Structuring of sources of attracting capital to agricultural production as a prerequisite for the formation of an effective investment mechanism in the agricultural sector

Abstract
The Ukrainian agricultural sector suffers a sharp lack of financing which has negative consequences and is followed up with technical and technological backwardness and a decreasing level of competitiveness. The authors substantiate the necessity of the formation of an effective investment mechanism which should be based on the optimum combination of sources of domestic and foreign investments. The article deals with a structural and logical scheme of determination potential sources of investment capital in the agricultural sector of Ukraine. A negative trend in public funding which resulted in negative consequences for the Ukrainian village and the relevant infrastructure, as well as the development of depressed areas is revealed.

The authors emphasise on loan problems and note the importance of the development of domestic corporations in the agricultural sector. Relations with international financial organisations, the leading role of which belongs to the International Monetary Fund, the World Bank (the largest share in the distribution of credit resources is owned by the International Bank for Reconstruction and Development) and the European Bank for Reconstruction and Development are analysed. As a result of the conducted analysis, it is recommended to attract alternative sources of investment in the agricultural sector, as well as funds of institutional investors and multinational corporations.

The authors have proved a need to work out an economic and mathematical model that will select the best source of investment to achieve the optimal production outcomes and develop the social sphere with regard to characteristics of the investee.

Keywords: Agricultural Sector; Agriculture; Sources of Funding; Investment; Institutional Investors; Investment Mechanism; Ukraine

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Структуризація джерел залучення капіталу у розвиток аграрного виробництва як передумова формування ефективного механізму інвестування галузі

Анотація
У дослідженні обґрунтовано необхідність формування ефективного механізму інвестування, що повинен базуватися на оптимальному поєднанні джерел залучення вітчизняних та іноземних інвестицій.

Подаємо структурно-логічну схему потенційних джерел залучення інвестиційного капіталу в аграрну галузь України. Виявлено від’ємну динаміку державного фінансування, що спричинило негативні наслідки для українського села, його інфраструктури, розвитку депресивних територій. Наголошено на проблемах кредитування. Відмічено розвиток вітчизняних ТНК в аграрній галузі. Проаналізовано взаємовідносини з міжнародними фінансовими організаціями, провідна роль серед яких належить Міжнародному валютному фонду, Світовому банку та Європейському банку реконструкції та розвитку. Як альтернативні джерела інвестування в аграрну галузь рекомендовано залучати кошти інституційних інвесторів та вітчизняних ТНК.

Ключові слова: аграрна галузь; джерела фінансування; інвестиції; інституційні інвестори; механізм інвестування.
Структуризация источников привлечения капитала в развитие аграрного производства как предпосылка формирования эффективного механизма инвестирования отрасли

Аннотация

Проведенное исследование обосновывает необходимость формирования эффективного механизма инвестирования, который должен основываться на оптимальном сочетании источников отечественных и зарубежных инвестиций. Разработана и подана структурно-логическая схема потенциальных источников инвестиционного капитала в сельскохозяйственном секторе Украины. Выявлено отрицательную динамику государственного финансирования аграрного сектора, которая привела к негативным последствиям для украинского села, его инфраструктуры, а также развития депрессивных территорий. Указано на проблемы кредитования. Отмечено развитие отечественных ТНК в сельскохозяйственном секторе. Проанализированы отношения с международными финансовыми организациями, ведущая роль среди которых принадлежит Международному валютному фонду, Всемирному банку и Европейскому банку реконструкции и развития. Рекомендуется в виде альтернативных источников инвестиций в сельскохозяйственный сектор привлекать капитал институциональных инвесторов и отечественных транснациональных корпораций.

Ключевые слова: аграрный сектор; источники финансирования; инвестиции; институциональные инвесторы; инвестиционный механизм.

1. Introduction

The surplus of capital in the world has led to a variety of investment mechanisms among which there is a redistribution of funds from progressing to stagnating countries, industries and enterprises using various financial institutions and intermediaries aimed at making profit.

Currently, the domestic agricultural sector increasing production volumes and improving the quality of products according to international standards is facing a sharp lack of financing which may lead to the technical and technological backwardness and reduce the level of competitiveness. This is confirmed by statistical data given by the Ministry of Agrarian Policy and Food of Ukraine confirms it according to which in 2015 there were 50 thousand harvesters and tractors in the country of which 72% had already operated for over 16 with significant losses of crops comprising about 20% [1].

In terms of economic openness of Ukraine, the formation of an effective investment mechanism should be based on finding the best sources of domestic and foreign investments and developing strategies to attract free capital to support agriculture.

