки існуючої системи управління інвестиціями аграрних підприємств в Україні. Сформовано пропозиції щодо покращення інвестиційного клімату в Україні, які сприятимуть не лише більшій відкритості української економіки, але й повноцінному включенню українського сільського господарства в глобальну систему продовольчої безпеки.

Ключові слова: інвестиційна привабливість, інвестиції, агропромисловий комплекс, сукупна підтримка сільського господарства, харчова промисловість, сільське господарство, економічний розвиток.

Рис.: 3. **Табл.:** 5. **Бібл.:** 8.

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Кулинич Ю. М., Ширинян Л. В. Инвестиционная привлекательность аграрного сектора Украины

В статье проанализированы позиции Украины в основных рейтингах инвестиционной привлекательности и конкурентоспособности; определены ключевые препятствия, сдерживающие привлечение средств в агропромышленный комплекс; предложены пути решения основных проблем инвестиционной привлекательности отечественного сельского хозяйства. Выполнена оценка эффективности аграрной политики с помощью показателя совокупной поддержки сельского хозяйства (Total support estimate – TSE), который определяет общую сумму трансфертов, поступающих от налогоплательщиков и потребителей. Осуществлен анализ объемов и динамики капитальных инвестиций в сельское хозяйство в течение 2010–2017 гг. Определены основные недостатки существующей системы управления инвестициями аграрных предприятий в Украине. По результатам исследований сформированы предложения по улучшению инвестиционного климата в Украине, которые будут способствовать не только большей открытости украинской экономики, но и полноценному включению украинского сельского хозяйства в глобальную систему продовольственной безопасности.

Ключевые слова: инвестиционная привлекательность, инвестиции, агропромышленный комплекс, совокупная поддержка сельского хозяйства, пищевая промышленность, сельское хозяйство, экономическое развитие.

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Access to the key world agricultural markets is possible granted a steady supply of high added value products, since only the creation of high value added can ensure intensive economic development both of a separate business entity and the national economy as a whole.

The demand for investment resources on the global market is constantly growing, and at the same time it sig-

nificantly exceeds the supply. Therefore, countries aimed at economic growth and development of the society, raising social standards and improving the quality of people's life are trying to create the most favourable conditions for attracting investment, both domestic and foreign. Investment attractiveness is considered by economists at the macro and micro levels and in fact represents the interest

of a subject of investment activity in investing its funds in a particular object/investee.

The agricultural sector is important for the Ukrainian economy, which is explained by the high level of employment in this industry, significant GDP share, and its great impact on the development of rural areas.

Due to this fact, assessing the investment attractiveness of the agricultural sector of Ukraine to develop the key suggestions for promoting an intensive economic development of the national economy is relevant.

The problems of improving the state regulation system of investment processes, encouraging investment activity, forming a favourable investment climate, and other issues related to investment are raised in works of a number of scientists, in particular: L. Rud, A. Halchynskiy, Yu. Karnasiuk, T. Matsybora, O. Musienko, D. Pashko, S. Kushnir, E. Yakymenko, T. Mayorova, I. Blank, P. Stetsiuk, O. Nosova, V. Gryniyova, V. P. Feshchenko, V. Pecheniuk, and others.

The *aim* of the article is studying the investment attractiveness of Ukrainian agriculture and suggesting measures to create a favourable investment environment in the sector and enhance investment activity in Ukraine as a whole.

First, it is appropriate to consider theoretical aspects of increasing the investment attractiveness of the agricultural sector, based on a number of factors

affecting the process of attracting investment, which are generalized in *Tbl. 1*.

Methods of influence on the investment activity in the AIC are rather important. Their systematization is presented in *Fig. 1*.

Next reasonable step is a quantitative measurement of investment attractiveness. The country's place in global rankings should be analysed to get the first impression. The analysis of the rankings demonstrates that Ukraine is still not among the countries with an attractive investment climate, which hinders investment processes (*Tbl. 2*).

As we can see, within the analyzed period the Ukraine's ranking remained almost without changes in terms of all indexes except for the Ease of Doing Business, where a significant improvement in the position is observed, from 152 in 2012 to 85 in 2016.

