

*O.Yu. YERMAKOV, doctor of economic sciences, professor,
head of department of labor economics and social development
National University of Life and Environmental Sciences of Ukraine
I.M. NOVAK, candidate of economic sciences, associate professor (docent),
associate professor (docent) of the department of management
Uman National University of Horticulture*

Methodological principles of formation of alternative investing mechanisms in the agrarian sector of the Ukrainian economy

Scientific problem. The country's food security problem is actualizing the study on the issue of providing agricultural producers with investment in capital resources as the poor state of material and technical provision of economic entities affects volumes of the agrarian production, profits, wages of employees and decline of the social infrastructure of a village, etc. The receipt of investment capital will stimulate the use of innovative technologies which will further enhance the competitiveness of domestic crop and livestock production.

Investing branches of the national economy is one of the driving forces in the development of the domestic economy and the Ukrainian society as a whole due to improved management of economic entities.

Analysis of recent researches and publications. Domestic scholars-economists, such as I. Bilsky [1], I. Blank [2], B. Gubsky [6], M. Denysenko [7], O. Yermakov [9], M. Kisil [20], O. Krasovska [21], O. Mertens [26], A. Peresada [32], Udovychenko [35], V. Fedorenko [36], O. Yastremska [37] and others, substantiated theoretical and methodological principles of development and implementation of investment projects, formation of a mechanism for regulation of investment activity at the level of the country, branches and enterprises; made the attempt to determine risks of the investment process and sug-

gested ways to avoid them. However, taking into account the results of investing in the Ukrainian economy, especially the agrarian sector, we note that the constraining factor of their development is insufficient volume of financial resources which in turn requires search and formation of alternative investment mechanisms. Ukrainian scholars, as well as foreign ones (O. Blanchard [3], D. Halbright [5], G. Markowitz [23], F. Mahlup [22], L. Metzler [25], B. Olin [30], G. Henzler [33]) are unanimous that the profit is the main motive for investing. Therefore, the higher the rate of return is expected from investing, the more attractive the capital investment. This serves as a methodological basis for the study of this problem. O.M. Yastremska notices that investment is a socio-economic institution because it corresponds to the main institutional features: availability of norms, stable structure and certain types of behavior of its components. Studying features of investment in a complex, that is, in the economic and social terms at the same time will allow us to increase the activity of this process, reveal peculiarities of the behavior of its subjects, reconcile interests of investors, owners, managers, hired workers, territorial communities and society as a whole [37].

Thus, the attraction of various financial resources for investing in the agricultural sector of Ukraine should take place in the context of harmonizing components of the sustainable development (economic, environmental and social).

The objective of the article is to study the investment process of the agrarian sector of the Ukrainian economy and formation of alternative mechanisms of attraction of financial resources.

Statement of the main results of the study.

As it is known, the economic nature of investing is due to regularities of the process of the expanded reproduction which occurs at the macro level by using an additional part of the social product (national income) to increase quantity and quality of elements of productive forces of the society. At the micro level, this process (investing) is an integral part of the financial and economic activity of enterprises which aims to increase capital through appropriate investments.

Today, agriculture and the agro-industrial sector as a whole form the largest share of budget revenues. However, domestic agricultural enterprises are not able to increase their production capacity to world indicators, due to

the shortage of funding sources, since they use outdated techniques and technologies.

According to scientists, the feature of capital investments in the agrarian sector “lies in the fact that the effect of them is not immediate, in contrast to current investments; a farmer can change a ration for cattle without much loss but if the new building is not functional, time and money are needed to solve this problem. After all, the conversion of capital costs is a fairly cost process” [9, 24].

Exploring in general investment of the country's economy, it is carried out at the expense of its own financial resources of the investor (depreciation, profit, cash accumulation, savings of citizens, legal entities, etc.), borrowed funds (banking, budget and bond loans, as well as funds received from the sale of shares, bonds, share and other deposits of citizens and legal entities), budgetary investment allocations and borrowed financial resources (credits, loans) (Table).

