

*Iurkova M.S., Sadovnikova E.V.*¹

THE MAIN TENDENCIES OF THE DEVELOPMENT OF RUSSIAN AGRARIAN SECTOR AND THE EFFECT OF STATE POLICY ON INVESTMENT SPHERE IN AGRICULTURE

SUMMARY

Investments are able to solve lots of Russia's economic problems on the whole and the problems of agro industrial complex in particular. The solution of long-term and short-term tasks is connected with them: overcoming the crisis, the consolidation of taxable base, the increase of income budgetary part, raising competitiveness of Russian production, acceleration of Russia's exports' diversification, and boost of new job growth. The authors show on the example of the Saratov region (the middle Volga area) agriculture's newest tendencies in Russia and factors influencing its development. Major initiatives of the state promoting the creation of favorable conditions of agro industrial complex are analyzed. Efficient economic management and investment attractiveness of agro-industrial complex are considered to be the most important. Stressing that the most significant are still state support and successful realization of State Program of agricultural development the detailed analyses of investment sphere of the Saratov Region is presented by the authors.

Keywords: agricultural development, investment attractiveness, analysis, program, stabilization measures.

INTRODUCTION

Russian agriculture has been unprofitable for the last decades. Industry survived due to subsidies and it was characterized by extremely long lasting investment cycle. In the conditions of hard access to the funds, it led to significant agricultural production decrease. Now everything has changed radically thanks to today's Russian reforms in the foreign trade, industry's support, the attractiveness of direct investments in agriculture. Investors began changing their attitude towards agrarian industry in connection with the rapid growth of world foodstuffs and increase in significance of agriculture on the whole.

According to experts' assessments, in 2014 the need of this sector in investments will total \$70 billion. In this connection it will be rather easy for Russian farm producers to attract capital including primary, secondary and closed

¹ Iurkova M.S. (corresponding author: marina-mss@mail.ru), Sadovnikova E.V., Saratov State N.I.Vavilov Agrarian University, Russia.

allocation of their securities. Russia is able to become the world leading exporter both of energy resources and foodstuffs, for example grain. It can be self-sufficient in meat supply up to 80%. At present agro industrial complex of Russia makes about 8.5% of GNP. 3,4% industry's main production funds are concentrated there. More than 7 million people are employed in agricultural sector of Russia. Besides, Russia has one of the biggest economic potentials in the world as for agricultural production: 8, 9% world arable lands, 2,6% pastures, 20% world water resources.

Two factors essentially influence the development of agriculture:

1) Poor state support of the market by the government which has led to the decrease in number of Russian producers in different segments at the level on the average less than 50% from the aggregate consumption volume.

2) Lack of funds and access to capital resources. Producers hardly managed to increase operating capital, some of them had to cut production. Besides, there were no investments in equipment and in infrastructure modernization as well as new areas cultivation.

Since 2003 Russian government has put the goal to decrease country's dependence on imported foodstuffs: meat, sugar, vegetable oil, dried milk. In connection with this state policy in the sphere of agriculture has become consistently protectionist, raising investment attractiveness of agrarian sector.

Our basic research problem is in the study and forecasting the main tendencies in Russian agrarian sector development, the influence of investments on the development of agriculture, the development of investment attractiveness of agribusiness for private investors. The major ways of solving these questions we see in the alteration of foreign Russian policy towards agricultural production which has been already clearly seen today, the increase of national agrarian producers' state support and further development of agrarian markets both inside Russia and in the framework of Customs Treaty signed by Russia, Byelorussia and Kazakhstan. (This especially concerns market infrastructures). The attraction of direct foreign investments and creation of joint ventures on the territory of Russian Federation to our opinion will lead to the transfer of competition from the sphere of trade networks to the sphere of agricultural production.

MATERIAL AND METHODS

Statistical data of RF State Programs and the Saratov region served as the basic material of the research. The authors used monographic, descriptive, calculation-constructive, statistical, grouping methods, method of social poll.

With the help of descriptive, monographic and calculation-constructive methods we studied and made prognosis of the tendencies of agrarian sector development and major investment strategies for agricultural enterprises. The presented tendencies are mentioned below.

Statistic and grouping methods have been used at making tables when estimating the volumes of attracted foreign investments in Saratov region, Russia.