Agriculture takes an important place in world economies as it promotes solving such critical problems as ensuring the national food security, sustainable development of the food industry, welfare of rural population, and high quality of life of the majority of residents in urban areas. This is the reason why agriculture is supported in the whole world.

In our opinion, the most effective is the analysis of the volume and forms of support for domestic agriculture and their comparison with the relevant data for

Table 1

Internal and external factors determining investment attractiveness of agricultural enterprises

	Positive	Negative	
External	Favourable climate	Instability of the national legislation	
	Availability of a raw material base	Significant tax burden on enterprises	
	Availability of a scientific and industrial potential	Additional decrease in incomes of domestic producers due to an unreasonably high share of imported food products in the Ukrainian domestic market (market decline)	
	Favourable geographic location	Low share of domestic investors in the attracted funds	
	Variety of types of ownership	Low level of institutional regulation of investment activity	
	Demonopolization of enterprises	General decline in production	
	Creation of advanced software products and information technologies	High rates on loans	The uncompleted land reform and institutional transformations in agriculture and related sectors of the agro-industrial complex (AIC)
		Stabilization of foreign economic activity	Decrease in the inflow of financial resources in the AIC (drop in sales revenue) due to a decline in the total effective demand of the population, including the demand for food products
Internal	Sufficient material and technical base	Unprofitability of the agricultural enterprises	
		Low liquidity level	
	High share of the owned capital in the total capital	Low level of information support	
	Introduction of effective resource-saving technologies	Fluctuations in rates of production	
	Sufficient level of investment attractiveness	Reduction in knowledge-based industries	

Source: based on [5].

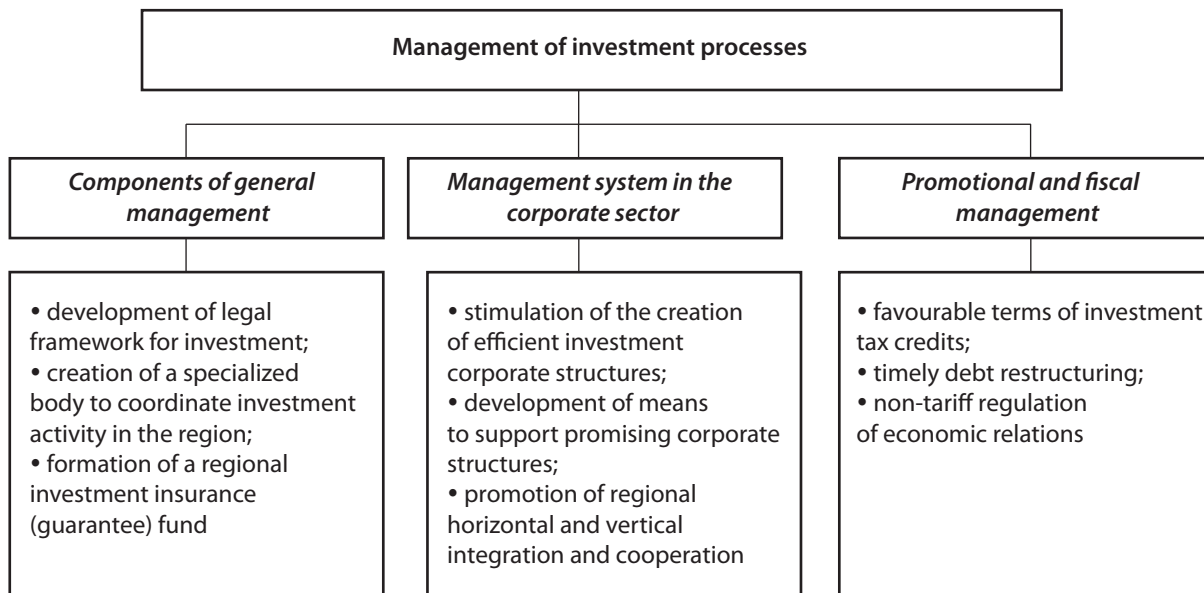


Fig. 1. Methods of influence on investment activity in the agro-industrial complex of Ukraine at the regional level

Source: based on [7].

