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Investment attractiveness of the agricultural sector in Ukraine: status and ways to enhance

Scientific problem. Having experienced a major financial crisis, and gone through a period of permanent elections and political uncertainty, Ukrainian business today has everything it takes to secure its position in the global arena. The share of foreign investments in Ukraine is currently estimated at 17% of GDP, indicating that the Ukrainian economy is critically lacking in investment and has huge growth potential. In contrast, the share of foreign investments in the economies of developed European nations has reached around 28-30% of GDP. Since Ukraine does not have enough resources to create a competitive economy on the world market, an influx of investment remains the main condition for recovery of the Ukrainian economy. Investors have high hopes for developing markets, meaning that Ukraine will have to withstand serious competition from the newer European Union member states, such as Romania and Poland, as well as Asian countries, in its fight to attract international investment.

Analysis of recent researches and publications. The question concerning development of investment potential of Ukraine and activization of the foreign direct investment inflows into the national economy is of current interest. Among foreign scholars, this problem was examined by Alan J. Marcus, Alex Kane, Zvi Bodie [8], Brandord P.J., Corrado Charles J. [6], Sones Sally M. [7] and others. Among native scientists, such scholars as P. Sabluk, P. Gaidutsky, [9], V. Geets [10], S. Gutkevych, M. Kysil investigate the improvement of investment climate of Ukraine. But these researches are not completed inasmuch as Ukraine faces new internal and external challenges, which require the search of new decisions and instruments of foreign direct investments involvement.

The objective. Investment climate is a general term for factors that provide incentives or disincentives for private sector investment, including:

Investment potential

- resource endowment and operation costs;
- physical, financial and technological infrastructure;
- openness to international trade and access to international markets;

Investment risks

- macroeconomic performance and political stability;
- the regulatory and policy framework and policy coherence, i.e. quality and stability of public policies including:

a) rule of law and protection of property rights (including corruption issues);
b) competition policy;
c) entry barriers, operational and exit restrictions;
d) tax policy.

The factors that will attract investors are straightforward, and include political stability, the rule of law (protection of private property), clear taxation principles and a stable currency. All investment processes simply froze before the last elections, and the political stability achieved in the wake of the elections, including the quick formation of an executive power vertical and the programs outlined by the government, were relatively well-received by the international community. This is confirmed by the revival of business activities and Ukraine's rating by international rating agencies, such as Fitch and Standard & Poor's.

The legal system is seeing a great deal of change, as new appointments are made and documents are adopted, which are aimed at fighting corruption and ensuring the rule of law. However, these processes take time and there is still a lot to be done. In light of this, in the near future, investors will have to make their decisions, while taking into account the intricate situation in the legal system, and bear in mind these risks when developing their business models.

The government's economic development program, which is focused on stimulating business via decreases in the tax and administrative burdens on companies, has been viewed in a positive light. It is now important to implement the program's objectives. At the same time, entry of the new Tax Code into force at the beginning of 2011 will be a huge step forward for both the country and business interests. The first edition of the document raised a great deal of complaints, and it is still being modified, so the final version should be much better. It is important to ensure stability and predictability, and to avoid a situation, whereby the Code is changed and modified regularly.

The issue of VAT recoverability, with VAT indebtedness having reached UAH 30 billion, is highly charged and sensitive, and is currently a major factor in preventing business development in Ukraine. The issuing of VAT bonds made it possible to reduce the indebtedness to UAH 2 billion (according to information provided by the Cabinet of Ministers in November) and, by the end of the year, the government plans to settle the accounts completely.

However, despite the fact that the securities issue helped to partially resolve the issue, it is pointless for the real sector of the economy – desperately in need of hard currency – to hold 5-year VAT bonds that accrue interest at an annual rate of 5.5%. This is why nearly 70% of exporters sold the securities, which lost 12% of their market value. It is very unlikely that this situation will improve the investment image of the county to any extent. At the same time, a seamless VAT recovery is one of the issues, upon which faith in the Ukrainian tax system by international investors rests.

