

## THE STATE, FINANCING PERSPECTIVES OF THE INVESTMENT AND INNOVATION ATTRACTIVENESS OF THE AGRO-INDUSTRIAL COMPLEX' ENTERPRISES IN UKRAINE

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**Abstract.** The basic trends of the investment and innovation's attractiveness of Ukraine agricultural enterprises are examined. The current state and the problems of the investment support of Ukraine agricultural enterprises are determined. The improvement ways of the investment and innovation's attractiveness in industry are found.

**Keywords:** investment attractiveness, innovation attractiveness, financing, development trends, agro-business enterprises.

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### Introduction

Modern innovation processes are rapidly spread and affect the functioning not only of the government but the industry, trade, financial markets too. Today it is important for Ukraine to reach the level of the global trends and to become an equal, competitive partner of the global economic system. You should have a sufficient level of the economic, industrial, scientific potential and an ability to use, develop and improve it. Only the dynamic and continuous development can provide a strong, stable, highly developed national economy and ensure a high level of social life.

### The agro-industrial complex' enterprises in Ukraine

One way to overcome and go out of the current crisis is the significant investments' flow. The financial support of the progressive change will ensure the modernization and stabilization of the country, sector, region and individual enterprise. The activation of the investment processes in farms at present are the key to improving the quality and competitiveness of products, production growth. It also helps to form a new character of the enterprise motivation. The main factor in achieving progressive change and ensuring the adequate agricultural enterprises' evolution is the purposeful investment and innovation. Investment and innovation are very similar and are the closely related areas of economic activity. Thus, the use of any innovative component in the process requires its resource support in the form of the investment. The implementation of the enterprise's innovative

component is inextricably linked to its investment support. Therefore, at the present stage, the activation of the innovation investment support's entity is actual. It depends on the size, structure, investments focus and speed of their revenues. Today the different levels allocate funds for a minimum of technical, technological, environmental upgrading production. Realization of the investment and innovation projects is a unique opportunity to increase the effectiveness of the economic activity and to ensure the development of the company through the implementation of innovations. This approach needs to increase the investment and innovation attractiveness as providing opportunities for the economic innovation. It will improve the competitiveness of the company's products and services, its effective activities in general.

The investments' attraction and the development implementation of the agricultural companies are associated with two problems: 1) investors are primarily interested in the target orientation of the investment. It is a profit. Maximum results with minimum resources for the shortest time have become the main factor that encourages investors to the decision, while making the capital investment into the development of the company. Therefore, the investment should be made in the new, progressive forms as the investment into the obsolete production facilities will ensure the increase of the company's performance. 2) the introduction of innovations, the application of new inventions and discoveries, the fulfilment of the research and development work, providing the qualitative changes in the production. The development of the innovation activities without any additional investment is simply impossible. The irrational use of the investment resources leads to the company's freezing, the decline in output, reducing the competitiveness of products and the quality of the provided services.

While determining the attractiveness of the innovative agricultural enterprises, the following should be considered: 1) the evaluation of its performance results and the availability of the resource base; 2) the sensitivity to the changes of the enterprise environment.

Innovations provide the qualitative changes of production. The active implementation of the innovative processes in farms is the improvement direction of the traditional types of its activities. Among the main causes of the investment's failure or lack in the innovative projects is the low status of the agricultural enterprises in Ukraine. It does not meet the requirements of the establishment and operation of the innovative economic model. Therefore, the innovative appeal is in the farms linked to their innovation potential. That is the availability of personnel, technical, technological ability, marketing, communications and other types of the effective financial and economic activity. So, the innovative appeal is a difficult, complex, dynamic system. It consists of a combination of these interacting elements and different levels of complexity and organization.

The categories of the investment and innovation, the investment and innovation attractiveness are widely used in research and are often identified, although in their essence they are not identical:

1) The innovative appeal is a set of interacting elements of the enterprise. These elements provide the ability and willingness of the company to create and to use the innovative products.

2) It is a complex process, associated with the process of an investment as an integral component. The increased attractiveness of an innovation is the key to the increase of its investment attractiveness. It's an evidence of the sufficient resource base and the organizational development of agricultural enterprises.