Table 2

Ukraine's positions in international rankings in terms of investment attractiveness

Index	Year						
	2010	2011	2012	2013	2014	2015	2016
Ease of Doing Business (Index The Doing Business)	142/183	145/185	152/185	137/185	112/189	87/183	83/183
Global Competitiveness Report (World Economic Forum)	89/139	82/142	73/144	76/144	76/144	79/140	85/138
World Competitiveness Yearbook (International Institute for Management Development (IMD))	57/59	57/59	56/59	49/59	49/60	55/61	59/61
Corruption Perceptions Index (Transparency International)	134/178	152/183	144/176	144/177	142/174	130/168	131/176
Index of Economic Freedom (The Heritage Foundation)	162/179	152/179	161/177	161/177	155/178	162/178	166/180

Source: based on [4].

other countries under the assessment method developed by Organization for Economic Cooperation and Development (OECD) [3].

The main factor that makes it possible to trace and estimate the agricultural policy of a separate country is the level of total support for agriculture (Total Support Estimate – TSE), which includes supporting producers, consumers, and general services. This indicator is the volume of gross transfers received from taxpayers and consumers for the government to implement policies that support agriculture. It includes the indicators PSE (Producer Support Estimate), GSSE (General Services Support Estimate) and transfers from taxpayers to consumers (Consumer Support Estimate – CSE), which is shown in Fig. 2.

The changes in the TSE and its level for a specific world countries and Ukraine presented in Tbl. 3. As is seen, the largest state support in absolute terms in 2016

was received by agriculture of EU countries and the US, respectively in the amount of USD101 billion and USD82 billion.

Analyzing the data in Tbl. 3, it should be noted that, within the period 2000–2016, in general the nominal indicators of the Total Support Estimate for the countries investigated are characterized by a tendency to a decrease and significant fluctuation. The exception is the USA and the EU where a positive trend is observed.

In particular, during the specified period, in the EU and the USA the TSE increased 1.1 and 1.3 times respectively, while in Canada and Australia a slight decline by respectively 18.6% and 1% is observed. Among the investigated CIS countries, Kazakhstan shows a significant decrease in the TSE — approximately 3 times — and it is

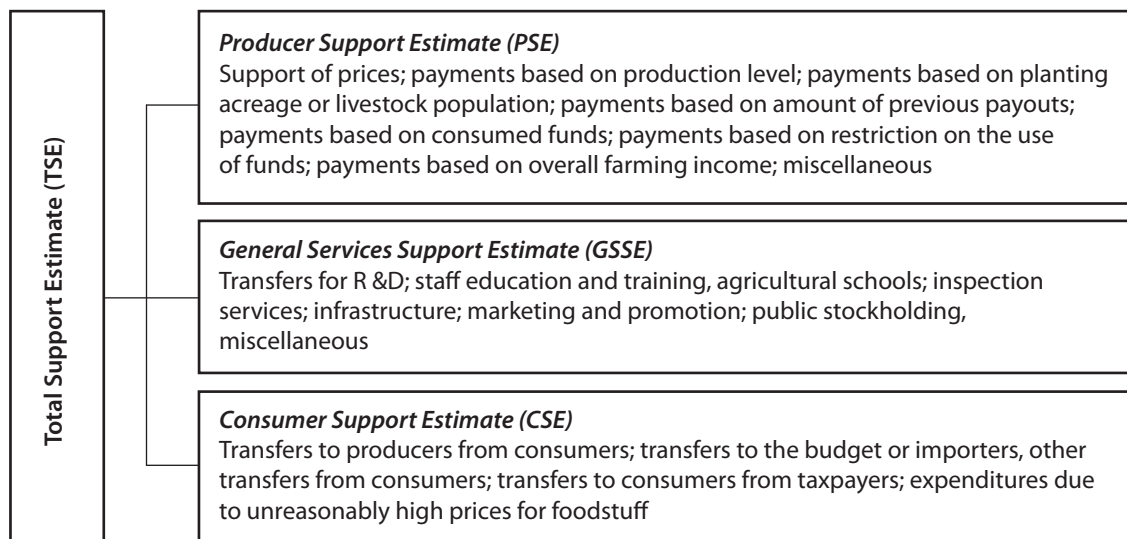


Fig. 2. System of indicators for identifying and assessing the TSE using the OECD method

Source: based on [3].

