

## INVESTMENT FOR SUSTAINABLE DEVELOPMENT OF THE AGRARIAN SECTOR

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**Abstract.** Theoretical, methodological and practical aspects of the investment trends in the agrarian business to ensure sustainable development of the agrarian sphere have been studied. Essence of the concept 'investment appeal' has been justified and the environmental impact on investment appeal of enterprise has been defined. The relationship between investment appeal and investment potential as economic categories, features of investment attraction in the agrarian business, as well as investment mechanisms to ensure sustainable development of the agrarian sector have been analyzed.

**Key words:** investment, sustainable development, agriculture, investment appeal

### INTRODUCTION

The successful development of the agro-industrial complex of Ukraine is possible only under full activity of the totality of interrelated economic mechanisms. The absence or improper functioning of at least one link in the mechanism of the economic system motion is accompanied by negative macroeconomic changes, deformations in production relations, productive forces etc.

The volume of public investments in agricultural development is still limited, their share is only 2.3% of the total investment in fixed assets. Investment resources of producers should be fixed, that is not less than 2/3 of the total volume of investment from all funding sources. It is estimated that from UAH100 of commercial products 10% should be used for investment in fixed assets.

Internal sources of investment financing are insufficient for expanded reproduction, which is significantly associated with multi-sectoral disparities in

economic relations. The material and technical base of agricultural enterprises is worn by 80–90%. Limited funds allocated from the state budget are used inefficiently. So far mechanisms of state credit support for long-term investment projects have not been developed. Mechanisms of simple reproduction of fixed capital have been violated.

## RESEARCH METHODS

Goal of the research is to draw up scientifically grounded proposals for the development of investment appeal of agro-industry to promote sustainable development of the agrarian sector. Implementation of this goal is associated with the solution to the following tasks:

- find out the features and trends of investment in agro-industry, investment mechanisms to ensure sustainable development of the agrarian sector,
- define the essence of the concept ‘investment appeal’ and identify the impact of the environment on the investment appeal of enterprise,
- justify the relationship between investment appeal and investment potential as economic categories.

Object of the research is investment provision of agro-industry under the sustainable development of the agrarian sector.

The following methods were used in the research: analytical, statistical, normative, formalization, observation etc.

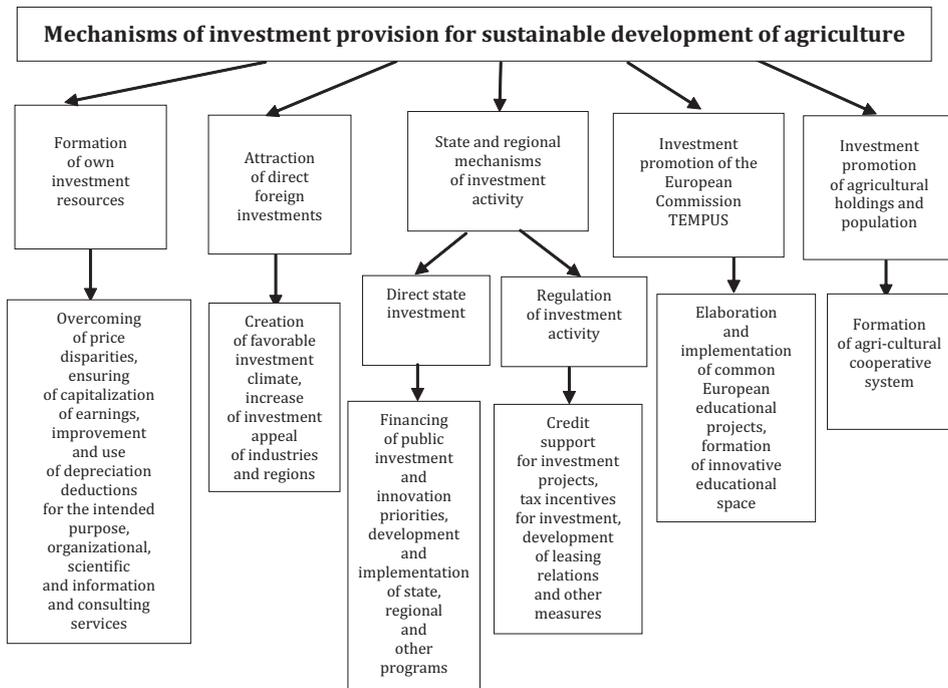
## RESULTS

### **Investment provision mechanisms for sustainable development of the agrarian sector**

The current stage of the Ukrainian economy development provides for a fundamental change in the investment policy at both macro- and microeconomic levels to ensure more effective functioning of the economy as a whole and in the agrarian sector in particular. That is why there is a need for further theoretical analysis of the main categories associated with investment.