In the result of conducted by us social poll among agricultural enterprises, individual and private farms of Saratov region the tendencies and prognoses done earlier have been proved. Respondents of the poll are mainly involved in the spheres of plant breeding and livestock rising. According to the poll, the prospective of market development directly depend upon the measures taken by the government of Russian federation. Most of the respondents hope agricultural market growth to be 5-15% during 2014. Nevertheless, the respondents consider that in comparison to 2011-2012 the problem of deficiency of financial resources in agriculture has been exacerbated. Half of the respondents mark low rentability and hard credit pressure that makes less possible getting bank financing, together with this, private funds of enterprises are limited. 56% of being questioned noted that they would not be able to achieve or retain adequate level of profitability in case of cancellation of state support measures in the nearest future. The same number of being polled think that they conduct operations in the environment full of both small and big producers of the similar business. 31 % consider that the prevailing market share is divided between several large scale producers-sellers. 59% of respondents estimate the level of competitiveness in Saratov region as high and expect its further strengthening. The most popular responses to the question on strategic goals were the increase of operational activity, the development of their own brands, geographic expansion to other regions, and the build-up of vertically integrated business. 39% are going to create their own processing and trade division's bypassing large monopolized trade nets. The activity of 94% of polled enterprises still depends on bank loans, 67 % of participants are ready to invest additionally to agribusiness sector.

RESULTS AND DISCUSSION

As regards the part of the state the following main initiatives promoting a favorable regime of existence for farm producers in Russia have been taken to increase investment attractiveness of agrarian sphere:

1) land market is fully liberalized. Land may be bought and sold. According to the 2009 data about 13% of aggregate cultivated farmlands belong to individual farmers, 78% are owned by agrarian companies, 9% are private property. About 40% are at the disposal of regional administrations and governmental structures in the frames of agro industrial complex enterprises.

2) tax benefits – in 2005 the government set a new tax regime for agrarian producers; for the period of 2006-2008 zero income tax rate was adopted which in 2009 grew up to 6%, then in 2010-2011 grew up to 12% annually. Agriculture is the only sector in Russia's national economy where there are real tax benefits, but there is no additional collecting, such as excise and others.

3) favorable conditions for attracting loans – government allocates money to subsidize interest expenditures on credit servicing connected with investments in agriculture (to explain the need in credit money you are required to present business plan and documentary);

4) protectionist character of meat and meat products' import regulation, for instance, beginning from 2003 import quotas on raw meat resources were set which are overlooked annually in the part of countries-importers' distribution.

5) interventions in the grain market: to regulate domestic prices Ministry of agriculture of Russia has created a special fund. Its grain resources are supplied on the account of governmental purchases during successful years with good harvests. Production is placed into private grain storage and it is there up to the moment when the situation changes and domestic grain prices are stable in the background of significant export or bad harvests.

6) export barriers – Russian government actively applies various means of limitation of agricultural production export with the aim of supplies and prices control (often seasonable export duties on export, for example, wheat, barley, and so on).

7) fertilizers', seeds, fuel's price compensation – agricultural producers can consider part (not more than 50%) these expenses covering. In Russian regions various compensation mechanisms are applied because payments mentioned above as a rule come from federation subject's budget.

8) economy's agrarian sector is able to master 5.18 billion of \$ per year. That is four times more than the agrarian production manufacturers can invest themselves.

9) During the recent three years agrarian policy of the state mostly aims at investment stimulating in agriculture, mainly, in livestock raising. At first national project "Agro industrial Complex development" in 2006-2007, then State Programme of agriculture development up to 2012, made investment process active. In 2005 total volume of attracted to agriculture credits made around 6.67 billion \$, in 2007 16.43 billion \$ were attracted already, in 2009 – 23.22 billion \$. Increase in crediting (the year 2009) made around 9%. Two major banks which give credits to enterprises of agro industrial complex are Savings' Bank of Russia and Rosselkhozbank. The former increased the volume of AI complex crediting by 10%, the latter by 33%; [2]

In 2009 inside RF Ministry of agriculture interdepartmental commission on AIC crediting was created with the representatives of banks, industry unions, Ministry of Finance, Ministry of economic development;

Priority national project "AIC development" played a great part in the changing situation in the village. It influenced the situation not only economically, but also psychologically. It became evident that agro industrial complex is a prospective industry of economy waiting for the inflow of investments. Total funds volume from federal budget on the State Program of agriculture 2010 realization was 3.48 billion of \$, from which agricultural producers were allocated 3.17 billion \$ to support production and promote social development.