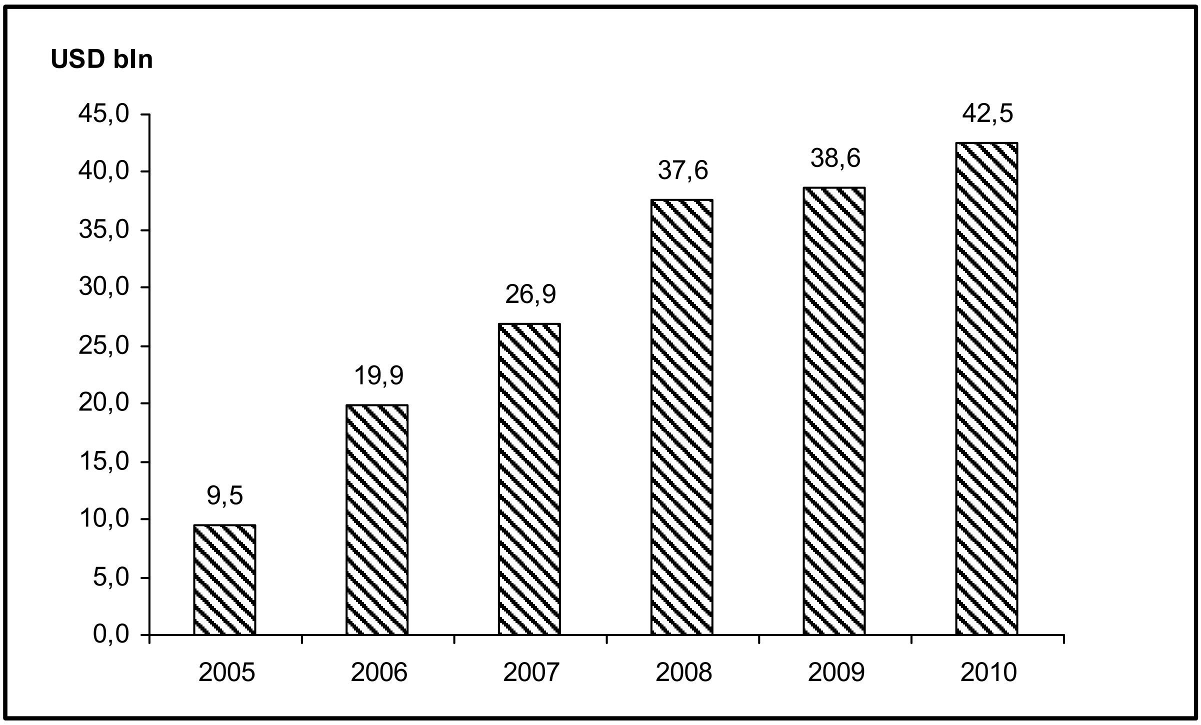

Figure 1. Foreign Direct investments in Ukraine [1]

The stability and predictability of national currency is an important part of our country's investment appeal. Any major rises and falls will not be welcome, as strengthening the currency will negatively affect exports, while weakening it will affect Ukraine's spending power. Instead, the stimulation of domestic demand remains a priority, as the volume of the domestic market ensures independence and a robust economy. Official figures show that, over the first 10 months of 2011, the inflation rate reached 7.9%. According to the data provided by the Cabinet of Ministers of Ukraine, the inflation rate will reach 10% by the end of the year. The World Bank is more pessimistic and the institution's specialists have increased the anticipated inflation rate from 10.6% to 11.9%. These negative expectations have led to a significant increase in the demand by residents for US dollars. In October 2011, Ukrainians bought USD 3.2 billion and sold only USD 1.34 billion. The last time Ukrainians bought foreign currency so vigorously was in November 2008. In an attempt to steady the hryvnia exchange rate, the National Bank of Ukraine (the NBU) resumed interventions, selling USD 686.9 million in September, and a further USD 734 million in October. The hryvnia is still stable thanks to the NBU's support, but, if the panic persists, it could lead to fluctuations in the rates of the national currency.

