

CURRENT STATE OF FOREIGN INVESTMENT IN UKRAINIAN AGRICULTURE

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Zelisko N. Current state of foreign investment in Ukrainian agriculture

The article is devoted to the issues of foreign investment in Ukraine, since effective implementation of investment activity is important for development of the Ukrainian economy at the present stage and increase of the enterprises' competitiveness, necessary for their integration into the European socio-economic space. The development trends in foreign investment to agriculture have been analysed. Gradual deterioration of the prerequisites for development of agricultural foreign investments has been found by studying the trends of foreign investment in agriculture on the basis of statistical analysis of the dynamics of indicators of the amount of attracted foreign direct investment, their share in gross value added, gross agricultural income, labour productivity in agricultural production, and others. The investment attractive factors contributing to the expansion of investment ties of Ukraine, namely, the presence of rich natural resources and production capacities; developed infrastructure; relatively cheap and skilled labor; large capacious and almost competitive unlimited domestic market for most commodity items; scientific potential, etc. are analyzed. The threats of foreign investment for the host country are identified.

It has been determined that the main reason for the lack of strategic foreign investments in agriculture in Ukraine is the unfavourable investment climate. The findings of this study made it possible to draw a conclusion that foreign investment is one of the most effective instruments to develop agriculture and ensuring its competitiveness. Foreign sources of investment cannot play the role of the main lever of economic growth, but if they are justified and rationally used, even insignificant revenues will contribute to the revitalization of agricultural production, increase of its efficiency. The measures, offered for the increase of level of investment attractiveness of the agro-industrial complex, will not be able to do the industry attractive for investors, but will help to stabilize present position of agricultural enterprises, to improve their financial and productive indexes and to lay the reliable foundation for effective activity in the field of investing in general and to the agro-industrial complex of Ukraine in particular.

Key words: investment, investment activity, investment climate, investment attractiveness, capital investment, foreign direct investment, agriculture.

Зеліско Н. Сучасний стан іноземного інвестування в сільське господарство України

Розглянуто питання іноземного інвестування в Україні, оскільки ефективного здійснення інвестиційної діяльності на сучасному етапі важливе для розвитку економіки України та підвищення конкурентоспроможності підприємств, необхідної для її інтеграції в європейській соціально-економічний простір. Проаналізовано тенденції розвитку іноземних інвестицій у сільське господарство упродовж 2015–2019 рр. Виявлено поступове погіршення передумов розвитку іноземного інвестування сільського господарства вивченням тенденцій іноземних інвестицій у сільське господарство на основі статистичного аналізу динаміки показників обсягу залучених прямих іноземних інвестицій, їхньої частки у валовій доданій вартості, валовому доході сільського господарства, продуктивності праці в сільськогосподарському виробництві та ін. Простежено динаміку обсягу надходження прямих інвестицій в Україну, виокремлено періоди найбільш значних коливань і встановлено причини, які вплинули на такі зміни. Виокремлено основні напрями покращання інвестиційного клімату в Україні та конкретні шляхи стимулювання іноземних інвестицій.

Визначено, що основною причиною відсутності стратегічних іноземних інвестицій у сільське господарство України є несприятливий інвестиційний клімат. Висновки цього дослідження вказують

на те, що іноземні інвестиції – один із найефективніших інструментів розвитку сільського господарства та забезпечення його конкурентоспроможності. Іноземні джерела інвестицій не можуть відігравати роль основного важеля економічного зростання, але при їх виправданому та раціональному використанні навіть незначні надходження сприятимуть активізації сільськогосподарського виробництва, зростанню його ефективності. Запропоновані заходи щодо підвищення рівня інвестиційної привабливості агропромислового комплексу не зможуть зробити галузь миттєво привабливою для інвесторів, але допоможуть стабілізувати нинішнє становище сільськогосподарських підприємств, покращити їхні фінансові та виробничі показники та закласти надійну основу для ефективної діяльності у сфері інвестування загалом та в агропромисловий комплекс України зокрема.