Creation of the effective mechanism of investment provision for the sustainable development of the Ukrainian agrarian sector will give a fillip to the investment processes in agriculture (Figure 1).

Under globalization and European integration, along with the social and economic aspects of the functioning of agro-industrial complex, financial aspects of investment management are of theoretical and practical importance for Ukraine



**FIGURE 1.** Mechanisms of investment provision of agro-industrial complex

Source: Authors' presentation.

in order to increase investment appeal of agro-industrial complex and promote investment activity in the country and the region on the basis of internal and external investment sources mobilization.

Therefore, in order to stimulate investment in agriculture it is essential to restore direct support of public investment priorities in this area. With this purpose one should clarify these priorities taking into account the limited budget funds for these goals, introduce a new mechanism of direct support on the basis of sectoral and special-purpose investment programs, as well as strengthen the role of the executive bodies and local authorities to support mechanisms for attracting investment resources in agriculture from other sectors of the national economy.

In the near future it is essential: to create a public register of foreign investors and a database of potential investment targets; to prepare and introduce the procedure of the development and implementation of state sectoral and special-purpose investment programs in the agrarian sphere to implement national priorities; to develop an automated information system to ensure the efficient search of partners in the sphere of investment, a proper regime of advisory service on law, finance, credit and insurance issues; to simplify the registration procedure associated with the design of the constituent documents, as well as to conclude



agreements with partner countries on mutual investment protection and avoidance of double taxation; to expand opportunities for participation of foreign investors in the privatization of the agrarian sector; to develop and adopt procedure of reimbursement of losses to foreign investors, including lost profit and moral damage, caused as a result of wrongful acts or omissions of public authorities and their officials [Katan 2006, p. 27].

Under current conditions investment is an important part of the development of the national economy and the economy as a whole. Attraction of investments provides scientific and technological progress, rapid economic growth, increase of economic activity of the country, region, enterprise and others.

Regarding the internationalization of investment process, ignorance of international requirements and standards, as well as lack of exact immediate information on specific investment object from the side of potential investor, its investment appeal in particular prevent from realizing the concrete business ideas [Katan and Khoryshko 2010, p. 23].

In the Ukrainian literature investment activity is often defined as 'a set of measures and actions of individuals and legal entities that invest their own funds (in material, financial or other property form) in order to make a profit' [Sadekov and Lysova 2001, p. 38, Stalinskaya 2004, p. 89].

However, the authors do not consider that any activity is possible on the basis of communication. V.G. Fedorenko qualifies investment activity as a 'process of making investments (investing), as well as a set of practical actions on realization of investments' [2004, p. 321]. V.M. Heyets and B.A. Karpinsky have the same opinion on the definition of investment [Karpinsky 2001, p. 141, Heyets 2006, p. 145].

N.O. Tatarenko and A.M. Poruchnik give more extended and refined definition of investment activity, which includes 'a coherent, purposeful activity that lies in the capitalization of property, development and use of investment resources, regulation of the investment processes and international flow of investment and investment products, contribution to appropriate investment climate, and has the purpose to gain profit or specific social effect' [Tatarenko and Poruchnyk 2000, p. 223].

However, the authors consider L.M. Tymoshenko's approach to be the most approximate to the reality in which the author distinguishes two phases of the investment activity and defines it as 'making investments (investing) and a set of practical actions on their implementation' [Katan and Khoryshko 2011, p. 24]. First, the pre-accumulated resources are converted into investments (costs), that is, into objects of investment activity; and then in the production process these investments generate capital gains, describing the realization of investments. This capital gain, in turn, leads to a new consumer value and income or other effect from investment. One of these two phases in investment activity is distinguished

by P. Mass, the representative of the Austrian school of 'marginal utility'. He defines investment as 'an act of investing...', that lies in 'the exchange of today's needs satisfaction with expectations of them in the future with the help of the invested goods'.

In the authors' opinion, in whatever conditions and forms human activity is, whatever structure it takes, it cannot be considered as excluded from social relations. Therefore, we believe that the interpretation of investment activity should be based on the essence of the category 'investment', combining in one degree or another, the productive forces and social relations.

