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## **SPECIAL FEATURES OF INVESTMENT EFFICIENCY IN THE AGRICULTURE SECTOR OF UKRAINE**

*Abstract. Foreign investment is one of the most effective tools for agricultural development and ensuring its competitiveness. Today, foreign investments, due to their small scale, do not have a significant impact on the state of its functioning and do not contribute to the solution of priority development tasks. Foreign sources of investment can not play the role of the main lever of economic growth, but if they are sound and rational use, even insignificant revenues will help to revitalize agricultural production, increase its efficiency.*

*Keywords: investment activities, agricultural enterprises, investment features, investment policy, problems.*

### **I. Introduction.**

The need for investment in the development of agricultural production is an objective necessity, taking into account the peculiarities inherent in agriculture as an industry. The volume of investments in agriculture has always been insufficient compared to the need. In the circumstances, the investment problem in agriculture was particularly aggravated. That is why the negotiation of a stable investment process becomes important. Investments need to be invested in upgrading, re-equipping and improving the efficiency of agriculture on this basis. Without large-scale capital investment in the form of loans, direct and portfolio investments, not only economic growth, but also economic stabilization is not only a separate industry, but also the country.

Concept, content and dynamics of investment development and investment in the agrarian sector were explored in the works of many scholars such as: V. Andriichuk, V. Berens, G. Burman, I. Blank, M. Borenko, V. Voitsekhovsky, O. Havrylyuk, P. Gaiducky, V. Heyets, B. Gubsky, A. Epiphanov, M. Kozhemyakin, G. Cranberry and others. However, despite the fact that much attention is being paid to investment management issues, but some of the issues related to research on the essence, structure, and effectiveness of investment activity of agricultural enterprises are still unpublished or need to be improved.

## **II. Problem Statement.**

The purpose of the paper is to study the main problems of investing in the agrarian sector of Ukraine and the factors that determine them.

## **III. Results.**

Effective reform of the economy of Ukraine and its regions is impossible without large-scale investments, which represent the most important factor of economic growth and restoration, which provides the opportunity to modernize existing production, the creation and introduction of the latest technology and technologies, modern systems of organization and management of economic processes, and the qualitative restoration of market infrastructure. The entry of Ukraine into the world economy requires an increase in the overall level of economic and scientific and technological development. The leading role in this process should be played by optimal use of investments, both internal and external.

The country's agro-industrial complex has all the necessary prerequisites for widespread involvement of both its own and foreign investments, namely: fertile chernozem soils, developed transport infrastructure, favorable geographical location, availability of labor, unsaturated food and resource markets. However, there are a

number of reasons that prevent the flow of investment into the agricultural sector of Ukraine.

The natural and climatic conditions of Ukraine are favorable for the intensive high-efficiency development of agriculture.

Efficiency of investing in agriculture of Ukraine is a best prospect industry sector for this country. Includes a market overview and trade data [1,2,3].

Table 1.

Total Market Size (data in USD thousands)

|                        | 2015    | 2016      | 2017      | 2018 (Estimated) |
|------------------------|---------|-----------|-----------|------------------|
| Total Local Production | 253,780 | 300,384   | 348,271   | 400,000          |
| Total Exports          | 121,211 | 104,514   | 132,052   | 150,000          |
| Total Imports          | 677,766 | 1,355,301 | 1,724,168 | 1,900,000        |
| Imports from the US    | 138,899 | 286,205   | 338,300   | 400,000          |
| Total Market Size      | 810,335 | 1,551,172 | 1,940,386 | 2,150,000        |
| Exchange Rates (UAH)   | 21,84   | 25,55     | 26,60     | 29,3             |

Source: [1,2,3]

Demand for agricultural machinery is directly tied to the health of Ukraine's agribusiness sector, which remains the most promising sector of the economy. With 41.5 million hectares of agricultural land covering 70 percent of the country, agriculture is Ukraine's largest export industry. In the context of a total export volume decrease, the share of agricultural exports is increasing. During the last five

years, the share of agriculture in export revenues for Ukraine increased from 26 percent in 2012 to 42 percent in 2016. In 2017, compared to 2016, agricultural products exports grew by 16 percent amounting to \$17.8 billion, almost reaching the historic 2012 record of \$17.9 billion. However, the basis of agricultural exports is still exports of raw materials, namely products of plant origin, including wheat, corn, barley and soybeans. In 2016, the total share of these products in exports amounted to 46 percent. Agriculture, including the processing industry, generated 16-17 percent of GDP in 2017.

Ukraine's record setting increases in output are driving capital investment in agriculture, which grew to \$2.17 billion, a 30.7 percent increase compared to 2016. Ukrainian farmers prefer imported machinery. All self-propelled sprayers, 98% of combine harvesters, 95% of tractors, 89% of plows, 55% of spreaders of mineral and organic fertilizers, 46% seeders, and 25% of disk harrows sold in 2017 in Ukraine were imported.

