

*Economic Theory*

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**A THEORETICAL MODEL
OF INVESTMENT REGULATION
IN THE UKRAINE'S AGRARIAN SECTOR****Abstract**

From the theoretical-methodological perspective, the article features the major components of stabilization of the investment environment: investment project; national, regional and corporate investment strategy; investment market and investment climate. On the basis of the systemic approach, the author has developed an investment model of economic growth in the Ukraine's agrarian sector.

Key words:

Investment project, investment strategy of the state, region, enterprise, investment market, investment climate, capital investments, model of economic growth of the agrarian sector of economy of Ukraine.

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The Problem

Stimulation of investing in Ukraine's agrarian sector involves a number of problems which have to be solved both on the macroeconomic and regional levels. Their complexity lies in the fact that investment activities involve various spheres of economic development – scientific and technical progress, public administration of the economy, agro-industrial complex production, financial and banking activities, commercial accounting at companies, and price formation, – all of which need well-defined regulation and coordinated functioning. Besides, its economic essence aimed at profit-making, the investment process as a complex social-economic institution also has social orientation aimed at harmonization of relations among subjects of investment activities.

Recent Research and Publications

The problem of investment activities regulation in Ukraine's agrarian sector has been researched by P. T. Sabluk, V. V. Yurchyshyn, K. S. Berestovyy, M. I. Kysil, O. M. Tsarenko, and others. The works in the field of agrarian investments mainly focus on solution of practical problems. Hence, there is a need for theoretical systematization and development of an investment mechanism which could ensure economic growth in Ukraine's agroindustrial complex.

The Objective

The major objective of the research is to develop a systemic approach to investment activities regulation and development of an investment model of economic growth in Ukraine's agrarian sector.

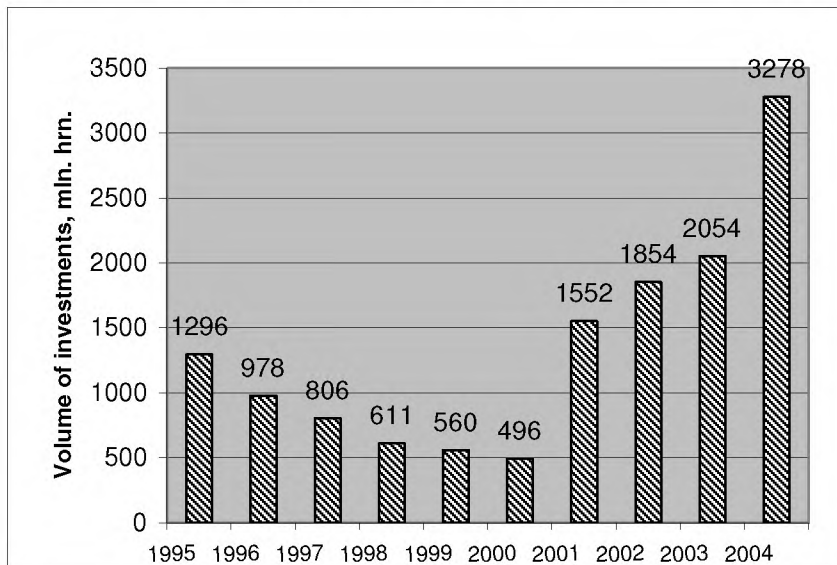
Basic Material of the Research

In recent years, Ukraine's agriculture has witnessed the tendency towards increase in internal investments in enterprises of all forms of ownership (Figure 1). At the same time, their amount and effectiveness remain far from sufficient. The peak of investing in Ukraine's agro-industrial complex was in 1991, when capital investments from all sources of funding exceeded 20 billion UAH in comparative prices. That was facilitated by implementation of the legislation aimed at priority development of rural social sphere and agro-industrial produc-

tion. The period from 1992 to 1998 is characterized by a noticeable drop of investment in the agro-industrial complex against the background of general economic crisis in Ukraine's agriculture. Investment ratio per capita fell from 391 UAH in 1991 to 40 UAH in 1998, and agriculture investment per 1 hectare of farming land fell from 290 to 15 UAH correspondingly [1: 199].

Figure 1.

