

THE INFLUENCE OF INSTITUTIONAL CHANGES ON THE INVESTMENT ATTRACTIVENESS OF THE AGRICULTURAL SECTOR OF UKRAINIAN ECONOMY

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Successful development of the Ukrainian economy, its agro-industrial segment requires a large-scale and efficient investment provision and favourable investment climate. In this regard, the actual task of the scientific community is the study of the influence of institutions on the development of investment policy, the formation of investment processes in the country. The purpose of this article is the study of institutional basis for further development of the investment processes in the agricultural sector of Ukrainian economy under conditions of integration into Europe. In the study process author used general scientific methods, in particular statistical method, method of extrapolation, analogy, institutional analysis, abstract-logical method, methods of descriptive simulation. Results of the study are as follows. The influence of formal institutions (legal regulations for the 'rules of play') was assessed on the investment efficiency. The ponderability of the formal institutions was identified in the investment success of the big agricultural business of Ukraine. The main causes of the low investment attractiveness of small and medium-sized business in the agrarian sector of the Ukrainian economy were defined. The ways were substantiated for development of the non-formal institutions. It was accentuated that asset capitalization of the small and medium-sized companies would be important for development of the investment processes in Ukraine.

Key words: *institutional basis of investment policy, investment processes, investment attractiveness, state investment support, investment trends, institutional theory.*

Dezvoltarea cu succes a economiei Ucrainei, segmentul agroindustrial necesită o asigurare investițională și un climat investițional favorabil la scară largă și eficientă. În această privință, sarcina actuală a comunității științifice este studiul influenței instituțiilor asupra dezvoltării politicii de investiții, formarea proceselor de investiții în țară. Scopul acestui articol este studierea mediului instituțional al dezvoltării în continuare a proceselor de investiții în sectorul agricol al economiei Ucrainei în condițiile de integrare europeană. Pentru cercetare au fost aplicate metodele științifice generale, în special metoda statistică, metoda de extrapolare, analogie, analiza instituțională, metoda abstractă-logică, metodele descriptive și modelare similară. Drept rezultat al studiului a fost evaluat impactul instituțiilor formale ("regulile jocului" reglementare) asupra eficienței investițiilor. A fost determinată ponderea instituțiilor formale în asigurarea succesului investițional a agro-businessului pe scară largă în Ucraina. Au fost identificate principalele cauze ale atractivității investiționale scăzute a businessului mic și mijlociu din sectorul agrar al economiei Ucrainei. Au fost fundamentate modalitățile de dezvoltare a instituțiilor informale. A fost identificată importanța capitalizării activelor întreprinderilor mici și mijlocii pentru dezvoltarea proceselor de investiții în Ucraina.

Cuvinte cheie: *baza instituțională a politicilor de investiții, procesele de investiții, atractivitatea investițională, sprijinul investițiilor de stat, tendințele de investiții, teoria instituțională.*

Успешное развитие экономики Украины, ее агропромышленного сегмента требует масштабного и эффективного инвестиционного обеспечения и благоприятного инвестиционного климата. В связи с этим актуальным заданием научного сообщества является исследование влияния институтов на развитие инвестиционной политики, формирование инвестиционных процессов в стране. Целью этой статьи является изучение институциональной среды дальнейшего развития инвестиционных процессов в агропромышленном секторе экономики Украины в условиях евроинтеграции. В процессе исследования использованы общенаучные методы, в частности статистический метод, метод экстраполяции, аналогии, институционального

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анализа, абстрактно-логический метод, методы описательного и имитационного моделирования. Как результат исследования оценено влияние формальных институтов (нормативно-правовых «правил игры») на инвестиционную эффективность. Определена весомость формальных институтов в обеспечении инвестиционной успешности крупного агробизнеса Украины. Выделены главные причины низкой инвестиционной привлекательности малого и среднего бизнеса аграрного сектора экономики Украины. Обоснованы пути развития неформальных институтов. Выделено важность капитализации активов малых и средних предприятий для развития инвестиционных процессов на Украине.

Ключевые слова: институциональный базис инвестиционной политики, инвестиционные процессы, инвестиционная привлекательность, государственная инвестиционная поддержка, направления инвестиций, институциональная теория.

JEL Classification: G11, O16, Q14.

Problem statement. Successful development of the Ukrainian economy, its agro-industrial segment requires a large-scale and efficient investment provision and favourable investment climate. Domestic investment sources and credit possibilities in Ukraine are insufficient to satisfy the investment potential of agriculture and processing industry. At the same time foreign investments (even including the investments of the Ukrainian business from offshore zones) are attracted in limited volumes, and their share in total investments is for the time being insignificant.