Capital investment by financing sources in Ukraine, [8, 19]*

Sources	2010		2014		2015		2016	
	billion UAH	% to the total volume	billion UAH	% to the total volume	billion UAH	% to the total volume	billion UAH	% to the total volume
Total								
including at the expense of	189.0	100	204.0	100	251.1	100	326.1	100
state budget funds	10.9	5.8	1.5	0.7	6.1	2.4	7.4	2.3
funds of local budgets	6.3	3.4	5.2	2.6	12.4	5.0	23.2	7.1
own funds of enterprises and organizations	114.9	60.8	145.8	71.5	169.2	67.4	226.3	69.4
bank loans and other loans	23.3	12.3	17.9	8.8	18.3	7.3	23.2	7.1
funds of foreign investors	4.1	2.1	5.5	2.7	7.8	3.1	9.4	2.9
funds of the population for individual housing construction	20.8	11.0	21.3	10.5	30.2	12.0	29.1	8.9
other sources of funding	8.5	4.5	6.4	3.2	6.9	2.8	7.2	2.3

* Data in 2014-2016 are given without taking into account the temporarily occupied territory of the Autonomous Republic of Crimea and the city of Sevastopol.

The analysis of financing sources of capital investments for the studied period indicates that there has been a sharp reduction of public financing from 10.9 billion UAH to 7.4 billion UAH with the lowest level of state capital investment in 2014 of 1.5 billion UAH. The share of granted loans of banks and other loans declined from 12.3% to 7.1%, respectively.

All this led to the fact that the main investing burden in assets was carried out by own funds of enterprises and organizations (if their share in 2010 amounted to 60.8%, in 2016 it

grew by UAH 11.4 billion and amounted to 69.4%). The volume of foreign investment increased more than twice from 4.1 billion UAH in 2010 to 9.4 billion UAH in 2016.

The growth of investment in fixed assets in 2010-2015 was achieved in almost all regions of the country, except Donetsk, Lugansk and Zaporizhzhia regions. During the studied period the regional structure of the assimilated investment in fixed assets was almost unchanged. The main recipients were Donetsk (except 2015), Kharkiv, Dnipropetrovsk, Lviv, Kyiv

regions and Kyiv city. Unfavorable business conditions influenced the reorientation of investment directions from Donetsk region.

During the studied period in 2000-2015, the value of fixed assets increased by more than 9

times (from UAH 828.8 billion to UAH 7641.3 billion). At the same time, the degree of deterioration increased by 20% (to 60.1%) (Figure 1).