Table 3

Changes in the TSE, USD mln

Year	Ukraine	Kazakhstan	EU	USA	Canada	Australia
2010	1986	1035	93082	61705	7110	1600
2011	-50	1619	93151	60261	7165	1932
2012	1019	2002	100875	69428	7621	1702
2013	-1162	2042	105802	66143	5825	1712
2014	-2116	1718	97037	74044	5020	1641
2015	-1716	1903	96808	68743	5194	1488
2016	-2194	378	100910	82153	5784	1585

Source: based on [6].

worth noting that the changes in the indicator had a positive tendency from 2010 to 2013.

The domestic agricultural sector, according to the OECD experts, had a negative value of the TSE, due to its significant decrease during the recent years as a result of the worsening of the financial and economic situation and limited possibilities of the state budget.

Special attention should be paid to the comparison of certain world countries in terms of the TSE expressed as a share of GDP (The Percentage Total Support Estimate (% TES) (*Tbl. 4*)). This indicator does not take into account the share of agriculture in the national economy. Thus, the share of agriculture in the economy of Ukraine is relatively higher than that in the economy of the EU or the USA. At the same time, the application of the TSE allows assessing not only the level of state support for agriculture but also changes in it.

Thus, during 2010–2016, the Percentage Total Support Estimate decreased from 0.732% in 2010 to 0.682% in 2016 in the EU, or by 0.05% within the specified period, a slight decrease in the indicator is also observed in Australia. In the USA and Canada there also observed a

steady downward trend in the indicator while in Kazakhstan it is volatile with a trend to a slight growth.

In Ukraine the relative level of the % TSE within the analyzed period decreased significantly due to the political instability in 2014–2015.

The investigated relative indicator (% TSE) allows studying the trends in changing the approaches of the state support for agriculture in time. Thus, the described changes in the indicator in the US and the EU makes it possible to speak about the transition from direct producer subsidies to measures for stimulating the development of rural areas, preserving the natural environment, improving the quality and environmental safety of the production of agricultural products.

The next step is analysing the data related to capital investment in agriculture (*Fig. 3*) and assessing the changes in this indicator in the period 2010–2017. As we can see, in general a positive trend is observed, however, the growth rate of investment declined in 2014. This can be explained by the economic and political situation in the country. However, in the years that followed there took place a revival of investment growth, which had a positive effect on the development of agriculture.

Changes in the % TSE

Year	Ukraine	Kazakhstan	EU	USA	Canada	Australia
2010	1.934	0.926	0.732	0.546	0.584	0.164
2011	-0.042	1.169	0.712	0.540	0.557	0.175
2012	0.745	1.237	0.756	0.552	0.537	0.138
2013	-0.841	1.146	0.786	0.527	0.420	0.148
2014	-2.103	1.029	0.693	0.566	0.371	0.148
2015	-2.100	1.145	0.658	0.423	0.371	0.133
2016	n/a	n/a	0.682	0.490	0.420	0.141

Source: based on [6].