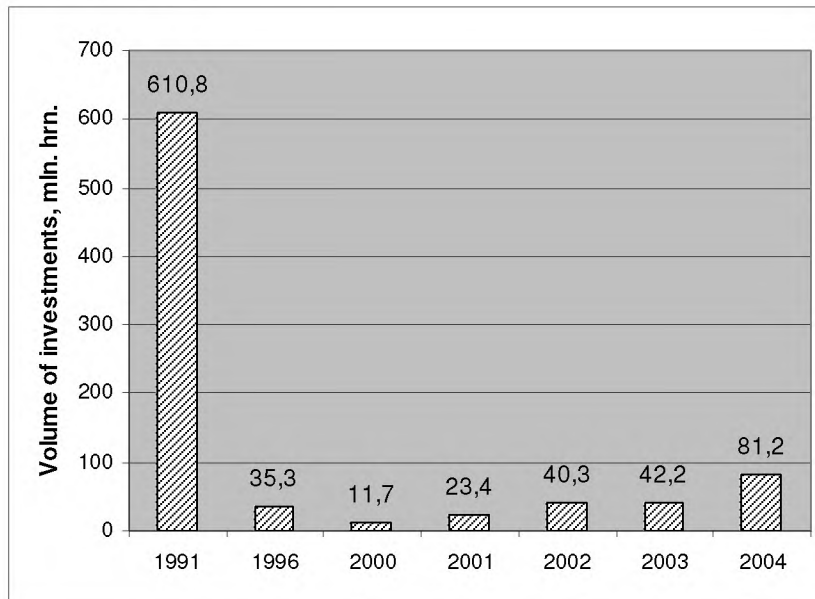
Investments in Fixed Capital in Ukraine's Agriculture, 1995–2004 [2, 3, 4].



Similar situation was observed in the agriculture of Zhytomyr region (Figure 2). In spite of investment attractiveness of the region, the transformation processes in the economy of the 90-ies resulted in the decrease in investment activities of the subjects of business, so that in 1991-1999 the amount of investment in the fixed capital decreased by 13 times and the rating of the region among other regions of Ukraine dropped from the 9th to the 24th place.

Figure 2.

Investments in Fixed Capital in the Agriculture of Zhytomyr Region, 1991–2004 [5, 6]



The let-up in the investment collapse was brought about by the general macroeconomic stabilization, activities aimed at regulation of the regional stock market and agro-industrial complex in the framework of the programs «A program for increase in investment in the region's economy in 2001–2005», «Regional program for attraction and use of investments in the agro-industrial complex for 2002–2005», «Zhytomyr region–2010» and by the introduction of the special investment regime in priority development areas in the towns of Berdychiv, Korosten, Novograd-Volynskyy, Lugyny, Narodychi, Ovruch, Olevsk, Malyn, Yemilchyno, Volodarsk-Volynskyy districts in Zhytomyr region. As a result, the year 2000 witnessed an investment rise. Investments in the agrarian sector on the national and regional levels display certain interdependence, which is explained by the fact that improvement of investment climate and national market inevitably has a positive impact on the investment process in the agro-industrial complex of separate regions and districts, and even in single enterprises. The maximum effect can only be achieved if a qualitative change of investment conditions (complex influence) takes place on the lowest level, i. e. the level of the region, district or company.

The mechanism of regulating investment in the agrarian sector of Ukraine's economy provides not only for accumulation of investment resources,

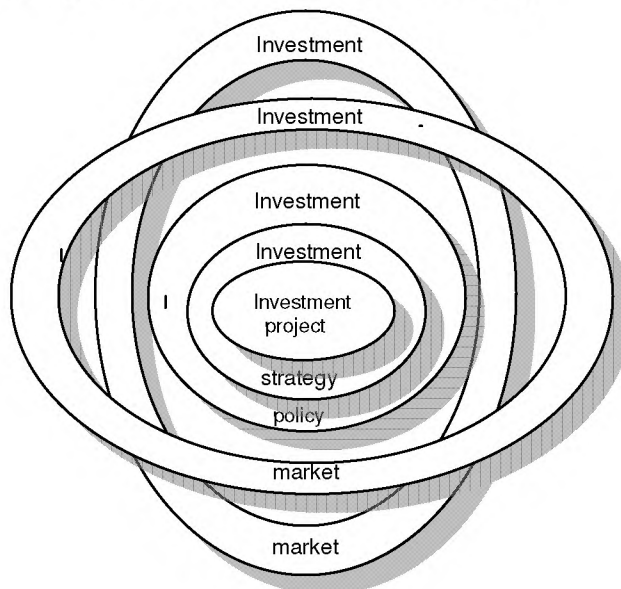
but also increase in the economic and social effectiveness of their use for the purpose of ensuring stable social-economic progress of the country as a whole.

