

## INVESTMENTS IN AGRICULTURE OF UKRAINE

Nataliia ZELISKO, Oksana BULYK, Andriy KOLODIY

Lviv National Agrarian University, 1 Vladimir the Great Street, Zhovkva District, Dubliany 80381, Lviv Oblast, Ukraine. Phone: 0979671320; E-mail: zeliskon@ukr.net

*Corresponding author:* zeliskon@ukr.net

### Abstract

*The article is devoted to issues of foreign investment in Ukraine, since the effective implementation of investment activity is important for the development of the Ukrainian economy at the present stage and increasing the competitiveness of enterprises, necessary for its integration into the European socio-economic space. The development trends in foreign investment to agriculture have been analysed. Gradual deterioration of the prerequisites for the development of agricultural foreign investments has been found by studying the trends of foreign investment to 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 are analyzed; developed infrastructure; relatively cheap and skilled labor; large capacious and almost competitive unlimited domestic market for most commodity items; scientific potential, etc. The threats of foreign investment for the host country are identified.*

**Key words:** investment activity, investment attractiveness, capital investment, foreign direct investment, agriculture

### INTRODUCTION

Investment is a key factor in ensuring economic growth and innovation, increasing productivity, increasing incomes, sustainable economic development. Investment in agriculture is important because it contributes to the economic age and poverty reduction, food security and the rational use of nature. The amount of investment, their 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. With the development of the pandemic, the expectations regarding the investment activity of pessimistic experts. 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 development of the industry.

### MATERIALS AND METHODS

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 characteristics 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 and 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.

## RESULTS AND DISCUSSIONS

The issues of increasing innovation and investment activity were considered in the works of N. Burlaka, V. Ilchuk, TV Shpomer, Yu. Shubravska, and others. Domestic and foreign scientists, in particular Onegina V., Vitkovsky Y., Chernyshev V., Okara D., Kovaleva I. and others, in their scientific works 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 led to destructive processes in the productive forces of the industry, deteriorating land resources, reduced efficiency of agricultural production, declining and deteriorating quality of life of the rural population. Therefore, it is expedient to substantiate the theoretical principles of increasing innovation and investment activity and attractiveness of agricultural entrepreneurs.

Research shows that much 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).

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 [7, 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 [2, 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 the 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 2020) (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 2020, exporting agricultural goods totaling 7.3 billion euros.

Since the 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.

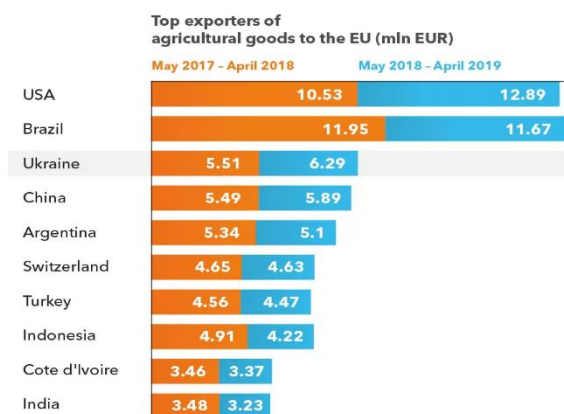


Fig. 1. Top exporters of agricultural goods  
 Source: according to the State Statistics Service of Ukraine and the National Bank of Ukraine.

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 2020, 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 agro-technological 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.

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.

This 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 [10]. 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 [4].

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 the 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 Presidential 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 has launched the Program "Acceleration of Private Investment in Agriculture", which in 2020 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) [8].

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 [6].

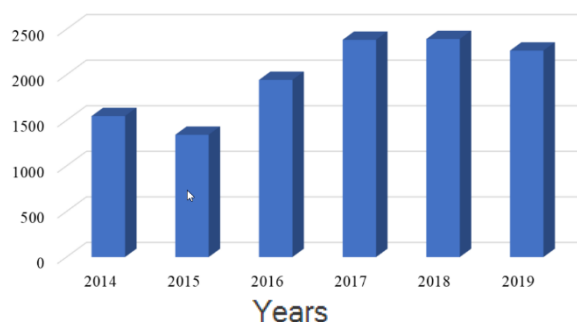


Fig. 2. Investments in agriculture in Ukraine, million dollars USA

Source: according to the State Statistics Service of Ukraine and the National Bank of Ukraine [9].