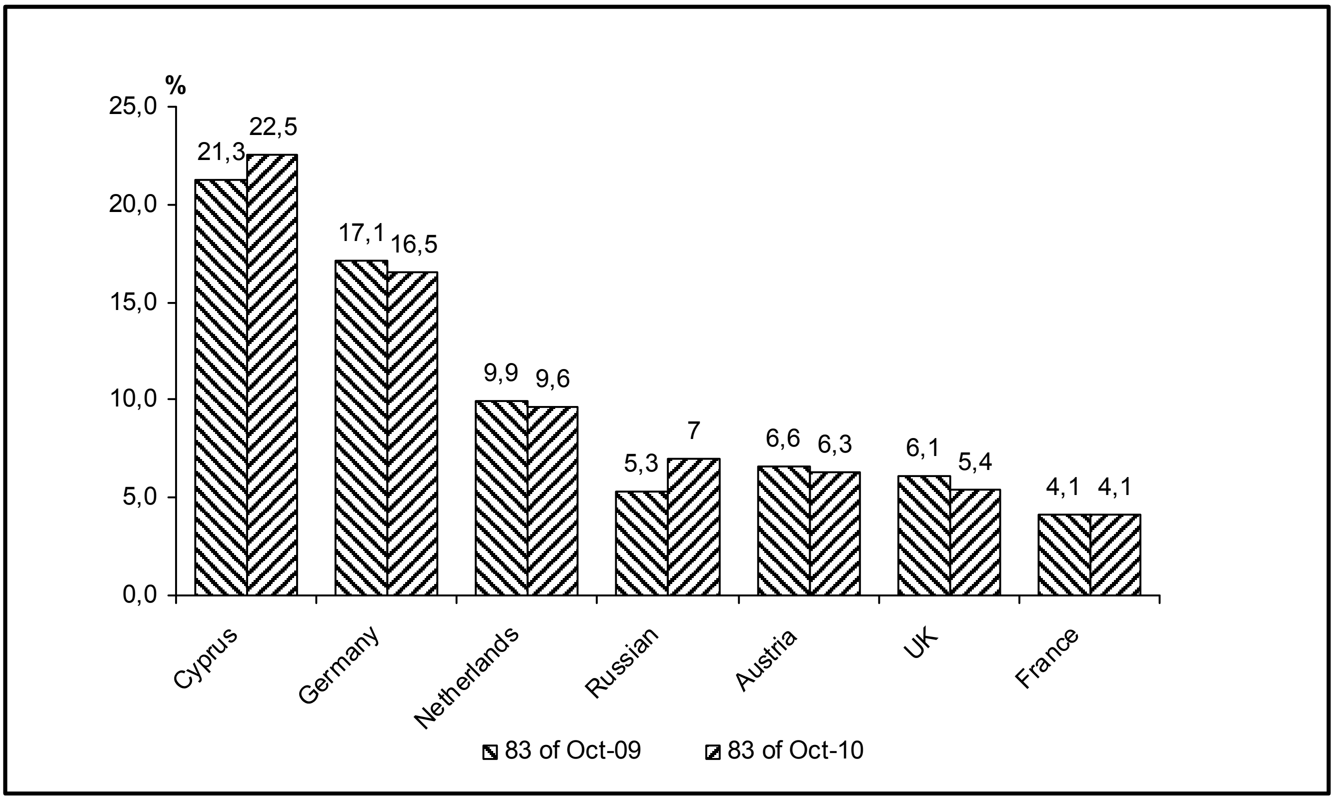

Figure 2. Direct investments by country (% of total) [1]

The most influential factors for investors are the positions taken by a prospective target company on the global market, along with general sector trends and risks attributable to the company's business activities. The presence of effective management, including an effective and clear business model, transparent business processes and internal reporting according to IFRS, is also an important factor.

The metals industry is one sector that is particularly dependant on the external business environment, including factors such as the price of and demand for metal. However, in recent years the main motivational forces of M&A activity were the strategic interests of Ukrainian and Russian capital. The Industrial Union of Donbass, the Magnitogorsk Metallurgical Industrial Complex and Zaporozhstal formed an integral part of the global processes of industry consolidation, as well as natural and expected processes of redistribution of property during the crisis.

The chemical industry is also highly influenced by the external business environment. Furthermore, the sector is renowned for its high energy consumption, and is frequently held hostage by energy and gas price negotiations. Competitiveness then suffers as a result. At the same time, companies such as the Odessa Portside Plant invariably attract the interest of major Western investors who are prepared to invest into the modernization of production and energy-efficient technologies.