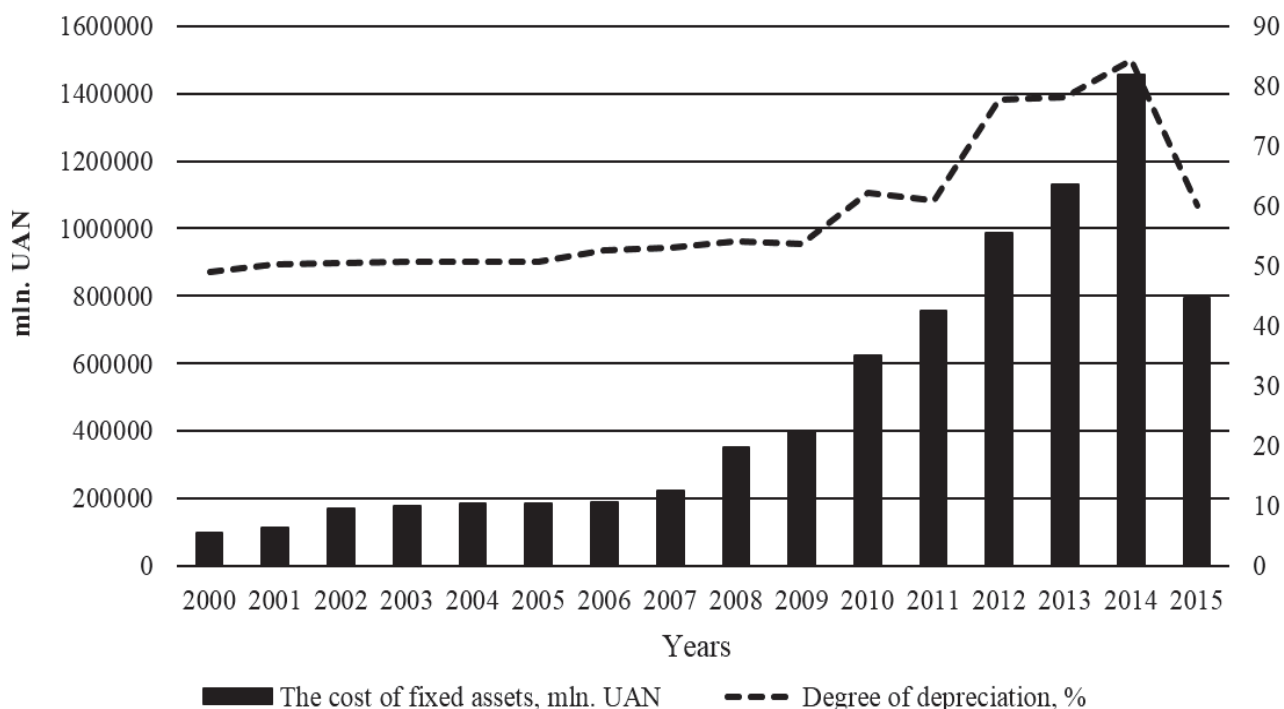


Figure 1. Dynamics of the state of fixed assets in Ukraine, 2009-2015, %, [4]*

* Data in 2014-2015 are given without taking into account the temporarily occupied territory of the Autonomous Republic of Crimea and the city of Sevastopol.

Analyzing the period of 2009-2014, the degree of depreciation of fixed assets in the country on average amounted to 83.5%. In 2015, in terms of key industries, it was at the level of 60.3% in the industry and 38.8% in the agriculture. This affected volumes, quality of domestic products and its value both on the domestic and foreign markets. Thus, nowadays in all branches of the national economy only under the condition of renewal of fixed assets the competitive products can be ensured. All this requires search and attraction of new sources of investment in the national economy.

The peculiarity of the current financial and economic support of the agrarian sector is that it is carried out mainly through a set of programs aimed at increasing the efficiency of production and profitability of a commodity producer. At the same time, due to lack of funds from the State Budget of Ukraine, this support was carried out at the expense of favorable tax policy which is an indirect form of subsidization of the branch. So, in 2014, agri-

cultural enterprises received funds from budget subsidies in the amount of UAH 176.5 million and at the expense of the special regime of VAT payment of UAH 8340.3 million which in percentage terms makes 2% to 98% [7].

This regime was regulated by the Coalition Agreement and the Action Plan for the implementation of the Program of Action of the Cabinet of Ministers of Ukraine, the Strategy for Sustainable Development "Ukraine 2020" in 2015 approved by the Cabinet of Ministers of Ukraine as of March 4, 2015, No. 213 and provided preservation of these tax conditions by January 1, 2018 [34]. So, everything complies with rules and requirements of the World Trade Organization and is in line with provisions of Council Directive 2006/112/EC as of 28.11.2006 on a common system of value added tax [8, 27].

It should be noted that today the support of agricultural producers in Europe is about 450 euros per hectare, while in Ukraine it is about 800 UAH per hectare (in 2014).

In spite of the farmers' protests in December 2015, the Supreme Council of Ukraine adopted amendments to the Tax Code, then since 2016, the use of the indexation index of the normative monetary valuation of land has been abolished to determine the tax base for payers of the single tax of group 4 [8].

There is no doubt that these changes can destroy the domestic agrarian sector. Loss of a powerful source of financing of working capital

of enterprises will negatively affect the material and technical provision, production costs, economic performance, employment and welfare of the rural population. Indeed, as the analysis of the structure of capital investment in the agrarian sector shows, the main part is the own funds of enterprises. The study of sources of financial support for farmers confirms this conclusion (Figure 2).