While analysing the scientists' opinions, considering the attractiveness of the investment and innovation (Gudz, O., Mayorova T., Koyuda O., Kolesnichenko V., Nesterchuk Yu., Duca A., Zadorozhna Ya., Dyadachko L., Rachynska G., Lisovska L.), we are inclined to the definition of the investment and innovation attractiveness in a farm as an integrated system of the enterprise characteristics. It reflects the availability benefits of the investee through the interacting elements' set of different levels of complexity and organization. It is based on the evaluation criteria of liquidity, solvency, financial stability, performance, property and innovation potential of the entity.

The strategic development of the domestic agro-industrial complex (AIC) is one of the major problems of economic and social policy. It is the major source of revenue and export-oriented sectors of the national economy.

The natural resources and human potential of Ukraine can ensure not only their own food security. It can become an active participant of the global food market.

However, a decrease in the gross output of one of the main functions of the AIC – agriculture – has been until 2000 in Ukraine. This negative trend appeared due to the beginning of the land reform, thanks to the implementation of the Resolution of 1990 "On Land Reform" and the Decree of the Ukraine President "On the Sharing Procedure of Land, Transferred to the Collective Ownership of Agricultural Enterprises and Organizations" in 1995 [8, 10]. Their implementation was a delayed process of land sharing, it limited the entrepreneurial initiative within the farms and agricultural enterprises, disorganized the work and deprived the alternative types of business structures.

Since 2000 a gradual increase has occurred in the gross production industry. The positive processes are the emergence result of the new organizational and legal structures of the market type. The implementation of the agrarian reform principles was defined by the Decree of Ukraine President "On Urgent Measures to Accelerate Reform of the Agricultural Sector".

Before the land reform Ukraine was dominated by the farms with the land area on the average of 3.0-3.5 thousand hectares. They were crushed within the period of the land reform. It had a negative impact on the development of agricultural enterprises. Very small plots of land cannot use modern technologies at their processing.

The number of the large farms, for example, in the USA, is growing. They create a great advantage at the world market for agricultural products. In this country they are more than 8%, but they make 73% of production and receive a percentage on the total income of all the farms. It provides food safety for the large enterprises of US today.

The following four types of the households: agricultural commercial organizations of the corporate type; state and municipal enterprises; peasant (farmer) economies; households, including personal farming, gardening and horticulture citizens, – operate in the agricultural sector of Ukraine at the present time.

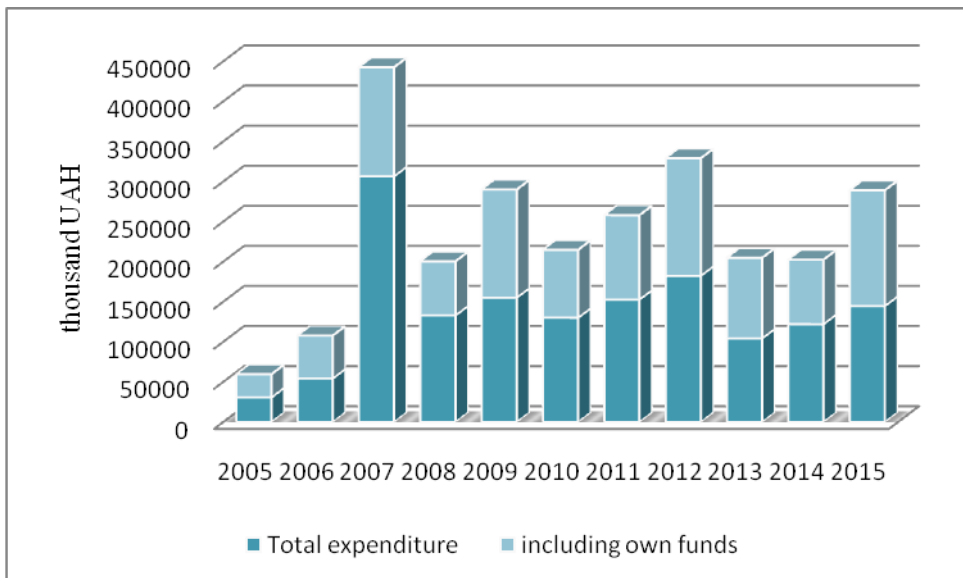
The experience of the agro-developed countries demonstrates the need in the government support of the integration processes at AIC enterprises. It will enable the use of the new technologies and increase the productivity in industry. The domestic agricultural policy at this period is characterized mainly by the tactical, not strategic goals and programs, and the regulating function of the state did not have any systematic and consistent demonstration. The state support of the local farms is characterized by the imperfect financing deficit in industry. The international experience of the budget financing of the agricultural sector as one of the regulation areas is of particular note. For example, in the USA the level of the state support of agriculture makes 40% of the value of the agricultural products, in the EU

– 35%, in Japan and France - 72%, in Ukraine - only 8.3%. So, the efficiency of the state influence on the development of the agricultural sector is a significant problem for Ukraine.