## **Environmental impact on the investment appeal of an enterprise**

Investment and investment appeal are integral components of the capital reproduction process. At the very wide range of use of the term 'investment appeal' in investing activities until recently it has not given a single interpretation.

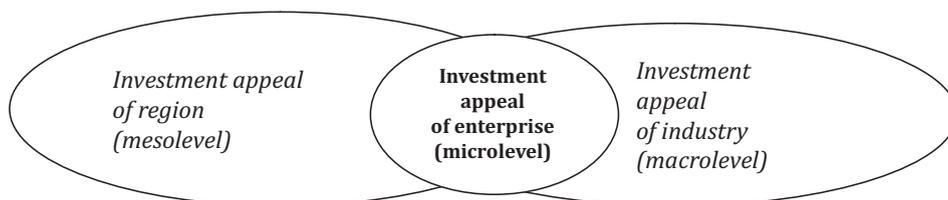
In a broad sense investment appeal is a fair quantitative and qualitative characteristics of the external and internal environment of potential investment object [Katan and Khoryshko 2010, p. 24].

Although the level of investment appeal largely influences the decision-making process of both investor and the person who requires investment, some scientists-economists offer to consider investment appeal combined with the efficiency of investments and investment activities: 'investment efficiency determines investment appeal and investment appeal in its turn determines investment activities'. As the level of investment efficiency when making investment decisions is crucial for the investor, and the volume of investment and the conditions on which they are provided are very important for the person who seeks to attract them, we can conclude that the investment appeal is the result of the coordination of the participants' interests in the investment process.

Thus, the efficiency of investments should be considered as business income of entity that tends to attract capital. In particular, it includes risk premium and entrepreneurial talent. The efficiency of investment activity is business income of investor. The main differences between these two concepts is that investor is interested in maximum augmentation of its own capital funds at the lowest risk, mainly in the short term (the longer the investment project implementation period, the higher the investor risk). In turn, the person tending to attract investments, first of all, considers them in the long-term. For this person the investment project implementation is just one of the measures to improve competitiveness and resource efficiency. Therefore, to a large extent, the controversial status of the concept 'investment appeal' is explained by the fact that each participant of the investment process interprets and understands investment appeal in his own way. Other complexity of the analysis of investment appeal is associated with the



definition and analysis of the environmental factors that may affect the level of investment appeal. As it is known, the investor makes investment in a specific investment project which is implemented at a specific enterprise. Thus, the financial indicators of the business plan of the project as well as the results of the analysis of financial and economic processes at the enterprise are inseparable for the investor and have the greatest importance in the investment appeal evaluation [Katan and Khoryshko 2010, p. 22]. For this reason, these figures are considered by the majority of financial experts and scientists as the core that forms the investment appeal of enterprise. However, one should not forget that enterprise is the business entity of both a particular state and the world, that is, it is somehow reacts to the political and economic situation in the region, the territory where it operates; performance of the industry, which it represents, the power and dynamism of the market, that sells its products or services. It is important for the investor that the high appeal should be ensured at all stages of the investment decision making: from the choice of the recipient country to determination of the specific investment project and vice versa (Figure 2).



**FIGURE 2.** Environmental impact on the investment appeal of enterprise

Source: Authors' presentation.

In this regard, most of the researchers believe that investment appeal should be considered as a multilevel system. That is, from this perspective, investment appeal is a combination of subjective and objective conditions that facilitate or impede the investment process at the macro-, meso- and microlevels of the economy.

In many cases the concept 'investment appeal' is used by specialists without definition of the essence [Yastremskay 1999, p. 81], some of them give complex and ambiguous interpretation of this term. The term 'investment appeal' is widely used in the legislation of Ukraine, but its determination is not fixed in any legal document. There are some publications in which investment appeal is associated with the project cost [Ivanov 2006, p. 87]. Other experts understand investment appeal as 'reasonable accurate diagnosis of risk and potential return on investment' [Ivanov 2006, p. 92]. In the international terminology investment appeal in each particular case refers to a set of indicators on the basis of which series of increase are formed [Mayo 1997, p. 384]. In authors' view, this definition does not