74% state program budget in 2010 consisted of interest rates' subsidies to subjects. Their volume totaled 2.57 billion \$. It was stipulated by the fact that during years of national project and state program realization great volume of

investment credits was accrued which was necessary to service. 0.44 billion \$ were allocated for short-term credits. 0.18 billion \$ were allocated to develop small farming – farmers’ private enterprises and individually owned farms. Significant funds were allocated to service investment credits - 1.94 billion \$ or 76%. Part of subsidies in 2010 was allocated to develop new investment projects. Priority directions of investments are dairy and meat cattle breeding, poultry breeding as well as grain processing and storage. More than half credits(54%) are allocated in animal husbandry, of which 20% in poultry farming; 18% - in grain storage, about 7% -in sugar production, the rest – into initial processing of meat and milk.[3]

With the beginning of state project and State Program realization agro industrial complex increased by 21%. Grain production increased by 24%. During the period 2008-2009 grain annual yields were 100 million tons, which made possible not only to supply country’s needs in grain, but make Russia one of the world’s leading grain exporters. Despite severe climatic consequent effect in 2010-11, on the whole Russian farmers managed to make sustainable this industry due to the direct donations and budgetary credits. [2]

In the conditions of fast changing world agricultural business environment agrarian production rapidly evolves on the way of raising profitability, resource saving technology and ecological compatibility. These processes are characteristic of Russian agro industrial complex having great resource potential as well.

Application of modern methods and technologies in the development of national agriculture opens new opportunities on more effective implementation of national and global food production goals.

One should mention that it is actually impossible for an individual agricultural enterprise to attract investment resources to realize a realistic, rentable investment project in modern Russian economic environment. It is connected for the first thing with the fact that both domestic and foreign investors lack sufficient guarantees on the return of invested money. As a rule, the volume of necessary to realize agrarian investment projects’ funds exceeds the volume of provision project presented by the initiator. Liquidity of proposed provision has a very low level too. Besides, high risks connected mostly with the lack of effective and modern financial management create the problem for the investor to monitor the stages of project realization. In this connection to solve the problem of investment attractiveness methods and organizational-economic models has been elaborated promoting investment processes activation in agrarian sector, part of which is being implemented nowadays to realize “pilot” projects and programs.

There are several main investment strategies for agricultural enterprises:

1) investments in land – actual farming lands’ prices don’t reflect their real value. That’s why farming lands may be purchased as getting more expensive assets capable to generate growing money flows in the future. Parcels may be used with the purpose of getting cheaper financing in comparison to the

companies lacking their own land, i.e. parcels not used may be land-leased by the owners.

2) investments in agricultural production – investments provide Russian companies access to subsidies, guarantee favorable regime of taxation. Besides, it is necessary to monitor the situation in the agro production market in the country – try to foresee favorable price conjuncture which was especially important in 2011-2013 because of unfavorable weather conditions in most countries and continents. In the nearest future Russian holding companies are able to enter world agricultural markets as well. One shouldn't forget that investments in production allow decreasing raw matter costs and cost production if the value chain envisages further production processing or use in industries, for instance, grain (feed for cattle, in baking industry and so on).

3) infrastructure development; high world grain prices and favorable forecasts, for example, stimulate Russian producers entering export markets. If by 2015 grain export grows up to 60 million tons per year this will boost demand both for terminals in sea ports and cargo bulkers and sea transport in general.

4) diversification combines all the above mentioned investment strategies with the purpose of creating vertically integrated holding.

Agricultural investors will continue facing problems. There is still high operational risks' level in agrarian sector: seasonal agricultural operations, insignificant or negative money flows at the initial stage of the investment cycle, lack of qualified personnel, growing prices on land parcels, fertilizers, wages, fuel and others. Enterprises own funds are considered to be the most important resources of investment financing into the main capital. The greater part of their own resources is being differentiated into industries and sectors of economics. On the whole 30% of investments come from own resources of enterprises. [1].

In these economic circumstances nowadays most part of agrarian producers can't use their own funds for development and reinvestment purposes. This is connected with the problem of debts to budgets of different levels and as a consequence, blocking of enterprises' bank accounts. The problem of agro industrial complex's enterprises debt restructuring is connected with the controversy of existing legislation system. In 2011 the program on infrastructural development and logistic supply of agro industrial market came into being in Russia.

The state goes on developing investment attractiveness of agrarian sector. State agrarian policy becomes long-term priority of socio-economic development of the country within the State Program of agricultural development. However, for the program to work, attract investments, it is necessary to adopt analogical programs on the regional level.