Increase in investment volume and quality determines the course for broad integration in the world, and especially European economic space, which formulates a new vector in the development of the investment processes of Ukraine. The base for the new stage of the investment processes consists now in developing the national institutions and institutional environment up to the level of Europe, USA, Japan and other developed countries.

No doubt, the conditions which ensure investment attractiveness of the agro-industrial sector depend on the economic potential of the branch, its specific companies, infrastructure, market, taxation and other factors. However western investors are not less concerned also about sociocultural psychological types of the local population, level and trends of transaction costs and a number of other aspects which are studied and treated in terms of fundamentals of the institutional economic theory.

Analysis of the latest studies and publications. A considerable contribution to investigation of the investment provision problems in the agrarian economy of Ukraine belongs to the scientists of the National Agrarian Science Academy of Ukraine. Among them V.H. Andriichuk, P.I. Haidutskyi, N.I. Demianenko, I.H. Kirilenko, I.A. Lupenko. However, the theoretical basis for the development of investment processes in Ukraine in view of the western standards and changing trends of the domestic institutions remain poorly studied.

The purpose of the research is the study of institutional basis for further development of the investment processes in the agricultural sector of Ukrainian economy under conditions of integration into Europe.

Study results. During the recent years the investment processes in the agrarian sphere of Ukraine are being noticeably updated.

The volumes of the capital investments in agriculture in 2011-2013 increased by about 1.5 times compared to 2010 and in 2013 amounted to UAH 16 billion (nearly 2 billion US Dollars) [2]. However, for obvious reasons, in 2014-2015 there was a significant decline in investment.

The volumes of direct foreign investments increased on 6.4% in 2012 compared to 2011. So it appeared possible to stop the capital outflow due to the world financial crisis. But in 2014-2015 there was a decrease by 28.5%. Since 2010 about 60 % of foreign investments in agriculture are used for development of export-oriented products such as grain, sunflower seeds, rape and soya.

Consequently the growth of investments in the branch is mainly ensured at the expense of own sources of the big producers whose share increased from 70 to 90% in 2015. The main share of the borrowed funds comes from credit resources and makes about 20% of the aggregate incomings, state budget funds make less than 1%, other sources – 3-5%.

The dynamics of big business investments which is in many aspects positive was formed in early 2000s based on formation of the formal institutions ('rules of play'). According to our estimates, the legislation and organizing economic, financial measures taken earlier are still providing a comparatively

high level of the Ukrainian agrarian branch investment attractiveness. Impact of special tax regimes alone allows the owners (investors) to save about two billion US Dollars yearly (table 1).

Table 1

Volumes of indirect state support of agricultural producers due to special tax regimes (UAH billion)

Description	2009	2012	2015
Special regime of VAT collection (accumulation regime)	7,7	14,3	15,0
VAT – subsidies to processing companies	1,5	1,1	1,0
Concession at the expense of the fixed agricultural tax	2,8	3,3	3,5
Total	12,0	18,7	19,5

Source: Author's calculations based on the use of data of the State Statistics Service of Ukraine [6] and the State Fiscal Service of Ukraine [7].

The structure of investments in the agrarian sector features the trend towards innovations. Use of the fertile land as a main resource, cheap compared to Europe, predetermined the priority capital investment in crop growing. Each year the agricultural companies spend more than 70% of investments for purchase of technologies, state-of-the-art machines and equipment whereas expenses for construction and installation amount only to 22-24%. At the same time in Ukraine on the whole 42-44% of the aggregate investments are spent for purchase of machines and equipment and 50-52% for construction (table 2) [2].

Table 2

Share of investments in the fixed capital of Ukrainian agriculture and their technological structure, %

Item	Year		
	2010	2011	2015
Share of agriculture in the total volume of investments in the economy	6,0	6,4	5,2
<i>Structure of investments:</i>			
Construction and installation	24,0	22,7	18,6
Purchase of machines and equipment	70,2	71,2	76,2
Other	5,8	6,1	5,2

Source: 'Report on capital investments per types of economic activities' for relevant years. – State Statistics Service of Ukraine, form 2-in. [2].

In recent years gradually increased in volumes and share are the investments in the development of animal-raising which in 2000-2010 suffered a significant drop in production and reduction in livestock number.

A strong aviculture branch has been built up in Ukraine which does not only meet the internal demand for eggs and chicken meat but also steps up the export potential (140 ths t poultry meat yearly in 2013-2015) including to EU. More than 45% of the investments in animal-raising go to aviculture.

The 'Cattle Breeding Revival' program adopted in 2012, for the time being has not produced any results which were expected. The investment segment share in dairy and beef stock farming does not exceed 10-12%. The situation in pig-breeding is but slightly better.