The tasks set call for development of an investment model of economic growth in the agrarian sector. In such a model, investment policy should comprise a clear science-based strategy of stimulation of investment processes going on in a favourable investment environment and climate. The subjects and factors of these investment processes should not only be internally harmonized to match market-oriented economic conditions, but also systematized as an inter-regulating economic complex (Figure 3).

The core of this model and its foundation component is a highly effective investment project, the realization of which fully depends on the complex interaction of other components of the investment system.

Figure 3.

**An Investment Model of Economic Growth
in the Agrarian Sector of Ukraine's Economy**



An investment strategy is a long-term general plan of capital management. It is chosen according to the current state and forecasts as regards macroeconomic environment, investment market and the investor [7, 37]. The effective science-based realization of investment activities of agrarian enterprises involves their comprehensive and at the same time complex analysis on the macro-, meso- and micro-levels of the investment process, accompanied by formation and consistent realization on each level of a rational investment strategy of a farming enterprise. Providing for the directions of investment activities and ways of their realization, an investment strategy ensures optimization of investment sources and rational use of a company's resources.

It is based on possibilities of a farming company and search for the most rational investment alternatives. One of its major characteristics should be economic flexibility (time coordination), i. e. compliance with the conditions of the micro- and macro-environment and market changes. While forming the investment strategy of a farming company, it is necessary to take into account the general lack of investment resources in the agrarian sector and difficulty of attracting them, so it has to be directed at dissolution of non-effective agrarian formations and liquidation of unprofitableness of enterprises. A company's investment strategy is an integral part of the national investment strategy, which, judging by the developments in the agrarian sector, requires immediate transformation. Instead of excessive raise of the potential of cost-consuming industries and productions, it should be re-directed towards complex development which will be ensured by a resource-saving investment strategy [8, 37].

The next step is a well-coordinated investment policy of the national government, regional agro-industrial complexes and farming companies, which incorporates not only economic interests of all the components, but also the current situation in the investment environment (on the investment market) and the investment climate on macro-, meso- and micro-levels, which in their turn intensively and interdependently influence the internal system.

On the one hand, the investment paradigm of modeling the regional development of farming production can not be too autonomous. It has to be a part of the national investment process, as regional economy is a subsystem of the national economy and as such can not be separated from it. A region is a part of the national territory and its economic, social and investment potentials are components of the total potential of the country. Hence, development of the regional economy leads to strengthening of the national safety. Thus, ranging of economic and other priorities is dominated by the national interests. This is a fundamental principle of regionality, which is sometimes overlooked in an attempt to localize the regional economic system and ensure its certain autonomy [9, 15]. At the same time, a region, as well as the regional agro-industrial complex, is an economically independent and balanced system. It is obvious that a science-based agrarian investment policy can be formed only through harmonization of regional interests being naturally transformed into the national interests. This is a basic requirement which will make it possible to broaden the investment activities in a region and to build the foundation for local activity and

initiative aimed at search for new ideas, programs and models, as conservative and out-of-date views on the role of the national government hamper innovation and investment initiative and make people wait for impulses «from outside».

Investment activities are closely connected with the assessment of the current situation in the investment market and forecasting of its development. The subjects of investment activities realize their own economic interests, entering into certain relations in investment markets which regulate the exchange of investments and investment objects. In its technical meaning, this term is used for the market of investment products (all types of construction materials and the active part of basic production assets) and investment services (building and assembly works). In foreign publications, investment market is identified with the stock market, as abroad the major investment is done in securities [6, 11]. O. I. Blank defines investment market as «...a complex of economic relations arising between sellers and buyers of investment products, services and objects of investment in all its forms» [10]. Investment market is viewed as a hierarchy of separate markets comprising markets of the objects of real and financial investment and their components.

Viewed generally, investment market is an instrument for coordination of market participants' interests as regards ownership of the investment objects, it is the place where they are bought and sold, it is the sphere which functions employing the categories of demand, offer, price, sales opportunities and business activity. It is here that investors look for the instruments underestimated by the market, which, when acquired, can within a certain period (sometimes at once) increase the cost of the capital through increase in the cost of the assets into which the investor transforms his capital with the help of the investment market. The components of investment market infrastructure which facilitate purchase and sale of investment objects comprise credit and insurance institutions; the network of auditing companies; information-analytical services providers, including specialized mass media and rating agencies; establishments which train specialists in investment business; research institutions (carrying out research to meet the investors' needs); legal support of investment; information-computer systems of market services (ensuring access to and transparency of information concerning purchase and sale transactions).