2. Brief Literature Review


O. Y. Yermakov notes that currently logistical support of agrarian sector of Ukraine has reached such a critical point at which even under the condition of existing dynamics and disuse of drastic measures to improve it there will be a further discussion about the abuse of technological processes in livestock and crop production and significant extension of production capacity in agriculture in general (Yermakov, Yesaulov, 2015) [2].

According to OECD experts, 47 leading countries in the production of agricultural products providing 80% of the total value added in the relevant sector, use various mechanisms to support agriculture, including subsidies that malform data on production and trade, or the so-called measures of the «yellow basket». Thus, the level of aid to farmers in China and the EU is 19%; it comprises 12% in the USA, Russia, and Kazakhstan, whereas the level of Ukraine was 3% in the period of 2012-2014 (-3% in the period of 1995-1997).

The indicators of the total support to agriculture in the USA and Russia indicate a governmental support. While it grew by 1.5 times in the United States in the 2000-2012 period, it increased by more than 10 times in Ukraine over the same period. Nevertheless, the amount of state assistance in 2012 amounted to only 0.8% of the total US support [11].

We have noted that during the 2013-2015 period the volumes of the funds invested in the economy fell sharply and the problem of access to funding for agricultural producers has become extremely important, especially for small and medium enterprises.

In this condition, institutional investors can play a major role in fostering long-term investment and growth. While financial markets need actors with different investment horizons in order to function well, long-term investors have a potential to act counter-cyclically and to play a key role in crisis recovery strategies (Wehinger, 2011) [12].

According to the survey results reflected in the Global Competitiveness Report 2013-2014, 16.7% of respondents identified access to funding to be number one obstacle to doing business in Ukraine, which is ahead of corruption and inefficiency of the government [13].

At the same time, the Minister of Agrarian Policy and Food of Ukraine O. Pavlenko said that despite all the problems the industry showed stable positive results, when local farmers fed 140 million people living on the planet. Such results should have to attract both domestic and foreign investors [14].

3. Purpose

The purpose of the article is to study the sources of capital investments aimed at the development of agricultural production and to conduct an analysis of their effectiveness compared to the support of agricultural producers in the world.

4. Results

According to experts of the Ukrainian Agrarian Confederation, the need of the domestic agricultural sector in investments is 60-70 billion dollars. A definite amount of capital provides an increase in gross output to 60 billion USD, which will help to make sure that the share of domestic agricultural products will comprise 33% in the structure of the total world exports.

Today, the lack of funding has led to a situation when capital inflows, both from domestic and foreign investors, are an essential in overcoming the crisis faced by most manufacturers of the industry.

The analysis of the structure of funding sources of capital investments in the country has shown that only 3.1% (2015) are funds of foreign investors (Figure 1) [15].

The main source of funding for capital investments both in 2006 and 2015 is own funds that means the relations between agricultural producers and investors are at the initial stage. However, under the conditions of deepening coopera-
tion, such funds can be formed by both domestic and foreign investors.

We will analyse sources of funding of the domestic agricultural sector evaluating institutional origins and the effectiveness of the investment mechanism (Figure 2).

Potential sources that may be involved in investing in the agricultural sector are as follows:

1. Funds of individuals represented by temporarily free resources that are constantly arising in population due to the excess of income of households over their expenses, i.e. savings of the population. During the study period, Ukrainian households spent the bulk of the revenue for the total consumer spending. From 2003 to 2008, there were positive changes in the structure of total household spending in favour of an increasing proportion of non-consumer ones, which was the basis for the formation of savings. However, starting from the year 2009, the share of non-consumer spending began to decline, and it was only 8.4% in 2014 indicating a low standard of living and a reduction of savings. Thus, only under favourable socio-economic conditions in the country gross savings of the population grow and can be a potential source of investment in various financial instruments, investment projects, etc.

2. Funds of legal entities formed in the process of conducting financial and investment activities of enterprises of different types and forms of ownership. Today, it is the most powerful investment mechanism and a source of capital investments comprising 67.4%. Such entities can independently invest in different types of property and provide resources available to financial intermediaries. In the first case, investment activities of legal entities can be channeled towards:
   • self-financing, when funds of enterprises are allocated to develop economic activity of the economic entity of the capital owner;
   • temporarily free funds in the projects of other entities.

In the process of investing, legal entities can both use services of financial intermediaries and be objects of investment from the part of financial institutions at the same time.