Over the last two years, greater political stability, a stronger economy, a more stabilize hryvnia (the country's currency) and delayed demand enabled and encouraged Ukrainian farmers to resume badly-needed capital investment, including agricultural equipment. Farm machinery and equipment imports increased nearly 2.5 times in 2017 compared to 2015, returning to 2013 levels. Leasing services, which also showed signs of recovery after a dramatic downturn in 2014-2015, are expected to grow at 20 percent due primarily to more thoughtful approaches to tax planning by farmers.

Two main groups of producers (e.g. agricultural machinery buyers) generate Ukraine's gross agricultural output— agricultural enterprises and households. The former produces 55 percent of gross output and consists of 32,000 farm enterprises, 10,000 corporate agricultural enterprises, and 241 state enterprises. The second group consists of more than 4 million households cultivating on average 1.23 hectares of land each and generating nearly 45 percent of gross agricultural output. It is important for U.S. companies to understand that the influence of large agricultural holdings extends beyond the companies within their ownership structure to include

independent small and medium-sized producers. These holdings are often the landlords to smaller sized independent farmers who lease land from them. The large agricultural holdings also own distributorships that sell equipment to independent small and medium-sized companies. Finally, there is a dearth of financing in Ukraine's agriculture sector and larger companies that have attracted passive foreign investment are often the only distributors able to provide equipment financing to smaller farms.

The major factor restricting agricultural development is access to credit and working capital. Domestic loans are expensive, and Ukraine's challenging business climate prevents local companies from attracting cheaper international funds. Therefore, the competition among suppliers of agricultural machinery in Ukraine is not only about quality, but also about a supplier's financial terms. Because the availability of financing is a key factor for buyers when considering equipment purchases, for many years Ukraine was the U.S. ExIm Bank's most active portfolio in the region with close to \$140 million of long-term guarantees provided in 2012. Unfortunately, today the U.S. ExIm Bank has suspended its activities in Ukraine.

Leading banks in agricultural credit market are Credit Agricole, UkrisibBank, Aval, Piraeus, Alfa Bank, OTP Bank and Agroprosperis Bank.

Major trend in agricultural banking industry is operational capital financing for the purchase of plant protection products, seeds, fertilizers, and fuels. Bankers are more willing to credit agricultural commodities producers of grains, cereals, and oilseeds. U.S. agricultural machinery companies considering entering the Ukrainian market should also consider the competitive landscape. U.S. brands such as John Deere, AGCO, Great Plains, and Case are widely available in the Ukrainian market, but face tough competition from European manufacturers (e.g. German, Danish, and Italian manufacturers). Competition is particularly fierce for tractors and harvesters. In the combine harvesters segment, German manufacturers hold almost fifty percent (both new and used) of the market, while U.S. manufacturers have less than ten percent. Competition from European suppliers is likely to increase for a variety of reasons related to Ukraine's pending entrance into the European Union (EU). The

Deep and Comprehensive Free Trade Area (DCFTA) agreement, which is part of Ukraine's EU Association Agreement includes the gradual removal of customs tariffs and quotas and an extensive harmonization of laws, norms, and regulations in various sectors. Additionally, Canada-Ukraine Free Trade Agreement (CUFTA) envisages improved market access, by eliminating tariffs across many export groups. Duty-free access for Canadian products may also result in turning Ukrainian customers to Canadian competitors.

Local agricultural machinery production is also expected to grow due to the Ukrainian Government support program envisaging 20 percent compensation of the purchase of Ukrainian machinery and equipment. Key local manufacturers include Chervona Zirka, Lozova Machinery, Herson Machine-Building Plant, and Kharkiv Tractor Plant. Other significant regional competitors include the Minsk Tractor Plant, which holds a large market share (80 percent) of tilled tractors. While this Belarusian machinery is reliable, it has not been modified since 1993.

Regarding distribution, in Ukraine, it is easier for U.S. companies to sell equipment and machinery to local distributors rather than end-users. This is because distributors have local exposure, meaning they know who needs the products and most importantly, who can pay for it. Also, a local distributor may handle customs clearance, tax payments, and certification procedures. If a U.S. exporter is seriously interested in the Ukrainian market, they should consider opening a representative office here. A rep office will broaden the scope of expected support functions (marketing, promotion, and other auxiliary functions), serve as a base from which to expand to neighboring countries, and allow the company to manage the demand for spare parts and repair services.

#### **IV. Conclusions.**

Increasing the efficiency of management of investment activity of agrarian enterprises is limited by a number of factors, in particular the conditions of the social and political environment, the level of qualification and the internal resistance of the

restructuring of agricultural enterprises. Elimination of the negative influence of these factors is a prerequisite for increasing the efficiency of investment management and investment attractiveness of the agrarian sector. Taking into account these factors allows an objective assessment of investment activity in agriculture. The main source of investments in the coming years should be corporate profits, support of the state budget, bank loans, attracted funds of employees of enterprises and other investors.

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