

# Enabling Favourable Investment Climate in the Leading Agrarian Sector of the Ukrainian Economy

Vitaliy Rusan

The National Institute for Strategic Studies  
Pyrogova str, 7-a, 01030, Kyiv  
Ukraine  
e-mail: rusan@ukr.net

**Abstract.** The agrarian sector now represents the leading engine for the development of the national economy that provides a significant contribution to the GDP, over 40% of foreign exchange earnings, as well as food security of the state. At the same time, the lack of stable positive dynamics of production in the agrarian sector indicates the exhaustion of the reserves of the current model of its development, based on the scale effect and extensive methods of resource use. This happens due to the characteristics of investment activity in the agricultural sector that impacts on the reproduction and efficiency of agricultural production. The attractiveness of the agrarian sector in Ukraine is influenced by several factors, most notably favorable natural and climatic conditions for cultivation of the agricultural crops, high natural resource potential of the soil, cheap labour force, convenient geographical location and well-developed transport infrastructure, and last but not least the growing profitability of agribusiness. In addition, improvement in the investment climate in the agrarian sector was promoted by a well-balanced agrarian policy aimed at corrigration of the national legislation in accordance with the standards imposed by the Association Agreement between Ukraine and the EU as well as favorable conditions for doing business and positive changes in tax legislation. At the same time, investments are one of the most important means of introducing modern technologies in agricultural production, increasing the competitiveness of domestic agriculture. Considering the fact that today's agrarian sector is one of the leading sectors of the national economy, state agricultural policy should be aimed at improving the institutional environment in the direction of simplification of investment activity, and protection of investors' rights.

**Keywords:** agrarian sector, investment climate, leadership, economic development, Ukraine

## 1 Introduction

Investing is one of the most often misused financial terms. The word “investing” is often used correctly in the broad sense of the term, but it is often used interchangeably with words that have similar but distinct differences. Investing implies a long-term approach with a specific goal. The goal of investing is usually maximizing growth with an acceptable amount of risk (see Guina 2019). But for the country it is more important to assess its investment climate (Aboushady and Zaki 2019; or Gebrezgabher et al. 2019).

Mainly the investment climate – the location-specific factors that shape the opportunities and incentives for firms to invest productively, create jobs, and expand. Government policies and behaviors play a key role in shaping the investment climate. While governments have limited influence on such factors as geography, they have more decisive influence on the security of property rights, approaches to regulation and taxation (both at and within the border), the provision of infrastructure, the functioning of finance and labor markets, and broader governance features such as corruption. (World Bank 2005).

A profound understanding of institutional processes resulting from investment activities is vital for State administration purposes. Hence the institutional basis of investment comprises fundamentals and a set of institutes which define entrepreneurial investment coordination rules. (Lance et al. 1971).

According to Gryshova et al. (2017) institutional environment for the economic stability of efficiency of an enterprise is characterized by the implementation of standards and rules in the administrative and legal area and an increase in transaction costs of the process of interrelations between contractors. The Economic stability of efficiency of functioning of the organization is possible to subject to compliance with socially oriented institutions and formation of business relations based on confidence, morality and ensuring mutual benefit. Considering formalized and non-formalized aspects of the institutional environment makes it possible to promote economic stability of enterprise efficiency. Re-formatting of relations between contractors in a way of creation of a public – private partnership (importance whereof was determined by head officers of national government institutions) is a practical tool aiming to efficiently ensure economic stability level of an enterprise (Gryshova et al. 2018).

Considering the above, one can believe that the investment climate is the institutional environment that forms the attractiveness of the state for foreign and domestic investment, the basis for the economic growth of the agrarian sector of the Ukrainian economy.

Despite the existing theoretical and methodological research on the characteristics of the investment climate, its features, and models used, identification of the problem phenomena that restrain the flow of investments in the agricultural sector is important for implementation of the state investment policy. Furthermore, formation of the competitive advantages of the sector would allow planning of activities of domestic and foreign investors.