In 2013 priority investment directions were dairy and livestock breeding, poultry farming, sugar producing plants' modernization, initial treatment and storage of grain, initial processing of milk and meat. RF Ministry of agriculture suggests the main prospects in the framework of agro industrial complex [2]:

1) building modern meat processing factories which would be able to process meat, supply the country with various and high quality meat products in bulk. In this case Russian meat will gain popularity both among meat producers and net trading companies which require regular supplies of goods of standard quality. Russia will overcome both quantitative and qualitative dependence on meat import.

2) joining together into a united innovation complex enterprises on high-energy plants cultivation and processing enterprises specializing on bioactive additives to fuel and compound feedstuffs. It is supposed to sell rapeseed oil to Europe where it is in high demand: biofuel is made from it there, solvent cake is supposed to be used as feed for livestock.

3) creating conditions and infrastructure to advanced flax processing in the regions of Non-Black soil Zone of Russia and the creation of Amur regional soy-beans cluster. Expansion of agrarian production in the East will employ lots of people, create new jobs and supply Far Eastern regions' budgets with money.

State resources allocated to support national agriculture are used with different efficiency. Adopted by Ministry of agriculture methods of forecasting, distribution and effective use of budgetary funds will make it possible to create transparency of financial resources distribution. Return and efficiency of funds investment directly depends on the application of new modern technologies. Their application in the economy is impossible without qualified staff. New specialties, modern methods and programs are in demand.

Along with this one of the main agro industrial complex tasks today is the creation of innovations market aiming at the solution of self-financing problems and agrarian sector competitiveness growth. Political stability and legal regulation are of great importance as for favorable investment climate formation in agrarian sector. For example, during the last years investment activity is raising.

For the period 1995-2010 the flow of direct investments into basic capital increased 16 times, from 0.58 million \$ up to 1390.8 million \$ which is shown in Table 1. This is connected not only with investment attractiveness of some regional industries for foreign investors but also with general policy in the region and state.

Table 1. Investments into basic capital, mil. \$

	1995	2000	2001	2005	2006	2009	2010
Saratov region	0.58	479.6	477.7	1249.3	1175.2	1093.3	1390.8

One of the conditions favorable to stimulate foreign capital inflow and protect foreign investments is the improvement of legislative base, of legal norms and ability to ensure their obligatory observation. Ineffective and cumbersome normative base of banking and currency regulation also cause problems for

foreign investors. Destabilizing factor of investment activity growth is discrepancy between federal and regional legislations. Compared with 2009 the volume of foreign investments in Saratov region decreased in 2010 according to the data of Table 2.

Table 2. Foreign investments in Saratov region according to the types

Indicators	2009		2010	
	Thousands, \$	% to the total	Thousands, \$	% to the total
All investments	477503.7	100	41145.8	100
Including: direct investments	290636.5	60.8	9526.5	23.1
Out of them: Investments in capital	56029	11.7	2000	4.8
Credits got from foreign co-owners	204503.5	42.8	7526.5	18.3
Other direct investments	30103.9	6.3	-	-
Portfolio investments	8460.4	1.8	2691.7	6.5
Other investments	178406.8	37.3	28927.6	70.3

Currency regulation carried out nowadays by the Bank of Russia presupposes licensing of capital import in complete accordance with Russian legislation which often creates a prohibitory regime for foreign investments. However, effective mechanisms expending capital export from the country have not been elaborated yet.

As the result of financial crisis consequences volumes of investments have decreased in many countries. But, as it is vitally important for Russian economy, despite many problems, agriculture has been overlooked by Russian and foreign investors as a sphere for profitable investments mainly due to effective state support. Besides, investing of state funds into agrarian economy attracts additional private investments. Thus, for instance, 1 \$ of state support in the industry attracts up to 0.33 \$ of private investments which are invested into proximate industries of economy. This so-called multiplicative effect makes agriculture such an industry not any other industrial sphere can be compared with.

Investment sphere of the Saratov Region in 2013 was characterized by the slowing of investment growth into stock capital. According to the data of official statistics the volume of investments increased by 2% compared with 2012 (on the whole in Russia there is 0.3% decrease), as for the results of 2012 there was 8% growth. In social sphere and economy during the accounted period 4.14 billion \$ of investments were turned into gross stock capital.

