

AGRICULTURAL DEVELOPMENT TO THE FOOD SECURITY

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Abstract: *The article reveals the peculiarities of agricultural enterprises as an object of investment. The main methods of financing agricultural enterprises of Ukraine's agricultural sector, which includes: public funds, self-financing, leasing, selling, crediting, investments, grant funding, forfeiting, mobilizing savings and factoring. The solutions to the major problems that arise when investing financial resources in the economic activity of agricultural enterprises have been proposed.*

Keywords: *farms, investments, public funding, investment attractiveness, financial resources*

INTRODUCTION

Nowadays a third part of world reserves of black earth, which is the most fertile soil, is located in Ukraine, and together with favorable temperature mode; it can create ideal conditions for development of agricultural enterprises in the country. Development of agricultural sector is proved by the fact, that share of agriculture in GDP (including forestry and fisheries) increased by 3.3% from 2008 to 2015; from 7.5% in 2008 to 10.8% in 2015. Added value, generated by agriculture, increased by 74% during 2003-2015, while other sectors of economy together grew by only 24%. The share of agriculture in employment of Ukraine has remained virtually unchanged, i.e. 18% in 2000 and 17% in 2015. Rural population occupies 32% (14 million people) of the country's population.

MATERIALS AND METHODS

The issue of investment attractiveness of agricultural enterprises was studied by local scholars including N.I. Bilyak, V.V. Borshevskyy, I.I. Vinichenko, A.P. Lajko, P.I. Haidutskyy, B.V. Hubskeyy, B.M. Mykytyuk, O.V. Oliynyk, H.M. Pidlisetskyy, P.T. Sabluk, V.P. Savchuk et al. They studied factors that define investment attractiveness of the state, region and individual industries. However, questions of assessment of investment attractiveness of agricultural enterprises considering their characteristics, including specific activities, spatial location and balance of financial gaps are still not well studied.

The aim of the article is to determine specific features of agricultural enterprises as an object of investment.

RESULTS

The main feature of agricultural enterprises is usage of land as the main mean of production. Comparing with the industry, where fixed assets have ability to deteriorate in physical and mental way, in case of correct exploitation, land resources have an ability to improve their capacity, which automatically raises its

market value. A large number of agricultural enterprises are characterized with decentralization of production. It is connected with climatic conditions at certain areas or at certain regions, with territory relief, fertility of soil, configuration of land and other natural factors. Main sources of financing of agricultural enterprises of agricultural sector are: budget (state and local budgets); own funds of enterprises; credit and investment resources; leasing and other financing for obtaining machinery and equipment (*Figure 1*).

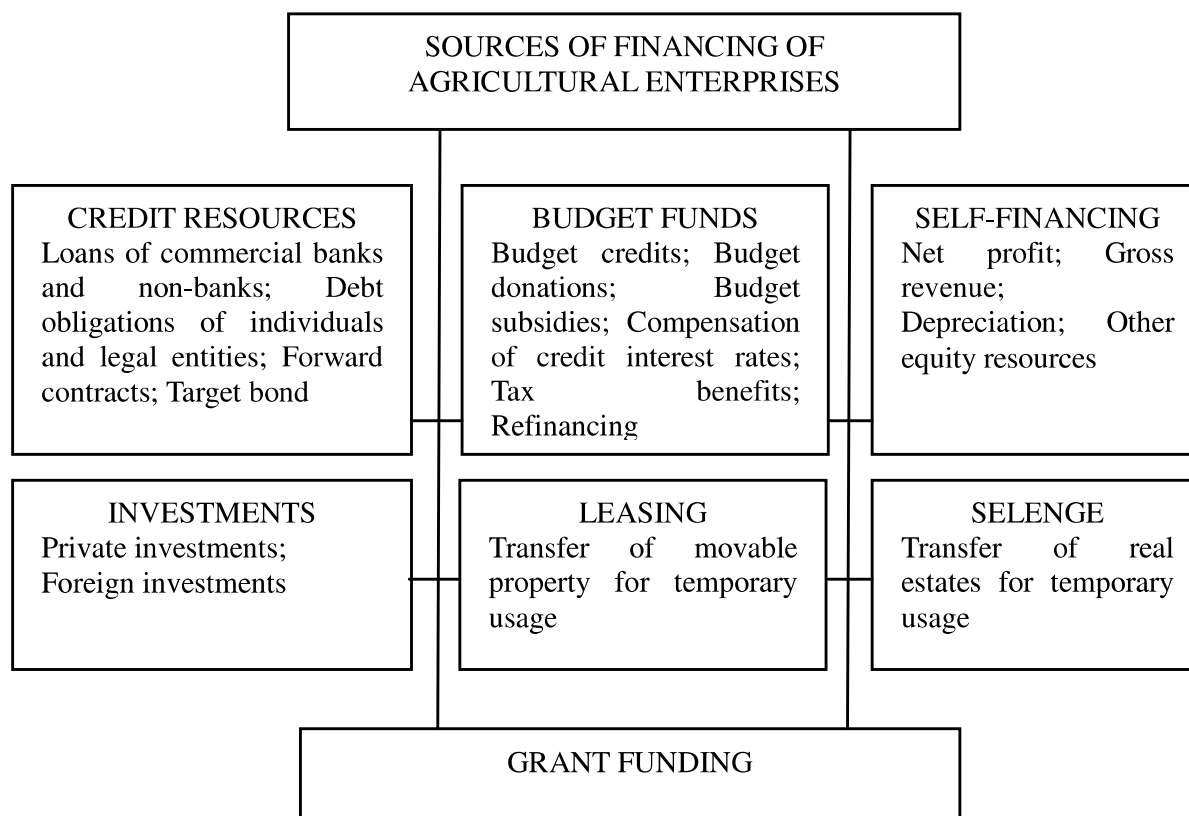


Figure 1: Methods of financing of agricultural enterprises

Source: created by author according to [1-2]