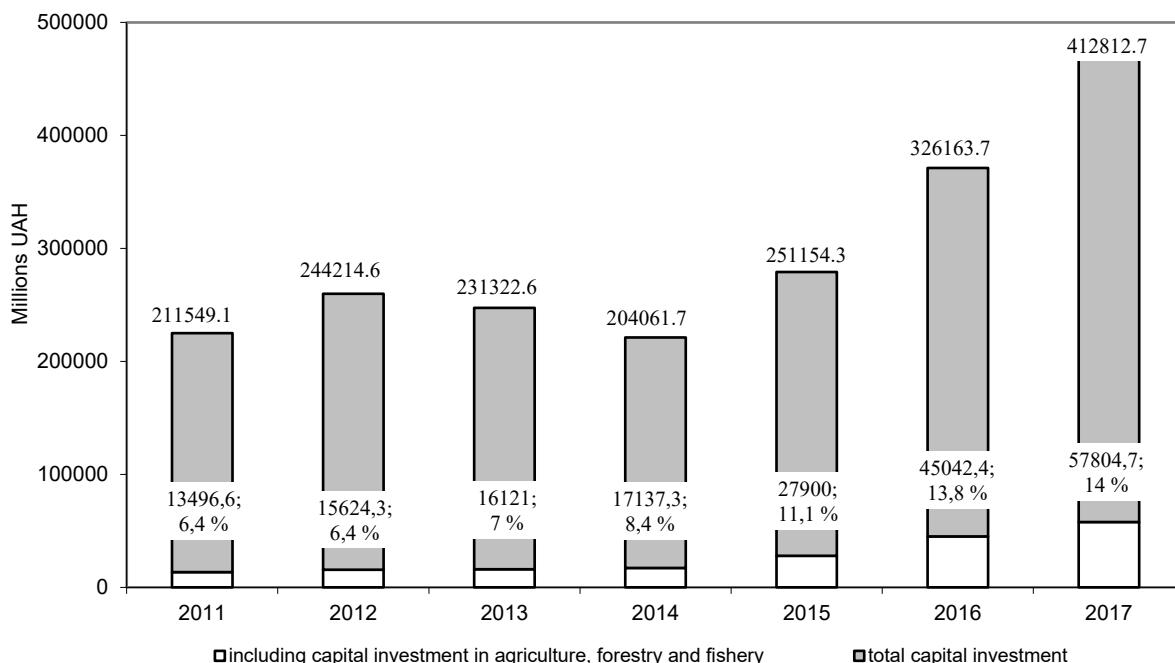
The purpose of the research is to analyze investment processes and develop scientific and practical recommendations for improvement of the investment climate in the system of state agricultural policy of Ukraine. According to the purpose of the research, the following tasks have been identified and solved: analysis of the current state of investment processes in the agrarian sector of Ukraine; identification of a number of factors that determine the investment attractiveness of the agrarian sector; substantiation of the main obstacles for investments in the agrarian sector; development of priorities of the state agricultural policy aimed at improving the institutional environment to simplify investment activity and protect investors' rights.

## **2. Materials and methods of research**

In the process of the research, general scientific and special methods of research have been used, in particular: statistical and system analysis - for analysis of the features of investment processes in the agrarian sector; comparative analysis - for comparison of empirical data to determine the state of development of the agricultural sector in Ukraine; synthesis - for generalization of actual issues of the investment climate in agrarian sector.

## **3. Results and discussion**

The agrarian sector plays an important role in Ukraine's economic growth - in 2017 its share in GDP was 10.2%; the sector provided 17.8 billion dollars US of export earnings (41% of the total volume of merchandise exports of the country). At the same time, lack of a stable positive dynamics of production in the agricultural sector (index of agricultural production in 2015 was 95.2% (compared to 2014), in 2016 - 106.3% (compared to 2015), in 2017 - 97.8% (compared to 2016)) indicates an exhaustion of the reserves of the current model of its development, based on the scale effect and extensive methods of resource use. Significantly, such a state is determined by the characteristics of investment activity in the agricultural sector that influence reproduction processes and the efficiency of agricultural production development (see Figure 1).