Ключові слова: *інвестиції, інвестиційна діяльність, інвестиційний клімат, інвестиційна привабливість, капітальні інвестиції, прями іноземні інвестиції, сільське господарство.*

Formulation of the problem. Investment is a key factor to ensure economic growth and innovation, to increase productivity and incomes, to supply sustainable economic development. Investment in agriculture is important because it contributes to reduction of the economic age and poverty, food security and the rational use of nature. The amount of investment and its structure depends on many factors. After the global financial crisis in this period, the weakness of investment activity in the world economy is noted and it is argued that the left share of declining productivity growth in this period in both developed and developing economies is due to slow investment. Development of the pandemic has forced experts' pessimistic expectations concerning the investment activity. But there are differences in the dynamics of investment in different countries and industries.

A special place in the sectoral structure of Ukraine's economy is occupied by agriculture. Investments in agriculture of Ukraine should ensure its technical and technological renewal, increase factor productivity, competitiveness of the industry in domestic and foreign markets, sustainable development of the agricultural sector as a whole. Investment activity in agriculture is very sensitive to many factors: macroeconomic conditions, political stability, the state of institutions, infrastructure development, innovation potential, profitability of certain industries and financial instruments. The study of trends, factors of influence, interdependence of investment in agriculture and land reform creates the necessary scientific basis for making sound management decisions at both micro and macro levels, forecasting possible changes in the industry development.

Analysis of recent research and publications. The issues of increasing innovation and investment activity were considered in the works of N. Burlaka, V. Ilchuk, T. V. Shpomer, Yu. Shubravskaya, and others. In their scientific works, domestic and foreign scientists, in particular Onehina V., Vitkovskiy Y., Chernyshev V., Okara D., Kovaleva I. and others, discussed the problems and prospects of increasing the investment attractiveness of agricultural enterprises. In recent years, there has been a decline in investment and innovation activity of agricultural enterprises, which has led to destructive processes in the productive forces of industry, deteriorating land resources, has reduced efficiency of agricultural production, declining and deteriorating quality of life of rural population. Therefore, it is expedient to substantiate the theoretical principles of increasing innovation and investment activity and attractiveness of agricultural entrepreneurs.

The research shows that more investment in agriculture, including foreign direct investment, is needed to eradicate hunger and poverty and promote rural development. Investing in agriculture by domestic and foreign investors can bring a wide range of benefits, such as higher productivity, increased food availability, job creation, poverty reduction, technology transfer and access to capital and markets (Impact, Challenges and Opportunities).

Setting objectives. The purpose of the article is to identify trends and factors of investment in agriculture of Ukraine and the impact of land reform measures to liberalize the circulation of agricultural land on the volume of investment in agriculture. The research hypothesis is based on identifying the charac-

teristics of the dynamics of investment in agriculture in Ukraine, the factors influencing the volume of investment and testing expectations for their increase by deepening land reform. The study used such methods as logical operations (analysis, synthesis, generalization, induction, deduction) to determine the characteristics of investment trends, the index to identify quantitative changes in nominal and real investment, impact factors; trend analysis to determine trends in the construction of investment trend functions in different periods, factor and correlation analysis to identify factors of investment density and dependence (profits, prices, interest rates, government support); graphics to visualize the dynamics of investment. The research was performed on the basis of statistical data of the State Statistics Committee, the National Bank of Ukraine, reports of agricultural enterprises and data of own observations.

Presenting main material. Ukraine is often called a potential global agrarian superpower. More than 70 % of the total area of the country is occupied by agricultural land. This is just over 42 million hectares, of which 32 million are arable land suitable for growing cereals and vegetables. Approximately 25 % of the population of Ukraine is employed in the agricultural sector (Onehina, Vitkovskiy, 2020, p.197)

The agricultural sector is one of the most promising sectors of Ukraine's economy, accounting for more than 20 % of GDP. Ukraine is one of the five largest grain exporters in the world and ranks first in the world in terms of sunflower oil exports (58 %).

Most of Ukraine's current agricultural output is a diverse combination of grains and fodder crops, including wheat, corn, barley, sunflower, sugar beets, tobacco, legumes, fruits and vegetables (Chernyshev, Okara and Kovaleva, 2019, p. 40).