Today, a great deal is being said about prospects of the agricultural sector – a natural expectation due to Ukraine's large farmlands and advantageous geographical location with regard to the distribution of its products. However, the sector desperately needs investment. We are now at an early stage of realizing the potential of our agricultural sector, as, while there are a lot of agricultural companies, there are not so many successful ones – maybe ten at most – that have developed a comprehensive approach to conducting business and are ready to attract investments in Western markets.

The financial sector, despite the pessimistic expectations, rode out the worst of the crisis with fewer losses than expected. The number of banks – both small and large – that were expected to go bankrupt was much higher. However, even today, the sector's problems are far from over, with the number of problem loans having increased from 10.8% to 11.6% in the third quarter of 2011. The concealed debts of the banking system will emerge over the 2013 year and the NBU estimates that banks will require an additional UAH 40 billion for capitalization processes, in order to support the system's rehabilitation. Moreover, despite the fact that the Ukrainian banking system has borne fewer losses than last year, financial results are far from ideal. Aggregated losses by the banking system in the period July-September amounted to USD 10.28 billion, as the financial sector lost its former appeal, due to reduced cooperation with retail customers. If, in the pre-crisis period, western investors were ready to pay 4-6 times a price of a bank, today a lot would prefer to leave in the event that they were able to find a purchaser. At the same time, there is a chance that their place will be taken by Russian capital, which is incredibly active today in all sectors of the Ukrainian economy, including gas, oil processing, energy, metallurgy, shipbuilding, mechanical engineering, the financial sector and telecommunications.

The upgrade in Ukraine's ratings by credit agencies, positive GDP growth dynamics and the increase in profitability by Ukrainian companies has facilitated access to capital markets. In 2011, there were several small, but quite successful, placements by agricultural companies on capital markets, as well as entry by some strategic and private investors into the capital of Ukrainian companies. Avangard listed its shares on a stock exchange, MHP placed Eurobonds and Metinvest attracted funding, to name a few.

Today, many companies are ready for IPO and they have good prospects on public capital markets. However, despite the M&A market revival, the inflow of investments remains low in comparison to the pre-crisis period. According to information provided by the State Statistics Committee, the net increase in direct foreign investments into the Ukrainian economy between January and September 2011 amounted to USD 2.547 billion, which represents a 14.3% decrease on last year's figures. The State Statistics Committee also said that, over the first nine months of 2011, foreign investors invested USD 3.423 billion into the Ukrainian economy (a 13.3% decrease on the previous year) and withdrew USD 0.628 billion (25.7% less than for the same period last year). Nearly half of the investments were received by companies in the financial sector. According to official statistics, 82% of funding came from countries such as Cyprus, Germany, Russia, Austria and England, among others.

Nevertheless, the influx of international capital exceeds the outflow by USD 5 billion. The incoming funds consist mainly of exporters' proceeds (around 50%) and borrowings (nearly 25%). Their share in investments amounts to 5%. At the same time, the debt burden placed on both business and the country is becoming critical. Fitch, the international rating agency, recently disclosed information stating that Ukraine's aggregate external debt will soon reach 78% of nominal GDP. The debt burden on companies is increasing and will reach its peak in 2013.

Ukraine according to the volumes of foreign direct investments per capita yields to the countries from CIS, and according to the ratio of the volume of investments and GDP considerably yields to the world indicators and countries of CEE. Besides it, in the last 10 years in the structure of foreign direct investments involvement in the countries of origin, some disproportions took place. Thus, the main donor of foreign capital in Ukraine is Cyprus – 22 %, and its share since 2003 increased. But, in personal opinion of some experts, this is actually the capital of Ukrainian companies, which returns to Ukraine with the status of foreign direct investments and under protection of corresponding legislation, aimed at obtaining of benefits and preferences. The majority of investments from Cyprus come to Ukraine [1]. The similar schemes are used by Ukrainian business in Virgin Islands (3,3 %), Bahama Islands (0,9%), Panama, Belize (0,1 %) and others [2]. Experts from the company Ernst and Young have researched admitted that more than a half of foreign direct investments from the Netherlands and about one third of Austrian foreign direct investments are reinvested by the capital of Ukrainian companies [3].