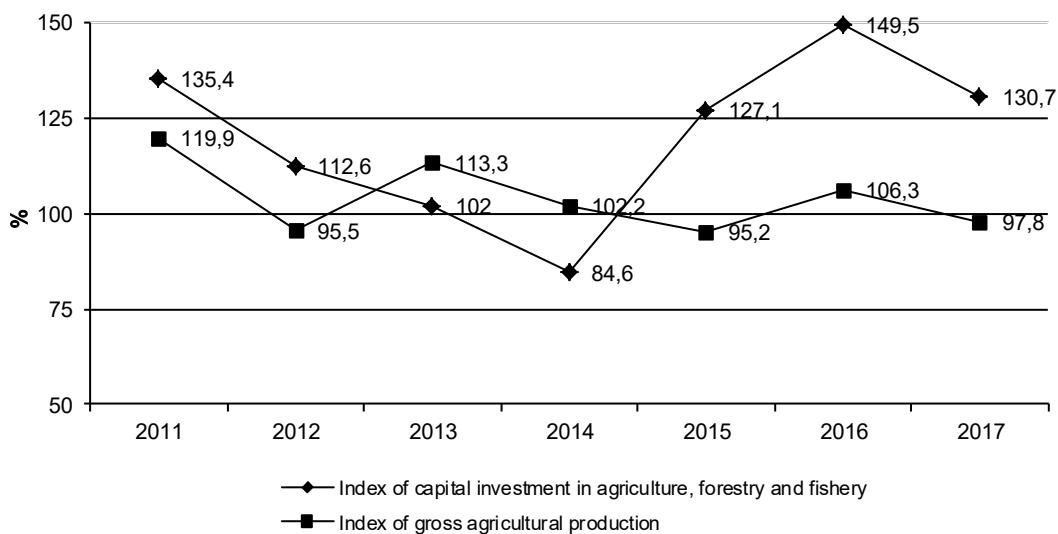


**Fig. 1.** Dynamics of the share of capital investment in agriculture, forestry and fishery in the total volume of investments, million UAH

Source: Own results based on the State Statistics Service of Ukraine (2020)

In the past years, investments into the Ukrainian agrarian sector show the positive dynamics both in value terms and in the share of capital. For example, in 2011 the volume of capital investments in agriculture, forestry and fisheries was 13496.6 million UAH, or 6.4% of the total volume of capital investment into the economy, in 2017 - 57804.7 million UAH, or 14% (Figure 1). Thus, the growth in capital investment in the agrarian sector during 2011-2017 amounted to 44308.1 million UAH (4.3 times).

The growth rate of capital investment in the agrarian sector, in general, exceeds the growth rate of gross agricultural production. Thus, for 2011-2017, the index of capital investment exceeded the index of gross agricultural production except for 2013 and 2014 (Figure 2).



**Fig. 2.** Dynamics of gross agricultural production and capital investment in agriculture, % to the previous year \*

Source: Own results based on the State Statistics Service of Ukraine (2020)

The main source of capital investment in the agrarian sector is equity of enterprises and organizations. Thus, according to UkrAgroConsult (2017), during 2012-2016, the share of equity of enterprises in the structure of capital investment in the agrarian sector was constantly increasing - from 59.2% in 2012 to 69.4% in 2016 (According to the Ministry of Agrarian Policy and Food of Ukraine, as at 01.07.2017, the share of equity of enterprises in the structure of capital investment was 76.2%). At the same time, a gradual decrease in the level of profitability of enterprises during the last three years (from 30.4% in 2015 to 18.7% in 2017) indicates a practical exhaustion of their possibilities for self-financing.

**Table 1.** Estimated cost of investment projects in regions as at July 1, 2018

Cost of investment projects	Units	Amount, million UAH	%
up to 10 million UAH	213	590.4	54.2
10-50 million UAH	106	2 511.20	27
50-100 million UAH	35	2302	8.9
100-500 million UAH	31	6 264.10	7.9
500-1 000 million UAH	1	550	0.3
over 1 billion UAH	7	27 712.70	1.8
<b>Total</b>	<b>393</b>	<b>40 088.30</b>	<b>100</b>

Source: Ministry of Agrarian Policy and Food of Ukraine (2018)

Furthermore, it should also be noted, the reduction of bank lending and state budget funds as sources of capital investment in the agrarian sector, share of which decreased from 16.1% and 6.3% in 2012 to 7.1% and 2.3% in 2016, respectively. The funds of foreign investors in the structure of sources of capital investment in the agrarian sector were within 3% (from 1.6% in 2013 to 2.9% in 2016). Under such conditions, it is difficult for domestic agricultural producers to plan large investment projects aimed at both introduction of innovative

technologies in agricultural products and creation of powerful processing enterprises, which ultimately constrains the growth of exports of products with a higher added value.