Ukraine occupies a leading position as a major producer of grain, including wheat. The entire annual grain harvest can reach 90–100 million tons.

Agribusiness remains a top priority for Ukrainian government, especially in connection with the EU-Ukraine Association Agreement

and the implementation of the Deep and Comprehensive Free Trade Agreement (DCFTA). Since the signing of the Association Agreement, exports of agricultural products from Ukraine to the EU have increased by 37 % (from 4.5 billion in 2013 to 6.1 billion in 2018 and 6.6 billion by December 2019) (Fig. 1).

Moreover, according to the European Commission's monthly monitoring of trade in agricultural products, Ukraine ranked 3rd among the largest suppliers of agricultural products to the EU for the period from November 2018 to October 2019, exporting agricultural goods totaling 7.3 billion euros.

Since creation of the free trade zone in 2017, Ukraine has been able to obtain preferential quotas for duty-free exports of honey, grape juice, processed tomatoes, pearl barley, oats, wheat, barley and corn.

The huge potential of the Ukrainian agro-industrial complex makes it a key sector of the economy in terms of investment, both domestic and foreign. According to the State Statistics Service of Ukraine, for the period from 2014 to 2018, the volume of investments in the Ukrainian agribusiness tripled and amounted to UAH 300 billion (about \$ 11.2 billion), while UAH 100 billion (about USD 3.7 billion) was invested in food production. In 2019, agriculture, forestry and fisheries received UAH 55.25 billion (about USD 1.95 billion) in investments.

Foreign investors often choose agribusiness in Ukraine because it provides a relatively quick return on investment and stable conditions, despite unpredictable factors such as bad weather.

It is well known that Ukraine has many advantages in the development of agriculture, including fertile soils and favorable location. But now the Ukrainian agribusiness is attracting the attention of foreign investors due to the high level of high-tech innovations. Ukrainian agrotechnological companies are developing innovative solutions aimed at improving traditional methods of agriculture and the development of organic production. According to the Law of Ukraine «On Foreign Investment Regime», foreign investments are all values invested by foreign investors in objects of investment activity in accordance with the legislation of Ukraine in order to make a profit or achieve a social effect.

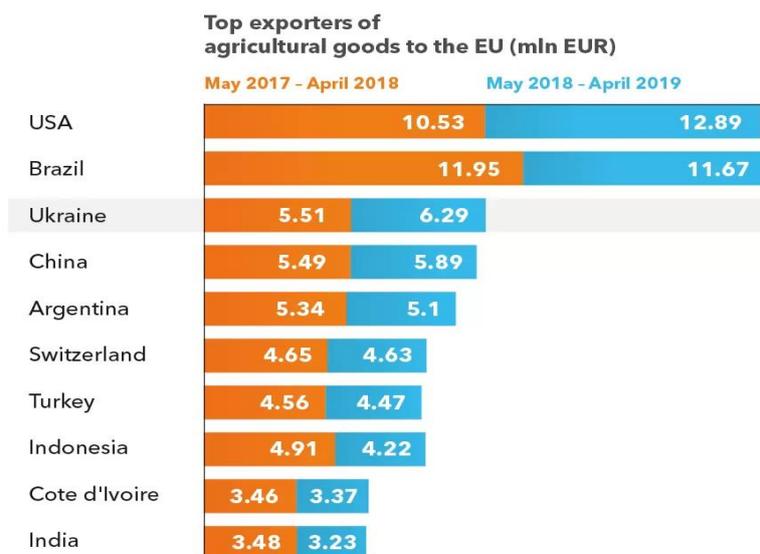


Fig. 1. Top exporters of agricultural goods

Source: according to the State Statistics Service of Ukraine and the National Bank of Ukraine.

Investors can be:

- foreign countries;
- international organizations;
- entities;
- individuals, including citizens of Ukraine living abroad.