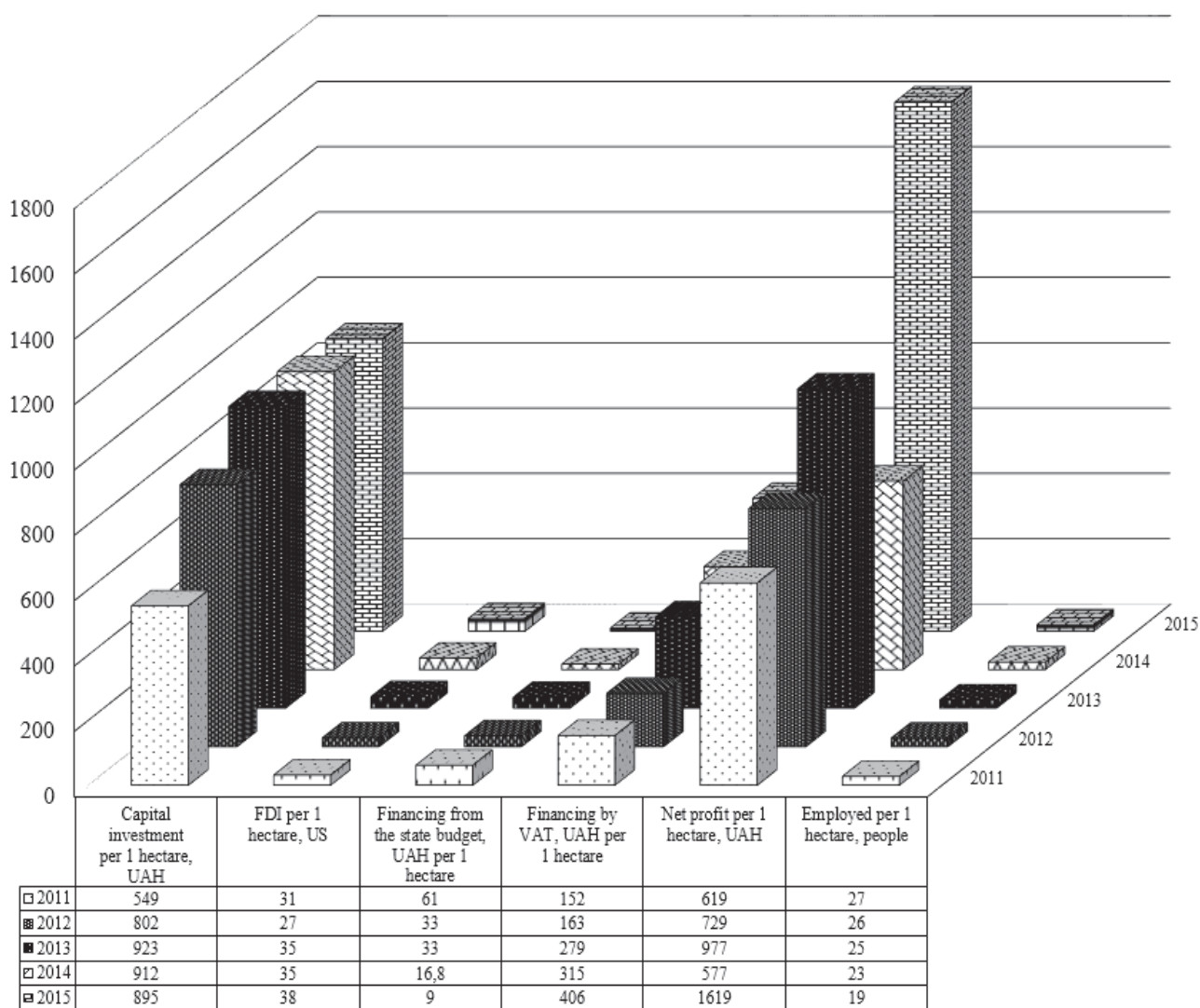


Figure 2. Dynamics of financial provision of agricultural enterprises in Ukraine, 2011-2015 [10-17] *

* Data in 2014-2015 are given without taking into account the temporarily occupied territory of the Autonomous Republic of Crimea and the city of Sevastopol.

The effectiveness of the financial provision of agriculture in 2011-2015 was analyzed in terms of 1 hectare. So during the studied period, there were the following changes: 1) capital investment increased by 1.6 times or by UAH 364 per 1 hectare; 2) FDI increased by

1.2 times or 7 dollars per 1 hectare; 3) financing from the state budget has decreased by 6.7 times or by UAH 52 per hectare; 4) financing by VAT increased by 206 times or by UAH 254 per hectare; 5) the number of employed in agriculture decreased by 1.5 times or by

8 workers per 1 hectare; 6) net profit increased by 2.5 times or UAH 1000 per 1 hectare.

It should be noted that the reduction of public funding was partly covered by the growth of capital investment, the main part of which is funds of agricultural enterprises.

The limited sources of investment in the agrarian sector are due to the following reasons:

- Low indicators of the efficiency of the production process, a large proportion of loss-making operating activities. Unearned profits affect the reduction of fixed assets financing, depreciation of fixed assets, destruction of social infrastructure, and, accordingly, the migration of rural population to cities. The above has negative consequences for agrarian producers, and worsens their ability to use credit funds.

- The size of agricultural enterprises. At present, the advantage of investing in economic activity in large agricultural holdings, respectively, economic opportunities for development in agricultural enterprises are different.

- The limited state and local finances that do not provide the level of proper support to producers, as in the case of developed world countries where agricultural enterprises receive various grants from the state;

- Imperfectly developed financial market infrastructure. Agrarian enterprises are not familiar with and have limited use of opportunities in financing investment activities. As a result, the main source of investment for the agrarian sector is financial resources of private investors [1].