In Ukraine the considerable deterioration of investment environment took place during the world crisis. Over the period of 2008-2011 the national credit rating of Ukraine was downgraded by 9 times by the rating agencies. First of all, the reason was connected with the significant decline of GDP for 15 % in 2009, the deficit and the government debt was increased till 16 %, the rates of internal and external investing were reduced, the reforms' implementation was ineffective [4]. As a consequence, in the rating of economic freedom Ukraine declined from 134 place in 2007 till 164 place in 2011. The similar decline was in the rating of Ease of Doing Business – from 118 position till 145 position [2].

The key problem of the investment environment of Ukraine is organization of the state regulation of economic activity, taxation system, business administration. Moreover, over the last years the state of affairs only undergoes degradation.

The noted critical evaluation of the investment environment of Ukraine shows the significant gap between the investment attractiveness of Ukraine and countries of CEE. Moreover, the average indicator of investment climate profitableness of the CIS countries is a quarter higher than the indicator of Ukraine (Figure 2). Therefore, it is obvious that Ukraine requires complex reformation of economy and consideration of economic development priorities. There are certain conditions and significant potential of development for these. Firstly, the given potential of non-realized possibilities is in the sphere of innovation development where in comparison with the countries – founders of EU or CEE countries there are great opportunities for development and involvement of foreign direct investments. The UNESCO data acknowledged of the above mentioned. Ukraine according to the nation's intellect ranks 23 place among the 192 member states of this organization [5]. According to the rating of innovation potential, which is calculated by the experts of the World Economic Forum, Ukraine ranks 63 place among the 139 countries of the world, It stands higher than Russia, Spain, Portugal, Hungary, Baltic countries.

Foreign investors suppose that the biggest disadvantage of investment environment of Ukraine is legal, juridical, economic unpredictability. They refer Ukraine to the list of countries with the increased investment risks and point out the ineffective work of mechanisms of market rights and freedoms provision for foreign investors, protection of their property rights and interests.

Attracting funding is still a complex process for Ukrainian companies, but the opportunities exist and now it is important to choose the right strategy, considering all of the implications of each method for attraction funding.

The Ukrainian banking system is ready to lend money to profit-making companies, but at high interest rates. Therefore, it still cannot be treated as a resource for attracting large amounts of capital. Companies may also obtain loans from western banks; however, this process is now being rigorously controlled by the National Bank. Foreign investors are interested in Ukrainian companies, and now everything will depend on global capital markets.

Conclusions. In short, companies will now have to develop a comprehensive strategy, employ modern technologies and innovative methods of conducting business. Adding emerging financial resources to this mixture will allow them to compete at a global level. This is the only way forward.

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Стан і перспективи лізингової діяльності в сільському господарстві України

Постановка проблеми. Пожвавлення інвестиційної діяльності в галузі сільського господарства України, зростання обсягів капіталовкладень на придбання новітньої техніки цілком виправдовується високим ступенем зносу машинно-тракторного парку вітчизняних підприємств. Основними джерелами придбання матеріально-технічних ресурсів українськими сільськогосподарськими товаровиробниками можуть бути як власні, так і державні джерела фінансування, позичкові кошти, в тому числі банківський кредит та лізинг.

Сучасні умови господарювання переконливо доводять, що однією з найдоступніших форм придбання новітньої потужної й одночасно ресурсо- і енергозберігаючої техніки є лізингові операції. Адже через відсутність ліквідної застави, тривалий цикл, сезонний характер та ризикованість сільськогосподарського виробництва банки не завжди забезпечують підприємства кредитами.

Аналіз останніх досліджень і публікацій. Розв’язанню проблем функціонування ринку лізингових послуг, оновлення матеріально-технічної бази сільськогосподарських підприємств присвячена велика кількість праць зарубіжних та вітчизняних науковців, серед яких: О. Грищенко [1], Ф. Джеррард [7], Р. Кнуббен [8], А. Левкович [2], Л. Лихотникова [3], Л. Перекрестова [3], І. Попова [3], Р. Райан [9], Р. Саблук [6], А. Сауерланд [10] та інші.

Проте питання функціонування та перспектив лізингової діяльності вітчизняних сіль-