Now due to (but not limited to) the investments and growth of prices for food, the agriculture of Ukraine is ranking among the leaders in the world exports of sunflower, corn, wheat and other products of plant-raising. Since 2012 the share of exports of agrarian products had occupied the leading positions driving back the exports of ferrous metals, traditional for Ukraine. Due to increase in the production and exports volume, recently the financial result of the branch exceeds UAH 25 billion yearly which makes about 20% on the whole in Ukraine. In the period 2008-2015 on an average the rate of return in the agriculture of Ukraine increased to 4.2% whereas in economy – to 1.3, industry – to 3.4 while construction and trade suffered losses.

Not the least of the factors in the branch economy growth stimulation is attracting of big foreign credits to Ukraine. Among such the notable was the credit of the Chinese Eximbank at whose expense already in 2012 1.5 billion US Dollars were attracted for export deliveries of corn and other grains. During the next 5 years it was attracted from China another nearly 1.5 billion US Dollars. However the scientists are not unanimous about the consequences of such Projects for the investment climate of Ukraine.

But the basic factor of the investment processes shaped in the domestic agrarian economy is today's land relations. As on 01.01.2016, 6.9 million peasants of Ukraine acquired as private property 27.2 million hectares of agricultural land. Out of these 17.5 million hectares were given in rent. Yearly the total paid for the rent of these lands amounted to more than UAH 10 billion. Here it is important that the share of the rental charge in the total costs of the agricultural companies does not exceed 5-10%. The land tax is included in the fixed agricultural tax, and the latter does not exceed 10 US Dollar/year per 1 hectare land. In addition, practically there is no competition for the land rent in the countryside.

Therefore the land relations as well as taxation to a large extent make up the attractiveness of today's investment processes of the Ukrainian agrarian economy including for foreign investors. But not all the businesses gain profit from this.

The determinative entities in the investment processes of today's agriculture of Ukraine are domestic and foreign agro-holdings which obtain maximal profit from the tax, land and other factors of the investment attractiveness.

The big agro-industrial companies of Ukraine learnt to attract investment resources on the world stock markets. It is characteristic that during the period of the financial crisis it was mainly the agro-industrial companies that made public offering and attracting of capital to Ukraine. During 2005-2012 their share in the structure of offerings on the stock markets is more than 50%. According to the forecasts of Fitch Rating analysts, during the 2017-2020 the Ukrainian agro-industrial companies would be able to attract additionally another 20-30 billion US Dollars [3].

To a large extent the accumulated investment potential contributes to formation of a huge land bank by these businesses, which gives rise to the objective concern among the economists.

In addition, the high transaction costs and monopolism of intermediaries on the markets of agricultural products and investment resources do not allow the medium-sized and small companies to create sufficient sources for development of their own material and technical facilities, to ensure their expended reproduction.

Reduction of jobs in the countryside and costs for creation of human capital strengthens the decline processes on rural territories. In Ukraine 4.3 million individual farms are functioning. But only about 1 million peasants decided on independent commercial farming and added 4 million hectares of the land acquired free of charge to the household plots.

Therefore the problem of the investment provision for development of the branch is the sharpest one in the small and medium-sized agricultural companies and in the individual farms which, taken together, produce today around 72% of all the agricultural products and use more than 70% of agricultural lands of Ukraine.

Nevertheless, the state does not eliminate the unfavourable conditions for development of cooperation, medium-sized and small business in the countryside. Pending are the problems of mortgage, financing of measures to develop the social sphere, road network and other factors which would predetermine the future pro-European investment attractiveness of the economy agrarian sector.

Positive moves in this direction mostly depend on the local possibilities of investment provision. However such possibilities are limited in most of the regions and territories. Therefore the investment provision problem for development of agriculture and rural territories is a large-scale problem, its solution is of both national and local importance and requires effort consolidation of all the links and spheres of production, society, state and government authorities.

It is obvious that the prospects of the investment potential of Ukraine are concentrated in the small (about 42 ths farms each cultivating from 10 to 1 ths hectares of land) and medium-sized (about 12 ths companies each cultivating from 1 ths to 10 ths hectares of land). Not less important are also the individual farms (4.3 million) about 1 million of which are already oriented towards marketability of the products. **However these prospects will be implemented when the relevant institutional basis for the new investment conditions is created.**

It is noted in the Economy Agrarian Sector of Ukraine Development Strategy till 2020 [5] that although the underlying principle of such development is still multi-structure the priority is given to the

so-called village-forming companies (business entities whose owners live in a village and combine the right for land (including rent) with the work on it, economic interests with social responsibility).