Under these conditions, producers are faced with the problem of finding additional sources of funding including in the form of investment capital. Therefore, the review is required by the system of formation of the mechanism of attracting additional capital.

After analyzing the views of domestic scientists and foreign experience of raising capital in the agrarian sector, it can be noted that there are now three main trends in the formation of financial resources of the investment process. The first trend is the own funds of producers (depreciation and net profit), as well as borrowed funds in the form of long-term bank loans. The second trend is the use of opportunities of the financial market, that is, the stock market and the mortgage market. The third di-

rection involves an integrated approach when all available means should be used as sources of financing investments [2].

It should be noted that in accordance with the Law of Ukraine "On Investment Activity" non-state pension funds, joint investment institutions, insurers and financial institutions can carry out investment activities in accordance with the legislation defining features of their activities [28, 29]. However, despite the fact that these legal entities of public law are potentially included in the institutional architecture of the investment environment, now they can only invest in large agricultural enterprises (agricultural holdings, joint-stock companies, etc.) that have undergone the listing procedure.

Taking into account the unresolved issue of the land market in Ukraine, there is no mechanism of investment relations between non-bank financial institutions with small and medium-sized enterprises. Therefore, to attract ICI capital to the investment process it is possible to use foreign experience and the mechanism developed by domestic scientists to raise funds for agricultural receipts.

This practice is used both in Europe and the USA. Depending on the type of institution, investment conditions change. For example, in the United States, collective investment institutions are divided into three main types: Face Amount Companies, Unit Investment Trust Companies, Management Companies [22, 23]. The first type of companies issues certificates that serve as a contract between the investor and the enterprise. Its value is equivalent to the amount of the investor's funds. The certificate specifies the terms of validity and terms for their managing. The average maturity under this contract (certificate) is eight years and the face value cost is \$ 3.000. Objects of company investing of cash value certificates are real estate, construction and securities.

Often in practice, investing through integrated investment trusts based on a trust agreement for managing an investment portfolio on behalf of the owner and management companies is used. The principles of organization of the latter include the formation of them as independent legal entities (corporations, limited liability companies, etc.) with the participation of a sponsor or trustee who guarantees the company

capital. The management of the company is carried out by external managers.

In Ukraine, venture funds are engaged in investing capital in innovative enterprises (projects) the most often among ICI. The main purpose of venture investment is the provision of working capital for small profitable enterprises. The purpose is to get high investment income, despite the risks. ICI advantage is the exemption from payment of income tax and VAT until the moment of termination of work and dividend payment [31]. This determines the popularity of venture funds and their growth in recent years. As of December 30, 2015, the share of the latter in total assets of domestic ICI exceeded 90%. The most attractive spheres of venture investment in Ukraine are construction, agrarian production, food industry and trade, as opposed to the countries of the European Union and the USA in which innovations are invested [21].

Consequently, the results of the conducted studies suggest that when forming a consolidat-

ed source of investment in the agrarian sector it is expedient to use own funds of agrarian producers, state investments, capital of the banking sector, direct foreign investments, funds of joint investment institutions, etc. Taking into account the growing dynamics of ICI assets, it is possible to predict a powerful potential for cooperation of the latter with agrarian enterprises in the future. However, this requires the development of an effective financial mechanism for attracting investment from these subjects of investment.

In our opinion, the mechanism of investing in the agrarian sector of the economy can be realized in three directions now (Figure 3):

- Attraction of capital of venture funds through shares of agrarian enterprises;
- Investing capital of individual investors (business angels);
- Attraction of capital under the bail of documents of agrarian producers.