Agricultural enterprises preferentially invest capital investments in crop production. In particular, according to the data of the Ministry of Agrarian Policy and Food of Ukraine (2018), in 2017, for crop production (cultivation of one-year and two-year crops), enterprises used 54237.7 million UAH or 84.4% of the total investment in this type of economic activity, for animal husbandry - 6985.2 million UAH or 10.9%, for hunting and providing related services - 2177.8 million UAH or 3.4%, for forestry and logging - 768.9 million UAH or 1.2%, for fisheries - 73.7 million UAH or 0.1%. At the same time, the cost of the main part of investment projects carried out in the agro-industrial complex does not exceed 10 million UAH (Table 1).

#### **4. Investing in the agrarian sector: attractiveness and restrictions**

The investment attractiveness of Ukraine's agrarian sector is determined by a number of factors, the main of them are the following:

- Favorable natural and climatic conditions for the cultivation of most crops and a high level of natural resource potential of Ukrainian lands. The data of the 9th round of agrochemical land certification, which was held in 2006-2010 by the State Scientific and Technological Center for Soil Fertility Protection of the Ministry of Agrarian Policy and Food of Ukraine (2018) (now State Institution "Soils Protection Institute of Ukraine"), shows that 56% of domestic agricultural lands has a higher level of humus of than average. 29.5 million hectares or 93.8% of the total arable land area have a high level of suitability for cultivating all traditional grain crops for Ukraine. Among them, the land suitable for growing winter wheat is 27.1 million hectares, barley is 28.1 million hectares, corn - 17.6 million hectares, sunflower - 14.3 million hectares, sugar beet - 7.0 million hectares (Zajats 2011);
- Cheap labor. Thus, according to the State Statistics Service of Ukraine, in 2017 the average monthly salary in agriculture amounted to 5761 UAH, while in industry - 7631, in building - 6251, in telecommunications sector - 12018, in financial and insurance activities - 12865 UAH (for comparison: in Poland in 2018, an employee of any type of activity, working in a position with a minimum rate, receives about 1 530 zlotys of net salary (approximately 11 300 UAH) per month. Low salary, in other equal terms, reduces the cost of domestic products and increases its price competitiveness;
- Convenient geographical location of Ukraine and well-developed transport infrastructure. The location of Ukraine in the center of the European continent, at the intersection of the East-West and North-South trade routes, access to the Black Sea, and consequently to seaports in any city of the world, high transit potential (transit rate of Ukraine - 3.75, and this is the first place in Europe, Poland takes the second place - its transit rate is 2.92) contributes to increasing its competitiveness compared to neighboring countries;
- Growing profitability of agribusiness. According to the State Statistics Service of Ukraine, in 2013 the level of profitability of all activities at agricultural enterprises was 8.3%, in 2017 - 18.7%. The share of enterprises that received a net profit is increasing: in 2013 - 80.3% of the total number, in 2017 - 86.7%.

In addition, improvement of the investment climate in the agrarian sector was promoted by a well-balanced agrarian policy helped by the European legislation standards forced by the Association Agreement between Ukraine and the EU as well as favorable and positive changes in the tax legislation. The significant developments in this field are the following:

- Adaptation of domestic sanitary and phytosanitary measures and food safety control systems to the European requirements and practices stipulated by the Association Agreement between Ukraine and the EU. The prospects for such an adaptation make Ukrainian enterprises attractive for investors, not only in agriculture, but also in the processing industry, in particular, food industry, because recognition of domestic products by the European community allows entrepreneurs to supply it not only to the EU market but also to other markets where the corresponding certificates are recognized. This will create additional jobs, increase foreign exchange earnings and increase the share of products with a higher added value in Ukrainian exports;
- Deregulation and simplification of the conditions for economic activities in agriculture. In particular, the frequency of inspections has been reduced and the mechanism of stimulation of conscientious business entities in the field of plants quarantine has been regulated; the Lists of regulatory objects in the field of

plants quarantine in order to control the movement of the territory of Ukraine and for import, export and re-export, as well as forms of blanks for phytosanitary and quarantine certificates, have been approved; the exclusion of the Procedure on Processing of Quarantine Permit for Imports (Transit) has been also provided. In the List, in order to control the crossing, the territory of Ukraine, the optional registration of quarantine certificates for grain and products of its processing has been provided. It should be noted that earlier, in the case of imports of plants and products of plant origin, it was required to obtain a quarantine import permit, which established phytosanitary requirements for imported cargoes and was issued exclusively by the central executive body implementing the state policy in the field of plants quarantine (Gryshova et al. 2017);