Another negative factor which lowers the investment and innovation attractiveness of farming is the unsatisfactory appropriate capital of 88.9% and the value reduction of the fixed assets by 30.9% in Ukraine's economy as a whole.

To maintain its position and to increase the level of the investment and innovation attractiveness, the agro- business companies have to constantly develop and expand the scope and range of products, develop new technologies, maintain and update the status of the fixed assets, implement the innovative projects, increasing the efficiency of operations and market value. In these conditions, in addition to the state support of the agricultural enterprises, a recurrent need in the additional sources of funding is required. The attraction of foreign investment will provide farms with a competitive advantage and deliver an effective means for the increase of their attractiveness.

The structure of the farm innovation financing for the last 5 years shows the greatest proportion of their own funds. The agricultural enterprises are focused on their own capabilities, and their share in the total funding exceeds 50-70% (Figure.1).



**Fig. 1. Sources of Innovation Financing at Agricultural Enterprises, 2005-2015, Thousand UAH (Agricultural Bulletin, 2016)**

In conditions of the budget deficit it is impossible to rely on the budget financing in Ukraine. Being legal (1.7% of GDP), the funding rate of science and innovation exists, but it is not performed every year. In 2015 the agriculture budget received the least support for 10 years - spending on agriculture, compared with 2014, it reduced almost by 2.5 times and is about 3.1 billion. Almost all the government programs on the industry support were «frozen».

The difficult financial situation at the agricultural enterprises, the lack of goods' quality certificates, the unfavourable situation, concerning the protection of the intellectual property rights, the significant depreciation of the equipment fleet and lead to the innovation marked

reduction. The priority areas are creating less labour-intensive products. The sources' distribution of the farm innovation financing is conducted by summarizing performance of GDP and its role in the gross investment.

The producer support completely depends on the presence of the State budget, leading to the annual fluctuations at the level of the financial support (Table 1) (OECD, 2015)

Table 1

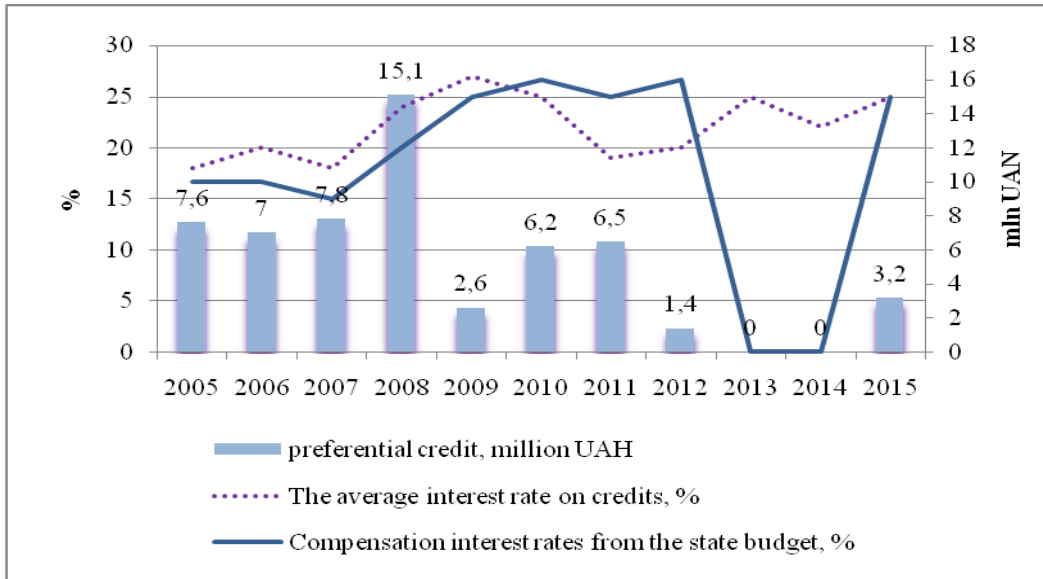
**Evaluation of Manufacturer's Support, 2000-2014, USD Million (OECP, 2015)**