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

The analysis of statistical data confirmed that during 2014-2018 the volume of investments in agriculture of Ukraine increased annually (Table 1).

Table 1. Capital investment in agriculture in Ukraine

Indicators	2015	2017	2018	2020	2020 to 2015, %
Capital investment in agriculture and hunting, UAH million	29,310	63,401	65,059	58,555	199.8
Index of capital investment, %	159	128	103	90	-69
Net profit, UAH million	101,912	68,277	70,462	90,167	88.5
Fixed assets, UAH million	205,575	335,303	399,526	365,456	177.8

Source: State Statistics Service of Ukraine [9].

The exception to the growing trend of investment in agriculture was 2020, when the annual volume of investment decreased by 10% compared to the previous year. This decrease in investment occurred when agricultural enterprises received UAH 70.5 million last year. net profit, which is 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 [1, p. 39]:

1. Foreign direct investment. Foreign capital is invested in those 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 conditions, including during the 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 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

decreased significantly in recent years, so the amount of depreciation cannot be significant [3, p. 38].

Thus, among the main reasons for the decline in investment activity in the country, in particular in agriculture, are the following:

-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 the 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 [5, p. 6]. This can have negative consequences for the development of the agricultural sector, which can be manifested in reduced productivity, reduced production, higher prices of manufactured products, deteriorating quality and, as a consequence, reduced competitiveness.

## CONCLUSIONS

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 the 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.

## REFERENCES

- [1]Burlaka, N.I., 2020, Development of investment activities of enterprises of Ukraine. Investments: practice and experience, 8, pp. 37-44.
- [2]Chernyshev, V.G., Okara, D.V., Kovaleva, I.L., 2020, The current state of foreign investment in agriculture, forestry and fisheries in the regions of Ukraine. Agro-world, 21, pp. 36-46.
- [3]Gaidutsky, P. I., 2014, Structural warp and crisis crises in the agro-industrial complex. Economy AIK, 7, pp. 38-46.
- [4]Global productivity. Trend, drivers, and policies / ed. A. Dieppe. World Bank Publications, The World Bank Group, Washington, DC: World Bank, 2020, 460 p. [https://www.worldbank.org/en/research/publication/globalproductivity?cid=ECR\\_E\\_NewsletterWeekly\\_EN\\_EXT&deliveryName=DM71770](https://www.worldbank.org/en/research/publication/globalproductivity?cid=ECR_E_NewsletterWeekly_EN_EXT&deliveryName=DM71770)>, Accessed on 8 September 2021.
- [5]Hudzynskyi, O. D., 2013, Formation of system investment support strategic development of agricultural enterprises. Collection of scientific works of Tavriya National University, 4, pp. 5-8.
- [6]Ilchuk, V., Shpomer, T., 2017. Innovation and investment activity of AIC: current state and problems of development. Agricultural and Resource Economics: International Scientific, 3(1), 108-118. [www.are-journal.com](http://www.are-journal.com)>, Accessed on 10 October 2021.
- [7]Onegina, V., Vitkovskyi, Y., 2020, Investments and land reform in agriculture of Ukraine. Agricultural and Resource Economics: International Scientific, 6(4), pp. 187-210. <https://doi.org/10.51599/are.2020.06.04.10>, Accessed on 17 October 2021.
- [8]Shubravska, O., 2012, Innovative development of the agricultural sector of Ukraine: Theoretical and methodological aspects. Ekonomika Ukrainy, no. 1, pp. 27-35.
- State Statistics Service of Ukraine, 2020, Statistical information on investment activities of agriculture, forestry and fisheries, <http://www.ukrstat.gov.ua>, Accessed on 20 October 2021.
- [9]Transforming our world: the 2030 agenda for sustainable development. Document of the United Nations General Assembly, [http://www.un.org/ga/search/view\\_doc.asp.symbol=A/70/L.1&Lang=E](http://www.un.org/ga/search/view_doc.asp.symbol=A/70/L.1&Lang=E), Accessed on 17 September 2021.