- Gradual improvement of tax legislation. In the rating "Paying Taxes 2019" Ukraine occupied 54th place (out of 190 countries), which is by 11 positions worse than last year (43th in the "Paying Taxes 2018"), while it is by 30 positions better than in 2016 (84th in the "Paying Taxes 2017") (World Bank 2019). Acceptable places Ukraine occupied by the indicator "total tax burden" - 41.7% (Ukraine is in the middle of the list (leaders are Canada and Singapore showed 26.1%)) and "amount of tax payments" - 5 payments per year (leaders - Hong Kong and Saudi Arabia - 3). At the same time, preparation and submission of tax reporting in Ukraine take 327.5 hours per year, and the Postfiling index - 85.95 is significantly lower than the average world index, which determines the current position of the country in this rating. Simplification of the rules for filling in tax reporting and implementation of a real document circulation using digital documents and signatures between business and fiscal authorities will help to increase Ukraine in the rating "Paying Taxes" and interest of investors in doing business in the country.

As a result, the attractiveness of the Ukrainian agrarian sector for investment, including external, is growing. This is illustrated by the presence of a number of investment projects that are already being successfully implemented. In particular, on 5.11.2018, Mriya Farming PLC (UK) and SALIC UK Ltd (Saudi Agricultural and Livestock Investment Company, UK) completed the purchase agreement for most of the agricultural assets of the Mriya Group, including all infrastructure facilities, a technical park, as well as companies entitled to lease land bank. The agreement was completed after obtaining the corresponding permission of the Antimonopoly Committee of Ukraine. In addition, examples of successful investment projects in agriculture are the following: Singenta LLC, company Astarta-Kiev, Agrocompany "Sady Ukrainy" LLC, Innovation company "Agro-Soyuz", "Cargill Ukraine", "Research Industrial and Trading Company "Diamond & Co" LLC. In the food industry - Kraft Jacobs Suchard Ukraine (Trostyanetska chocolate factory) Ukrainian-Swedish company "Chumak", "Coca-Cola", OJSC "Rosy Bukovyny", "Cargill", LLC "Danone" and others.

At the same time, the level of capital investment in the agrarian sector does not allow disclosing fully the available resource potential of the industry. Currently, the main obstacles for investment in the agrarian sector are the following:

- Absence of a market turnaround of agricultural land, and hence the holding of the capital of land outside economic activity. It is risky to invest in the industrial sphere under the condition of the underdeveloped land market in Ukraine. Domestic and foreign business already demonstrate readiness for greater economic development of the territory of Ukraine, development of its infrastructure, but only in case of reasonable territorial organization of the economy, guarantees of stability of land policy, perfection of the legal basis of land use, which does not exist in the country. A prerequisite for investing is the sustainable use of land, which is impossible in case of leasing. The permanent continuation of the moratorium on sale of agricultural land makes it impossible to fully use the financial instruments of attracting investment through the credit mechanism since the mortgage allows alienating mortgaged property (land) that can not be carried out in case of leasing;
- Complicated access to bank loans. According to surveys, about 75% of Ukrainian companies in the agro-industrial complex consider bad access to financing as one of the main obstacles to further expansion and investment (Institute for economic research and policy consulting 2015). Lack of available financial resources makes it difficult to provide agricultural producers with working capital to cover the gap between the need for funds and the period of favorable prices for product sales;
- Ineffective government policy for exporters support. The main obstacles on the way of Ukrainian exporters of agrarian products (first of all, small and medium businesses) are the following: non-compliance of Ukrainian standards with European and international ones, low quality of manufactured products; lack of information on the features of the target export markets; low awareness of small

agricultural producers about export opportunities to EU markets; burdensome customs procedures and corruption at the customs; ineffective agricultural risk insurance system;

- Underdeveloped infrastructure of the agrarian market, which does not fully ensure the fulfillment of its functions in creating stable conditions for the provision of agricultural enterprises with productive resources, storage (due to the lack of vegetable stores and processing facilities, up to 30% of grown vegetables lost during storage) and sale of manufactured products.