The legislation of Ukraine defines the following forms of foreign investment:

- creation of enterprises that are fully owned by foreign investors, branches and other separate divisions of foreign legal entities, or acquisition of full-fledged enterprises;
- partial participation in enterprises created jointly with legal entities and individuals of Ukraine, or acquisition of a share of existing enterprises;
- acquisition of the right to use land and use natural resources on the territory of Ukraine independently or with the participation of Ukrainian legal entities or individuals;
- acquisition of real estate or movable property not prohibited by the legislation of Ukraine, by direct acquisition of property and property complexes or in the form of shares, bonds and other securities;
- economic (entrepreneurial) activity on the basis of production sharing agreements;
- acquisition of other property rights;
- without creating a legal entity on the basis of agreements with business entities of Ukraine.

The list is not exhaustive and, given the constant development of the business sector, the existing forms of investment activity in Ukraine can be changed or supplemented.

Digital technologies and innovations are already greatly changing the way agribusiness is run, bringing its efficiency to a new level (NGA, 2020). The use of drones or unmanned aerial vehicles (UAVs) in agriculture is considered one of the most promising innovations in this field due to its high economic feasibility. The use of UAVs has a variety of applications, in particular for effective agricultural planning, strengthening control at each stage of agricultural production, as well as chemical treatment of crops and more. UAVs are able to provide important information in real time, such data that is collected over time can also be used for a better dynamic understanding of each process. UAVs are equipped with special sensors that provide detection of contaminated crops, targeted fertilization, spot spraying and irrigation (WB, 2020).

Recently, the field of land legislation of Ukraine has undergone significant changes. On March 31, 2020, the Verkhovna Rada of Ukraine adopted the Law «On Circulation of Agricultural Land», which provides for the right to purchase land only to Ukrainians. The law also sets limits on the maximum area that one person can own and preferential terms for Ukrainian farmers.

According to President's Decree № 449/2020, agricultural lands from state to communal ownership, all newly created communities have received lands in communal ownership and will be able to use funds from land use for their development.

These and other innovations require study and analysis to properly implement them in practice. To achieve this goal, Ukraine launched the Program «Acceleration of Private Investment in Agriculture», which in 2019 concluded an agreement between the International Bank for Reconstruction and the Ministry of Finance of Ukraine to raise \$ 200 million. The purpose of the Program is to alleviate certain restrictions by increasing the participation of the private sector, in particular small and medium enterprises, in the agricultural market of factors of production and the market of goods of Ukraine.

The transfer of annual investments in US dollars shows that the growth of investments was not as impressive as estimated on the basis of their volumes in the Ukrainian currency (Fig. 2).

In practice, private land users face many problems. Most often people ask legal questions about land lease agreements (conclusion, change, termination and renewal), land ownership (registration, acquisition of rights, joint ownership. Many questions about the right to use someone else's land for agricultural purposes or for construction) (Shubravskya, 2012).

It is important to prevent violations of registered rights of use or property rights, better knowledge of land legislation and procedural rules among landowners and professionals who carry out their activities (Ilchuk, Shpomer, 2017).

In the regions of Ukraine, remote access points to free legal aid have been organized, including in village, settlement councils and united territorial communities.

The analysis of statistical data confirmed that during 2014–2018 the volume of investments in agriculture of Ukraine increased annually (Table).

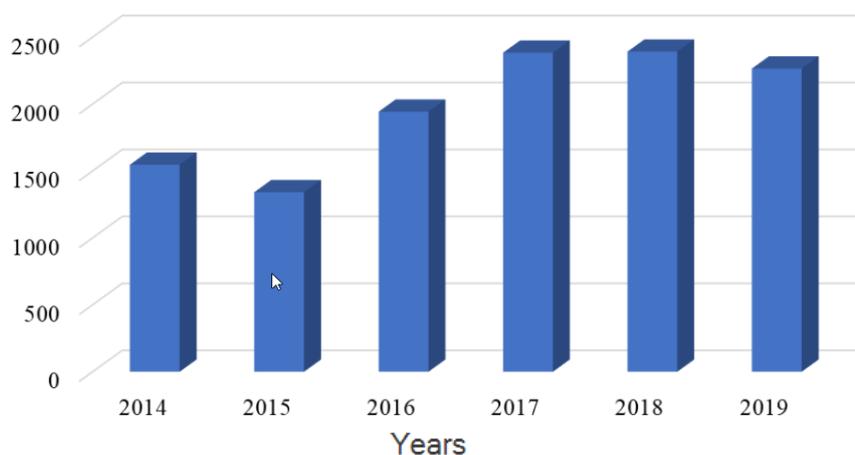


Fig. 2. Investments in agriculture in Ukraine, million dollars USA

Source: according to the State Statistics Service of Ukraine and the National Bank of Ukraine.