In general, as for the participants of enterprises monitoring, the volume of investments' base experienced 5.3% growth in 2013 mainly on the account of 6,3% non-financial investment assets growth. The share of the latter up to 30.09.2013 constituted 80.5% of all financial assets. Financial investments assets (long-term financial investments) experienced 1.3% growth. Investment base application efficiency grew in comparison to January-September 2012 and was 2,190.07 \$ of realized production per 1 \$ of funds put into investment assets.

In conditions of a little worsening of financial situation the major part of enterprises (56.1%) has not conducted investment activity at all. The part played by inner sources of investments, such as profit and depreciation costs, decreased. Among the outer resources of investment financing the share of enterprises making investments on the account of bank credits, other loans, budget financing and foreign credits and loans increased.

Non-financial enterprises activity broadening limited the lack of incoming receivables to finance current activities (for 51.9% of enterprises taking part in the poll), insufficient demand for enterprise's produce (for 51.5%) and the shortage of money funds to finance investments (for 41.8%).

Investments into cars and equipment were the basic part of investments. The share of enterprises using the given type of investments grew in comparison to the analogical period of the preceding year. By contrast, the number of enterprises putting investments into buildings and constructions, leasing and rent, as well as long-term financial investments decreased.

The main motive of investment activities of the most part of enterprises was the maintenance of production capacities. The significance of this factor compared to January-September 2012 grew. As the result, the level of production capacities used by enterprises raised from 64.7% (on the average, in January-September 2012) to 66.7% (on the average, in January-September 2013). The share of enterprises, oriented towards intensification and production modernization, enterprise's broadening and accruing income from financial investments grew.

CONCLUSION

The following factors affect greatly the raise in investment attractiveness as regards the development of agrarian sector:

1) The state and agricultural production market development and its infrastructure. At this stage regional agricultural production markets are not adequately protected from the part of the state, markets' monopolization on the part of big suppliers of processed products and buyers of farm raw materials, poor regional farm production exchange development and many more.

2) Possibility of pay back term reduction of investments and certain guarantees on investments' return. Indeed, not every branch of agriculture can decrease the production cycle. Nowadays, however, scientific potential allows reducing production cycle in poultry breeding, pig rising, and some branches of plant breeding under optimal climatic conditions.

3) Possibility to decrease the degree of systematic risk in the agro industrial complex industries connected with the specifics of agrarian production. High risks, for instance, connected with the lack of effective and up-to-date financial management prevents investors from monitoring the project's stages' fulfillment. High operational risks level creates a lot of impediments for investments: business seasonality; insignificant or negative money flows at the initial stage of investment cycle; lack of qualified personnel; remuneration's, land's, fertilizers', combustibles and lubricants' growing prices, and so on.

4) Pay back and efficiency of financial investments directly depends on the application of new modern technologies. Their implementation is impossible without qualified personnel.

5) Agricultural state support, which becomes urgent especially on Russia's entering WTO in the framework of WTO "green basket".

REFERENCES

- Branko Bulatović (2013): Comparative analysis of the budgetary support for the rural development and experiences of Montenegro. *Agriculture & Forestry*, Vol. 59. Issue 2: 205-216, 2013.
- Investments. Sharpe W.F., Alexander G.J., Bailey J.V. -M.: *Infra-M*, 2001-1028p.
- Ivana Ljubanović-Ralević, Ana Anokić, Zoran Rajić (2013): Technological and technical changes of agricultural production in Serbia. *Agriculture & Forestry*, Vol. 59. Issue 4: 95-105, 2013, Podgorica.
- News in agrarian sphere. Archives 2009-2013. – Access regime: <http://www.agronews.ru/>
- State Program «Development of agriculture and regulation of agricultural production, raw materials and foodstuffs markets for the period 2008-2012, 2013-2020” - Access regime: <http://www.mcx.ru>
- The theory of economic development. Capitalism, socialism and democracy/ Jozeph Alois Schumpeter;- M.: Eksmo, 2008.-864p.
- Unified agricultural tax. Cost accounting at small scale enterprises / Cost accounting in particular spheres of activity – Access regime: http://www.businessuchet.ru/content/document_r_6D723649-7A69-4B1D-A0D6-66621647C5DD.html
- Zorica Vasiljević, Nebojša Novković, Jonel Subić (2013): Monitoring as a phase in agricultural investment project cycle. *Agriculture & Forestry*, Vol. 59. Issue 1: 107-116, 2013, Podgorica.
-