3. Being an actor of the investment process, the State implements projects and invests funds in the development of various sectors of the economy. The current investment policy in the agricultural sector can be characterised by a reduction in funding and redistribution of national income in solving urgent problems. The main sources of such investments are funds of state and local budgets. Nevertheless, we have noted a disparity in the distribution mechanism. In 2014, only 8% of funds was invested in the agricultural sector, which exceeded the amount of 2012 by 2%, or 912.8 billion USD. Such an attitude of the State to the agricultural sector, which exceeded the amount of 2012 by 2%, can be considered inefficient and cannot provide financial support for agricultural producers, thus budget funds cannot be considered as the main source for their development. It is necessary to combine different forms and methods of raising capital in the sector.

4. Loans from commercial banks. Resolution of the Cabinet of Ministers of Ukraine No. 794 as of 11 August 2010 «On Approval of the Use of Funds Provided by the State Budget for Financial Support of Business Entities of Agriculture through the Mechanism of Credits Reduction and Compensation of Lease Payments» determines the mechanism of obtaining compensation by producers [18]. This document defines and regulates conditions under which it is possible to obtain preferential loans, namely to get funds exclusively on a competitive basis within established limits by region. The introduction of this compensation mechanism of interest rates for agricultural producers contributed to the growth of volumes of lending more than 5 times during the period...
of 2000-2015. The implementation of the program specified above made bank lending more accessible for agricultural producers, however the deterioration of the economic situation in the country had a negative impact - in 2014 the volumes of lending fell by almost a quarter; in 2015 they were at the level of the 2012-2013 period. As for the budget funds for concessional lending, we have noted that the biggest amount of such funds was allocated in 2012, whereas in 2013 agrarians received no compensation. In this, we support I. V. Kobut's opinion. He states that if bank lending and government support for repayment of interest rates are reduced, the majority of agrarians will be practically unable to perform the full manufacturing process, which will lead to the deterioration of their financial activity (Kobut, 2009) [19].


5. Activities of institutional investors who provide an alternative source of accumulation and redistribution of investment capital. The share of assets of national economies in GDP of developed countries indicates the importance of institutional investors and their influence on the development of national economies. They account for about 60% of GDP in the Netherlands, Great Britain, Canada and the US [21]. In Ukraine, activities of such institutions also show an increase but the value of their assets to GDP is low, e.g. it was 13.7% in 2014% (Figure 3).

The Ukrainian mechanism of private investment is being developed, thus the volumes of assets of financial institutions cannot fully meet the reduction of foreign investments and government support in the agricultural sector. However, in the long term this capital can solve the problem of attracting investments in long-term capital-intensive projects, which correspond to future benchmarks of the development strategy for the agricultural sector. Transnational companies. Today, most scientists agree that TNCs are powerful regulators of international capital flows; their share of FDI in the world is up to 75-90% (Ivanova, 2014) [23]. The sectoral structure of TNCs' activities by areas is as follows: 60% is employed in industrial production, 37% in the service sector, 3% in mining and agriculture.

There were more than 30 global TNCs in Ukraine at the end of 2013. According to data of the study on the attractiveness of the domestic agricultural sector for global corporations, there are 20 largest agricultural companies in Ukraine, 50% of which are subsidiaries of global TNCs, including Car­gill, McDonald’s, Nestle, Mondeléz International, Lactalis, Kelnex, PepsiCo, Danone [24]. In addition to capital investment in production processes, the above companies annually transfer taxes to the state budget. Today, these corporations are major investors in the country by the given volumes of invested capital. However, Ukrainian producers have no less volumes of production and profits which can be considered to be a prerequisite for the development of the internal investment mechanism. Thus, in 2014 the profit of 200 largest agricultural producers in the country increased by 22% compared to 2013 (from 239.4 billion USD to 293.5 billion USD). Net income of 50 largest agricultural companies in 2014 amounted to 16.1 billion USD. Five most profitable companies include three domestic entities, namely LLC JV «Nibulon» (grain exports), JSC «State Food and Grain Corporation of Ukraine» (grain exports) and JSC «Group Creative» (production and export of sunflower oil). For example, under the current legislation collective investment institutes may invest capital in securities and obligations of legal entities (excluding banks) in the amount which does not exceed not more than 5% of the total assets.

5. Conclusions

The analysis of the structure of sources of capital rising in the development of agricultural production has detected some problems that hinder amounts of financial revenues in the industry and revealed potential sources that can serve as a catalyst regarding the development of the investment mechanism, attraction of investment, introduction of innovative technologies and revival of rural social infrastructure. The development of economic and mathematical model according to the given characteristics of the investment object will help to select the best investment resource which will contribute to achieving specified results. This must be preceded by a comprehensive study of investment attractiveness of the country, region, agricultural entity and sources of funding in general, as well as the impact of external and internal factors on their interrelations and conditions conducive to the prospects of development.

References