Indicator	2000	2005	2010	2012	2013	2014
Evaluation of the manufacturer's support:	203	10683	16150	4472	-11157	-34294
Support production of commodity products	-1780	6507	3808	-12064	-28486	-52661
Payment production use	582	2685	9541	12502	13257	14105
The benefits of fixed tax in agriculture	1400	1400	2800	3300	3500	3800
The PSE percentage	0,41	10,92	6,49	1,50	-3,18	-8,22
Evaluation of general support services:	408	2856	4866,80	6191	5253	3487
Agricultural knowledge and innovation	215	1045	2097	2837	1995	1951
Inspection and monitoring	66	791	1342	1593	1602	1292
Development and maintenance / repair infrastructure	92	862	1011	1296	293	9

According to the OECD index database, the manufacturer support (PSE), was within the limits of 10.92 in 2005 to -8.22 in 2014. This is the lowest level of the mid-90s. The value of the general support services (GSSE) has increased since 2000. This corresponds mainly to the spending on the agricultural knowledge and innovation systems as well as the inspection and control. The austerity measures have led to the cancellation of some important tax benefits in 2014. The number of programs in agriculture in 2015, funded through MAP, reduced from 32 in 2014 to 19. This Ministry budget was reduced by five times from 6.35 billion UAH in 2014 to 1.67 billion UAH in 2015 (OECD, 2015).

The determination of lending to businesses is the process of cheaper credits. Concessional credits make on the average 60% of the total ones. The average interest rate, offset by the budget, was approximately 10.9% in the period of 2005 – 2015. (Figure. 2)

Thus, the volume of the concessional lending depends essentially on the amount of funds provided by the state budget for the concessional lending, volatility and tends to decrease. The mechanism stopped to exist completely due to lack of funds in the budget in this area in 2013-2014.



**Fig. 2. Value of Preferential Lending and Crediting Rates of Agriculture (NBU, 2016)**

By 2015 a special account for farmers has returned 100% tax. Since 2016 the system has changed. From 1 January 2016 to 1 January 2017 the crediting volume of special accounts for farms became differentiated depending on the type of activity; for the transactions in the supply of grain and industrial crops - 15%, animal products - 80%, other agricultural products and services - 50%. The appropriate amount of money was made on special accounts and remained at the disposal of agricultural enterprises for the use in the production of agricultural products and services.

Table 2

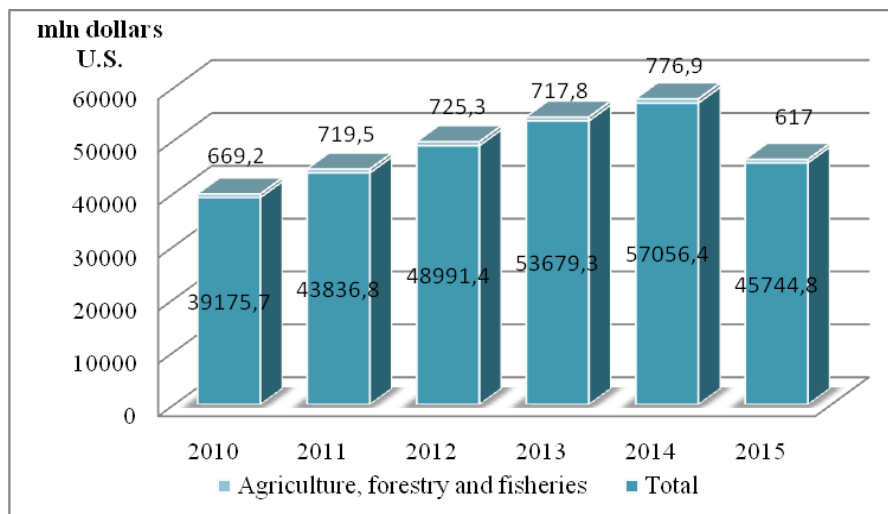
**Credits to Agricultural Enterprises of Ukraine for 2010-2015**  
(by Timing and Types of Currency) (NBU, 2016)