Investments are one of the most important means of introducing modern technologies in agricultural production, increasing the competitiveness of domestic agriculture. Taking into account the fact that today the agrarian sector is one of the leading sectors of the national economy, state agricultural policy should be aimed at improving the institutional environment to simplify the investment activity and protect investors' rights.

## 5. Conclusions

Summarizing the above, it can be concluded that it is necessary to create a favorable investment climate in Ukraine for intensification of investment activity in the country and stimulation of attraction of foreign and domestic investors. Therefore, qualitative diagnosis of the problems and advantages of investing in the agrarian sector as the leading sector of the economy is the basis for the formation of investment policy of the state in the future.

The scientific novelty of the results is the formation of guidelines for a favorable investment climate of the state, taking into account the interests of all business entities involved in agricultural production. The practical significance of the results is to find the best solutions for building a partnership between the state and the agrarian sector to ensure the competitive development of the national economy. The prospects for further research are the development of an applied instrument for improvement of the institutional environment aimed at creating an investment climate capable of fully revealing the competitive advantages of the Ukrainian leading agrarian sector.

## References

- Aboushady N, Zaki C (2019) Investment climate and Trade Margins in Egypt: Which Factors Do Matter? *Economics Bulletin* 39(4): 2275-2301
- Gebrezgabher, S., Taron, A., & Amewu, S. (2019). Investment climate indicators for waste reuse enterprises in developing countries: Application of analytical hierarchy process and goal programming model. *Resources, Conservation and Recycling* 144:223-232. doi: 10.1016/j.resconrec.2019.01.049
- Gryshova IYu, Shestakovska TL (2018) FinTech business and prospects of its development in the context of legalizing the cryptocurrency in Ukraine. *The Scientific Papers of the Legislation Institute of the Verkhovna Rada of Ukraine* 5:77-89.
- Gryshova IYu, Shestakovska TL, Glushko OV (2017) The economic measurement of convergence of institutional impact on the sustainability of development. *Scientific notes of the Institute of Legislation of the Verkhovna Rada of Ukraine* 4: 75-80
- Guina R (2019) What is Investing? <https://cashmoneylife.com/what-is-investing>. Accessed 24 Feb 2020
- Institute for economic research and policy consulting (2015) "Country report: Ukraine", March 2015. [http://www.agricistrade.eu/wp-content/uploads/2015/06/Agricistrade\\_Ukraine.pdf](http://www.agricistrade.eu/wp-content/uploads/2015/06/Agricistrade_Ukraine.pdf) Accessed 12 March 2020
- Lance D, North D, Smorodin C (1971) Institutional Change and American Economic Growth, 1<sup>st</sup> edn. (Cambridge, UK: Cambridge University Press, 1971), 282 p.
- Ministry of Agrarian Policy and Food of Ukraine (2018) Capital investment in agriculture in 2017. <http://http://www.minagro.gov.ua/en/node/25504> Accessed 15 January 2020
- State Statistics Service of Ukraine (2020) National Statistics. <http://www.ukrstat.gov.ua> Accessed 20 March 2020
- UkrAgroConsult (2017) Investments in agrarian sector of Ukraine: <http://www.ukragroconsult.com/news/investiciji-v-agrarnyi-sektor-ukrainy>

World Bank (2005) World Development Report: A Better Investment Climate for Everyone. The International Bank for Reconstruction and Development and The World Bank. [http://siteresources.worldbank.org/INTWDR2005/Resources/FNL\\_WDR\\_SA\\_Overview6.pdf](http://siteresources.worldbank.org/INTWDR2005/Resources/FNL_WDR_SA_Overview6.pdf) Accessed 27 Feb 2020

World Bank (2019) Doing Business 2019 [http://www.worldbank.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report\\_web-version.pdf](http://www.worldbank.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf) Accessed 20 January 2020

Zajats V, Rozvytok rynku silskogospodarskyh zemel: monograph [Development of agricultural land market], 1<sup>st</sup> edn. (Kiev, Ukraine, 2011), 166 p.