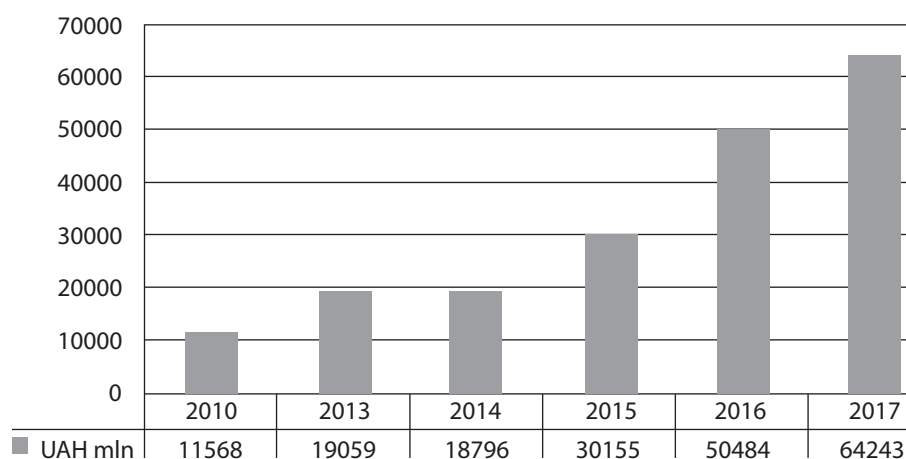


Fig. 3. Capital investment in agriculture of Ukraine in 2010–2017, UAH mln

Source: developed by the author based on [2].

Regarding the main drawbacks in the existing investment management system of agricultural enterprises in Ukraine, experts mention the following [1]:

1) insufficient development of the theoretical and methodological principles of investment under conditions of market transformation;

2) limited leverages to promote investment activity, primarily, for intensifying the attraction of financial resources;

3) insufficient application of organizational planning in management of investment activity, which must become one of the most important aspects to intensify investment.

Let us consider the list of countries of the world which made direct investment into the agricultural sector of Ukraine in 2011–2015 (Tbl. 5).

As seen from Tbl. 5, the main investor in agriculture of Ukraine is Cyprus, which within the analyzed period annually invests on average USD286.26 mln. or 39.66% of the total investment into the agricultural sector of Ukraine. Germany and Britain also make considerable investment — USD 61.42 mln and USD 75.30 mln or 8.51% and 10.43% respectively.

CONCLUSIONS

Having performed the analysis of the current status of investment attractiveness of the Ukrainian agro-industrial complex, it is concluded that appropriate measures should be offered, which will promote the investment attractiveness of Ukraine and improve its investment climate. These measures can include:

- ✦ ensuring transparency of the privatization process;
- ✦ exempting from taxation of profit which is used for business refinancing;
- ✦ developing the depository system;
- ✦ providing the maximum level of the official salary;
- ✦ developing and introducing the code of corporate conduct or corporate ethics for all market participants with emphasis on the priority of a long-term cooperation but not for a short-term benefit;
- ✦ state support for the crowdfunding mechanism to attract public funds for investment transactions;
- ✦ restructuring inefficient large enterprises and at the same time promoting the development of small and medium-sized ones;
- ✦ preventing discrimination of investors based on place of residence;

Foreign direct investment into the agricultural sector of Ukraine

No.	Investing countries	Indicators, USD mln					On an average over 5 years
		2011	2012	2013	2014	2015	
1	Cyprus	175.50	237.80	343.80	312.70	361.50	286.26
2	Austria	27.50	14.20	7.70	11.00	14.40	14.96
3	France	15.30	21.90	22.10	22.40	23.10	20.96
4	Germany	57.70	58.60	62.50	63.40	64.90	61.42
5	The Netherlands	20.40	33.30	18.80	21.40	17.00	22.98
6	Great Britain	134.50	126.80	42.20	37.60	35.40	75.30
7	Switzerland	2.60	16.80	1.30	1.30	0.70	4.54
8	The USA	44.60	24.10	22.90	25.90	22.10	27.92
9	Italy	3.40	3.80	3.70	3.40	3.50	3.56
10	The Russian Federation	17.40	8.80	6.30	10.10	11.00	10.72
11	Poland	29.50	29.10	33.10	32.80	32.10	31.32
12	The Virgin Islands	12.20	12.00	15.00	27.30	31.70	19.64
13	Hungary	2.80	3.10	3.80	3.80	3.90	3.48
14	Other countries	121.80	129.20	142.10	144.70	155.60	138.68
Total		669.2	719.5	725.3	717.8	776.9	721.74

Source: based on [8].

- ✦ applying tools that will promote a greater level of bank lending to the real economy;
- ✦ promoting the development of an effective banking system, targeted at the real economy;
- ✦ developing the insurance market.

These and other measures will facilitate not only an intensive economic development of the domestic sector but also a vertical integration, international cooperation and openness of the Ukrainian agro-industrial complex. ■

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