The criteria of the village-forming companies are met by the most of the medium-sized and small businesses in Ukraine. It is for them that it is reasonable to improve the concessional taxation system and the main programs of the budget allocations (it is worth noting that the effective concessional taxation system is valid only till 2018).

The project of the Law of Ukraine 'On turnover of the lands for agricultural purpose' envisages in particular the restriction on land-use by the agro-holdings which would also contribute to strengthening of the investment potential for small and medium-sized business in the countryside.

The legislation initiatives stated above are aimed at creation of a new institutional basis for the investment processes in the agrarian economy of Ukraine.

However, if in the legal regulatory provision (the formal institutions) the trends of the institutional changes are clear and obvious, the situation in the non-formal segment of the institutional changes is worse. E.g. in accordance with the World Bank studies, only around 5 % of the agricultural land owners of Ukraine understand the significance of the land capitalization and are ready to actively use it in the economic turnover. The investment attractiveness and success of the agro-holdings is known to be based to a great extent on the attractive presentation of their assets and cash flows in the financial reporting certified by recognized audit companies.

It is not a year that the big business spent on the way to the established investment attractiveness through capitalization. This is not the case with the medium-sized and small companies of Ukraine. According to our estimates, if the small and medium-sized companies do nothing but enter the rights for the rent of the land in the company books, their aggregate capitalization would increase at least by 10 billion US Dollars. We would like to note that in all the agro-holdings of Ukraine the rights for the rent of the agricultural lands are entered in the company books. Other assets are also successfully capitalized.

The objective prerequisites of asset capitalization for the small and medium-sized business are shown in the table 3.

Table 3

Dynamics of rent contract validity for the lands of agricultural purpose in Ukraine, %

Rent period	2001	2010	2014
For 1-3 years	45,7	10,0	5,1
For 4-5 years	41,2	49,0	40,3
For 6-10 years	11,3	30,6	41,1
Over 10 years	1,8	10,4	13,5

Source: Author's calculations based on the use of data the State Statistics Service of Ukraine [6].

Entering the rights for long-term and medium-term land rent in the company books is the first step to the increase of the investment basis.

But most of the medium-sized and small business managers are not ready for the mission of creation of the new basis for the investment processes, new investment sites. The state obviously needs to concentrate efforts not only on changing the legal regulatory field (the formal institutions), but also, first of all, to initiate propaganda, training of the small and medium-sized company owners, managers and accountants. In other words, it is important in parallel to create the investment potential by changing the non-formal institutions too.

Conclusions. Not the least of the factors of the investment process new quality growth lies in changes not only in the formal (legal regulatory) institutions but also in the non-formal institutions. The latter, in terms of the institutional theory postulates, make the basis, ground for development of economy including its investment component.

In the domestic studies of the investment policy (processes) the theoretical substantiations are paid insufficient attention.

The problems of condition, development and, in the main, influence of sociocultural psychological types of owners and managers of the Ukrainian agrarian sector business entities on the investment processes should not be secondary in the investigations. In many aspects success of their solution would

allow to improve the investment climate, to strengthen the positions of Ukraine on the world food market. To make forming of the new investment processes more active, strategically it would be reasonable to implement the following measures:

- To form the investment priority of development of the formal institutions (legal regulations concerning land relations, taxation, crediting, attracting foreign partners and other);
- Regarding the formation of the investment basis of the non-formal institution maturity – to launch the program training of the owners and managers of business entities, adopt and implement the Program of the Ukrainian small and medium-sized agro-business capitalization;
- Regarding the development of various businesses in the countryside – to re-orient the state support towards the village-forming businesses (medium-sized companies, farms and other small agricultural companies, servicing cooperative societies, individual commercial farms);
- Regarding the regional development – to provide special investment regime on the depressive rural territories;
- Regarding the branch development – priority grant for state support of animal-raising development, production of organic, export-oriented and import-substituting products;
- Regarding the priority for implementation of the investment projects providing fast increase of the Gross Domestic Product – to implement projects for introduction of innovation technologies, development of infrastructure for storage and processing of vegetables and fruits, build-up of facilities for processing of hop and substitution of imports of raw materials for brewing industry, construction of facilities for production of concentrated mashed potatoes, formation of network of dairies, pig-breeding farms, expansion of export possibilities of confectionary industry, modernization of sugar plants for production of bioethanol, formation of clusters for production and processing of flax, introduction of quality management system for agrarian products, construction and reconstruction of bakeries, production of important veterinary immunological and other drugs, development of aquaculture of fishing plants;
- Regarding the road network – to allocate at least one third of incomings of the road funds to the needs of road network development in rural areas;
- Regarding the social problems – to provide housing construction for employees of the state-financed organizations who work, live in the countryside and made long-term contracts, to provide organization support of the investment projects for development of the countryside.

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