The functioning of investment market is ensured by professional agents who by their services make market transactions more manageable for market participants. They are a complex of companies and institutions which give assistance to the investors (provide them with services) and determine «market rules» (public administration authorities which regulate the activities of the subjects of investment activities in the market).

Real investment is facilitated by the services of developers, building industry companies, building materials manufacturers, engineering industry, wholesale suppliers of material resources and financial-credit institutions. Specialized participants of the financial market (provided that they have official public registration and licenses to carry out the relevant business and have required

capital of their own) comprise financial brokers (agents); investment advisors and investment companies [7, 8]. As financial market processes are very dynamic both in terms of separate sectors and segments development and the progress of investment institutions activities, only efficient and highly professional work of each subject of the investment market can ensure its effective functioning and high-quality realization of investment process.

Functioning of investment climate stays in direct proportion to macroeconomic conditions in the country, i.e. the next component of the model.

Investment climate has a significant influence on the present-day investment situation in Ukraine's agrarian sector and economy as a whole. Investment climate is defined as a total of political, economic, social, legal and other factors which in the long run determine investment risks and possibilities of effective use of investments [12, 18]. In our opinion, it is a three-level structure which ensures investment activities on the national, regional and company levels. The favourable or unfavourable investment climate is determined by the total of investment risks (unforeseen losses of capital and income) [11, 33]. To minimize risks in the agrarian sector, it is necessary to stabilize all factors which have a bearing on formation of investment climate in this sphere:

- on the macro-level (national level): country's economic potential, legislation, state of the Ukrainian stock market, financial-credit system and insurance market, privatization processes, price-formation system and situation in the agrarian sector;
- on the meso-level (regional level): situation in the regional agrarian sector, legislative basis, availability of resources, ecological conditions, transport infrastructure, state of rural social sphere;
- on the micro-level (level of a farming company): tax burden of farming companies, amortization policy, personnel provision, investment management, technical state of farming companies, suppliers of goods and services, consumers, agents and advisors.

The major obstacle on the way to effective work of all subjects and participants of investment process is the lack of a clear-cut legal basis matching the market economy and complying with international legislation, hence a number of problems have to be settled above all in the sphere of legislation:

- in the field of the agrarian sector and national economy as a whole: to do away with price disparity between industrial and farming products; to increase funding of effective investment projects and research in this sphere; to solve the problem of employment in the agro-industrial complex by means of setting up cooperatives; to create a competitive environment which would match market economy conditions; to ensure equal opportunities for subjects of business irrespective of their form of ownership and capital origin, etc.;

- in the field of stock market development: to change the character of taxation in the stock market; to increase the level of capitalization and liquidity; to simplify settlement of accounts under security contracts involving non-residents; to simplify the system of accounting and reporting for stock market participants, etc.;
- in the field of bank lending development: to implement the mechanism of effective protection of creditors' rights; to set up an agrarian bank which will carry out public financial-credit policy in the agro-industrial complex; to create on the regional level a specialized financial institution, a special credit fund for long-term, mid-term and short-term crediting of priority investment projects in the agrarian sector, with a well-regulated system of preferential crediting of promising farming companies; to introduce the mechanism of mortgage and leasing crediting;
- in the field of taxation policy: to lower high tax rates and cut down the number of taxes and charges; to liquidate economically unjustified incentives and benefits and double taxation of non-residents; to create conditions for saving of people's free costs.

Stabilization of factors on each level in particular and of the investment climate on the whole is the main strategic mission of the national and regional investment policy and of the investment policy of each agrarian formation. It is sure to result in better investment attractiveness of the agrarian sector of the country, region and each company and will facilitate economic growth on the whole.

Conclusion

Thus, stimulation of the investment process in the agrarian sector as one of the major factors of economic growth in the agro-industrial complex should rest on a systemic approach and proper functioning of a complex investment model of economic growth in the agrarian sector, adjusted to market conditions and properly harmonized in its internal structure.

Further Research Prospects

Further research can go in the direction of a more detailed and comprehensive development of activities aimed at effective functioning of each component of the proposed model in view of the systemic aspect of such research.

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