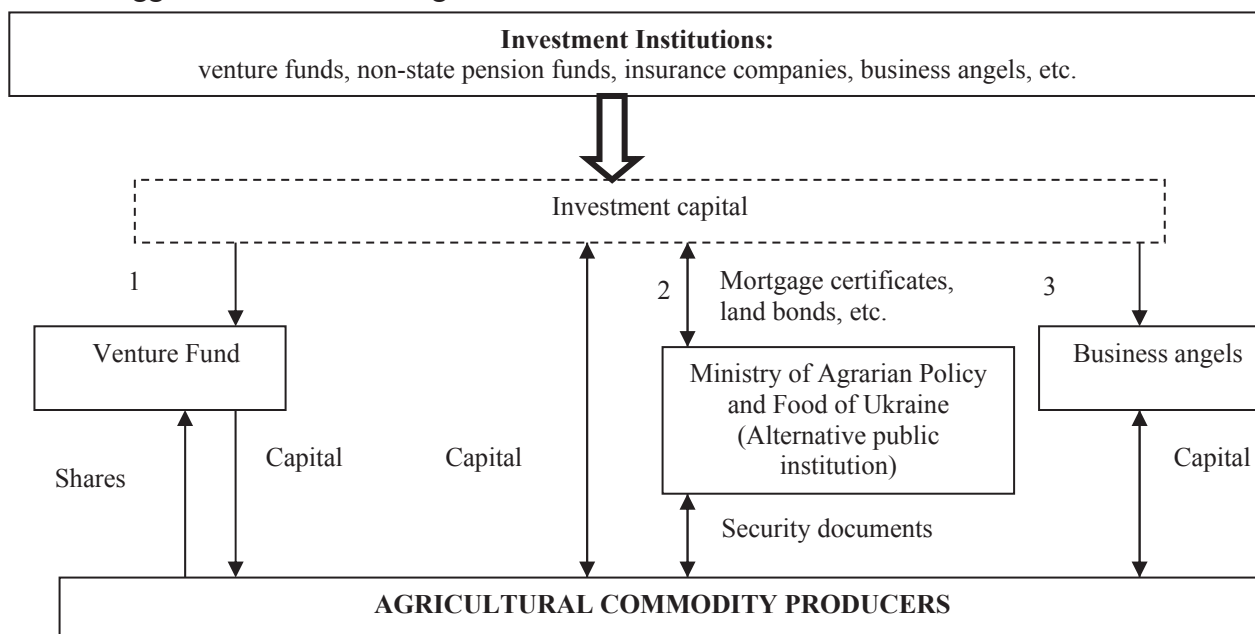


Figure 3. Mechanisms for attracting funds of investment institutions

The first two directions of investment are used but they are not popular due to the lack of sufficient number of counteragents, agricultural enterprises in the form of joint stock companies and business angels.

The third direction involves attracting investment capital to agriculture in the presence of mortgage documents. In our opinion, it can be mortgage certificates, land bonds and other securities that will allow you to invest for a

long term. At the same time ensuring the reliability of these transactions need to be carried out by a state institution. These functions could be performed by State Land Bank PJSC but after disclosure of its liquidation on September 10, 2014, these functions should be delegated to the Ministry of Agrarian Policy and Food.

In order to activate venture financing of domestic agrarian business, an appropriate legal framework is also needed that would legalize

this way of investing funds and encourage its use and receipt.

Taking into account the investment potential of institutional investors, that is, the capital that can be attracted to the agrarian sector through the mechanism of venture investment, we propose to introduce a set of appropriate measures in the field of law, tax, financial and credit policy, namely:

- Simplifying conditions for venture capital investment by pension funds and insurance companies;

- State support for the examination of innovative projects and development of advisory assistance for small and medium-sized agrarian enterprises, that is, the priority venture capital recipients;

- Provision of preferential tax treatment of income;

- Formation of the security market infrastructure in order to ensure liquidity of investment in venture capital;

- Provision of state guarantees for loans and investments for small and medium-sized agricultural producers;

- Providing consultations for entrepreneurs on issues of development of innovative projects, innovation management, marketing of innovations, protection of intellectual property rights, etc.

It is advisable to carry out the proposed measures in two stages. The first of them creates legal and economic conditions for the development of the system of venture capital in-

vestment and venture infrastructure. The second stage should be aimed at increasing volumes of venture capital investment in the agrarian sector of the economy.

Conclusions. Studying investment of the agrarian sector of Ukraine's economy has revealed problems that hamper its development. The main of them is the lack of investment capital which is associated with a destructive investment policy in the country. At the same time, the continuous development and effective operation of financial institutions in the non-bank financial market are becoming important factors of economic growth of the country and ensuring its national security. In perspective the effective use of the capital of insurance companies, non-state pension funds, joint investment institutions and other participants in the non-banking financial service market by agrarian commodity producers will minimize risks of business entities, overcome the shortage of financial resources and expand the possibilities of the innovative growth. The attraction of the capital from alternative investment sources will contribute to the progressive development of the agrarian and financial sectors of Ukraine.

In the future, we believe that further studies should be directed towards the development of an effective strategy for investing in the agrarian sector of the Ukrainian economy, including the mechanism proposed in the article on the investment relationship between commodity producers and alternative investors.

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