Indicator	2010	2011	2012	2013	2014	2015
Total	26,5	34,1	37,3	43,5	55,3	55,8
in national currency	20,4	24,9	26,1	31,5	35,4	39,2
1 year	7,1	10,2	12,5	17,2	15,6	13,9
1 to 5 years	11,1	12,5	11,4	10,8	15,6	15,1
over 5 years	2,1	2,4	2,3	3,5	4,2	10,2
in foreign currency	6,2	9,2	11,3	12,0	19,9	16,7
1 year	1,5	3,2	4,5	6,6	9,4	10,9
1 to 5 years	3,6	4,8	5,7	4,7	9,6	4,9
over 5 years	1,1	1,2	1,1	0,7	0,9	0,9

The structure of funds attracted the largest share of agricultural enterprises (70%) accounted for the short-term credits (up to 12 months), 30% were the medium-term credits (up

to 36 months) and the long-term credits (up to 60 months). The most active lending of AIC was conducted in Vinnitsa, Kherson, Poltava, Cherkasy and Lviv regions.

A significant factor in providing the financial, technical and technological modernization and the competitiveness increase of domestic production may be a foreign capital (Figure. 3).



**Fig. 3. Foreign Direct Investment into Ukraine's Economy, according to Economic Activity Type** (State Statistics Service of Ukraine, 2016)

In the period from 2010 to 2015 the foreign investors had put nearly 4.2 billion of US dollars into Ukraine agriculture. This makes 14.6% of the total FDI that has come into the country.

The current state of the innovation process in Ukraine, its trends have certain shortcomings in government regulation, current funding mechanism and innovations encouragement. The identified deficiencies adversely affect the innovations implementation at all levels: state - industry - region - enterprise. This is referred particularly to the implementation of the specific innovation projects at the enterprises.

The main indicators' analysis of the investment and innovation attractiveness in farms within the period of 2010-2015 shows that innovations today are not a decisive factor in shaping their competitiveness. The main problem is the inconsistency of the agricultural enterprises' innovative development needs and of the available resources for their financial support.

The specific differences in farm lending is the increased riskiness of the credit portfolio. This is due to the agriculture dependence on the weather conditions, the state policy, regulating the agricultural markets; cyclical provision and repayment of credits, due to the seasonality of production and sales.

Farm credits are made in terms, clearly provided for them, and in compliance with the principle of credit adequacy. The delayed and insufficient provision of the credit amount may affect the production technology and the revenue financial shortfall.

The scientists of NNC "Institute of Agrarian Economy" developed the following calculation of the investment economic efficiency in agriculture (Table 2):

Table 2

**Calculation of the Investment Economic Efficiency in Agriculture (IAE, 2012)**

Indicator	Gross production in comparative prices, billion UAH	Gross production in actual prices, billion UAH	Forecast of investment in fixed capital, billion UAH
2017	86	175	35
2018	93	188	38
2019	99	201	42
2020	106	215	45

The financial support of agricultural producers will be improved through the implementation of the proposed measures in the financial and credit policy. This will increase the satisfaction level of their needs in credit resources.

To develop the credit support, the agricultural producers should expand the opportunities of the agricultural production in order to attract credits. For this it's necessary to:

- Increase the bank lending market through the establishment of the State Land Mortgage Bank and the introduction of a mortgage mechanism for the agricultural land and lease the rights for them in mortgage lending;
- Create a system of credit cooperation by amending the legislation in order to regulate the activities of credit cooperatives in rural areas and the expansion of micro-credits in rural areas;
- Promote the use of new credit products in the bank lending system;
- Develop a system of the credits' repayment guarantee by creating a special guarantee fund;
- To introduce new financial instruments for the agricultural producers to obtain the additional credits secured by future crops (or future animal products);
- Establish an information support system of lending industry as a part of the monitoring, advisory and educational services.

**Conclusions and Suggestions**

The dynamics of the investment directing into agriculture is affected by the consequences of the financial crisis. It led to a decrease in the foreign investment as well as the risks from the adverse investment climate in Ukraine. It was also reflected in the lower levels of the investment into farms and their innovation attractiveness. According to the reduced investment, an income in the agricultural sector is received particularly in the form of credits.

The main credit areas to stabilize a farm are in a set of measures from the government and the banking system. For this an effective integration mechanism of interaction between the banks and the agricultural sector should be created. This will increase the financial support of the agricultural enterprises through the mechanism of cheaper credits. The rational use of the budget funds to increase the budget allocations of foreign credits, the creation of their state funds' mechanisms, the improvement of bank credits are the keys to the investment and innovation's attractiveness increase of the agricultural enterprises in Ukraine.



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