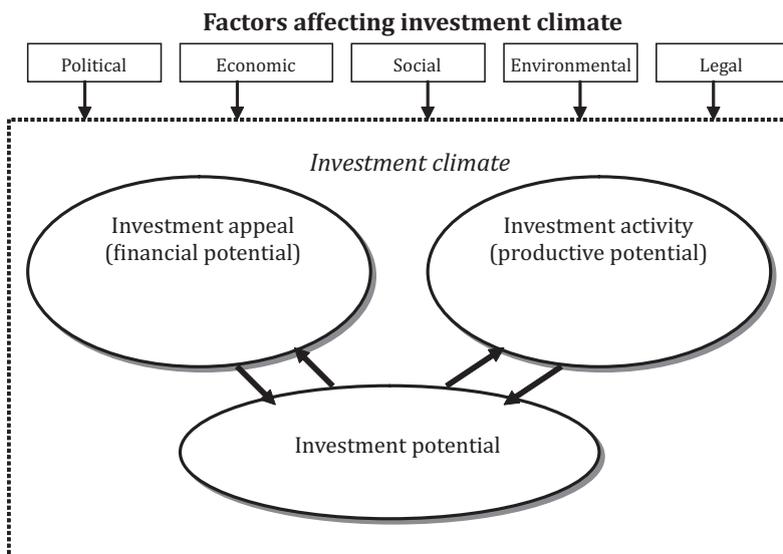
reflect the economic essence of this concept, because in this wording it only describes a method by which level of investment appeal is measured. The Belarusian scientists N.A. Rusnak and V.A. Rusnak give brief and clear definition, according to which investment appeal of the object (of the country, region, industry or enterprise) is the feasibility of investing of surplus funds in it [Rusnak and Rusnak 1997, p. 211].

The authors believe 'investment appeal' of enterprise is its ability to attract the respective volume and quality of investment resources, the capacity for simple and expanded reproduction to ensure sustainable development of production under a socially oriented market economy.

### Relationship of investment appeal and investment potential

The three interrelated components, such as investment activity, investment appeal and investment potential are involved in the formation and intensification of investment activity (Figure 3).

These three specific substances of the investment activity are interdependent, because among them there is a cause and effect link: on one hand – a high level of investment activity is the result of positive investment appeal, and on the other hand – investment appeal is formed under the influence of investment activity, as well as the interdependence between the investment activity and investment potential.



**FIGURE 3.** The relationship of investment appeal and investment potential

Source: Authors' presentation.

Interestingly, in the present conditions existence of such a connection is recognized by a relatively large group of scientists only by axis 'investment activity – investment appeal' [Tymoshenko 2005, p. 487]. As to the axis 'investment activity – investment potential', the investment potential somehow is believed to be sub-product of investment appeal.

But as with the result of the investor activity, bottom line is a search for subject with the need for investment, which is documented investment appeal, and in fact – investment potential formed and provided for being used [Zatonatska and Osetsyky 2006, p. 39].

Investment appeal and investment potential are the original forms of the interaction between investment interest and investment needs. Given that the investment needs and investment interest are interconnected in a conflict (the desire to reap significant profits with minimal investment, the intention to attract relatively cheap investments), it is the interaction between the investment appeal and investment potential that reveals the internal mechanism of investment activities, which provides investment interest and investment needs with the driving function in production development [Katan and Khoryshko 2011, p. 25].

## CONCLUSIONS

Investment appeal and investment potential at the stage of the formation and development of investment activity of the parties – participants of investment activity – are performed not only as an intermediate result, but the stimulus.

Investment activity, as well as investment appeal, is the object of research of many scientists. For sustainable development of production in terms of socially oriented economy the interpretation of investment activity should be based on the essence of the category 'investment', combining in one degree or another, the productive forces and social relations. The economic essence of the concept 'investment appeal of enterprise' should reflect its ability to attract the respective volume and quality of investment resources, the capacity for simple and expanded reproduction.

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## INWESTYCJE W KSZTAŁTOWANIU ZRÓWNOWAŻONEGO ROZWOJU ROLNICTWA

**Abstrakt.** W artykule przedstawiono teoretyczne, metodyczne i praktyczne aspekty inwestowania w przedsiębiorstwach agrobiznesu, w celu zapewnienia zrównoważonego rozwoju sfery agrarnej. Zdefiniowano istotę koncepcji „atrakcyjności inwestycyjnej”. Dokonano analizy zależności między atrakcyjnością inwestycyjną a potencjałem inwestycyjnym jako kategoriami ekonomicznymi, a także zaprezentowano cechy atrakcyjności inwestycyjnej w agrobiznesie oraz mechanizmy inwestycyjne zapewniające zrównoważony rozwój.

**Słowa kluczowe:** inwestycje, zrównoważony rozwój, rolnictwo, atrakcyjność inwestycyjna