Table

Capital investment in agriculture in Ukraine

Indicators	2015	2017	2018	2019	2019 to 2015, %
Capital investment in agriculture and hunting, UAH million	29310	63401	65059	58555	199.8
Index of capital investment, %	159	128	103	90	-69
Net profit, UAH million	101912	68277	70462	90167	88.5
Fixed assets, UAH million	205575	335303	399526	365456	177.8

Source: State Statistics Service of Ukraine

The exception to the growing trend of investment in agriculture was 2019, when the annual volume of investment decreased by 10 % compared to the previous year. This decrease in investment occurred last year when agricultural enterprises received UAH 70.5 million of net profit, which was even 3.2 % higher than last year's profit.

With a fairly stable economic situation in the country, agricultural enterprises use the following methods of financing innovation (Burlaka, 2019, p. 39):

1. Foreign direct investment. Foreign capital is invested in the countries, where the economic crisis has hardly affected the real or financial sectors of the economy.

2. Credit collateral – obtaining loans from banking institutions either by issuing bond loans or by financial leasing. However, in a crisis, agricultural enterprises can only rely on leasing operations for long-term means of production.

3. Schering – attracting investment resources through the issuance of securities, including shares. This method is considered one of the most effective for businesses in industry, trade, financial sector of the economy. The number of joint stock companies in the agricultural sector is very small, and therefore only some companies can count on obtaining the necessary financial resources for investment activities subject to the issuance of new shares.

4. Share financing is carried out by private investors or owners of cooperatives, limited liability companies. Such financing of investment activities can take place under any condition, including financial crisis, as some private investors have the necessary financial resources, and to increase the efficiency of their own agricultural production, they can invest in their investment activities.

5. Self-financing from own funds was created on the basis of such sources as depreciation and profit. Due to the crisis in the economy, the profits of most agricultural enterprises are low, so investing is possible only with the necessary amount of depreciation. In most agricultural enterprises, fixed assets have significantly decreased in recent years, so the amount of depreciation cannot be significant (Haidutsky, 2014).

Thus, among the main reasons for the decline in investment activity in the country, in

particular in agriculture, the following are worth naming:

- low level of investment protection and weak stock market development;
- certain inconsistencies and imperfections of the legislation;
- difficulty in obtaining a loan and high interest rates;
- low solvency of population and state enterprises;
- high level of bureaucracy in decision-making on investment activities;
- high tax rates;
- low level of state support for agricultural producers.

The slowdown in investment can be explained primarily by the presence in the country of high investment risks, which investors seek to avoid under any circumstances (Hudzinskyi, 2013, p.6). This can have negative consequences for the development of the agricultural sector, which can be manifested in lower productivity, reduced production, higher prices of manufactured products, deteriorating quality and, as a consequence, weaker competitiveness.

Conclusions and prospects for further research. One of the main problems hindering the development of agriculture in Ukraine and the expansion of its innovation and investment activities is, first of all, the low investment attractiveness of agricultural enterprises. Increasing innovation and investment activity and attractiveness of agricultural enterprises will contribute to formation of a strong production potential that will provide a comprehensive solution to the problems of agricultural development. The introduction of a comprehensive investment program in the agricultural sector of the economy will stimulate its transition to a qualitatively new innovative type of development and promote the growth of competitive agricultural enterprises. Timely assessment of the investment attractiveness of the enterprise in order to forecast the prospects for further effective development of the agricultural sector will open new opportunities for diversification for domestic and foreign investors, as well as increase investment guarantees for foreign investors in investment projects.

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