Specific character of agricultural sector leads to financing of agricultural enterprises from state budget. While creating state agrarian policy all peculiarities, relevant to agricultural sphere, are taken into account. These include: 1) permanent reduction of level of purchasing capacity, which is connected with devaluation of national currency and inflation processes occurring in the country; 2) low level of scientific and technological progress and advanced technologies that causes significantly higher costs of production; 3) reduction of soil fertility; its restoration requires significant financial resources; 4) lack of infrastructure facilities for storage and processing of agricultural products; 5) gap in stable economic and technological links between different areas of agriculture.

Due to insufficiency of financial resources of state and local budgets, funds should be directed to the main activities, which are aimed to promote systemic development of the industry as a whole and individual enterprise in particular, among them [1]: 1) scientific and technical research, in particular in areas of elite seed

production and livestock breeding; 2) introduction of resource-saving technologies; 3) investing on the basis of sales of agricultural products with a focus on foreign markets; 4) creating agricultural clusters; 5) conducting agricultural fairs; 6) focus on financing industries which potentially will have a positive impact on reducing costs and improving product quality; 7) development of rural infrastructure; 8) improvement of profession education of agricultural specialists; 9) implementation of government contractual work.

Own funds of agricultural enterprises are a depreciation and retained earnings, i.e. they remain the main financial resource for business development. However, depreciation, being in the cost of agricultural products, is too low to ensure possibility for enterprises to finance themselves, especially for development.

Equipment and technology leasing is one of the main financial resources that focuses on the development of enterprises in European countries. In Ukraine volume of leasing transactions is from 800 million to 1 billion UAH per year, which is insignificant indicator for the industry. Credit ensuring of agricultural enterprises in Ukraine is not sufficiently developed as commercial banks do not take into account seasonal features of agricultural economy. So agrarian enterprises are unable to obtain long-term loans and usually use short-term credit facilities, which cause insolvency of borrowers. Majority of agricultural enterprises in our country cannot rely on long-term bank loans, as their fixed assets are physically and mentally worn out and banks do not will to take them on bail, and bail rate reaches 150-200% of the loan in average. However, amount of credit resources that commercial institutions have provided to agricultural enterprises in recent years are constantly increasing. According to D. Ricardo, to get a loan from a bank an enterprise needs to show a positive correlation between the profit rates, which will be acquired on borrowings and interest rate of a loan [2].

In practice, it can be illustrated in following way (*formula 1*), where PN is profitability rate (return); BN is the rate of interest on loan:

$$PN \geq BN, \tag{1}$$

Small farmers often use credit funds, received from individuals (relatives, friends) with low interest rate or completely interest-free rate.

Funds of foreign and national investors should be the main financial resources for development of agricultural sector in Ukraine. However, investors primarily pay attention to specific features of financing of agricultural enterprises.

Considering investors point of view, one of the main features of agricultural enterprises as an object of investments is time extension from investing financial resources to receiving profit from business performance, which mainly occurs due to differences between the working period (cultivation of land, boarding and sowing, plants growing, harvest) and the period of production, which is influenced by environmental factors (growth and maturation of plants). So, receiving of profit from economic activity is seasonal and occurs according to natural processes, on the other hand investment funds are permanent and spent on salaries for agricultural

workers, purchase of animal feed and fertilizing substances for plants. Also, considerable funds are spent on vehicles and fuels and lubricants.

To ensure continuity of production processes agricultural enterprises do not realize all harvested products, they use them as seed, feed or young animals or undergrowth to start a new production period. Since these products remain at the enterprise and will not be realized and therefore not converted into financial resources, a company does not include them in composition of marketable products and reduces financial benefit from the previous cycle of production. Preservation of planting materials, young animals or undergrowth entails additional costs for construction of production facilities.

Inconsistency of production and working period at agricultural enterprises indicates a major difference from enterprises operating in other areas. Seasonality of production, especially in agrarian enterprises, engaged in vegetable production, has a direct impact on usage of labor and other current assets. However, in case of urgency current assets need to be ready to be involved immediately into the manufacturing process, as even a minor delay will have negative trends at production process, which can lead to significant financial costs. A special attention is paid to harvest, which time duration can last 1-2 weeks and delay in the process can lead to complete loss.

Peculiarity of productive activities in agriculture and especially in farming (main part of work is done from several days to several weeks) are requirements for vehicles, which determine the final cost of manufactured products, the less fuel costly and more universal machines are, the lower price will have products and more competitive they will be at international markets.

Among specific features of agricultural production, we can also highlight diversified structure that can exist even within a single agricultural enterprise. Despite economic and technological development, advanced and simple reproduction, optimal workforce engagement, soil fertility and other processes, occurring during production processing, form multifaceted structure of agricultural enterprises. Quality of technical support and usage of technology is one of key features. Considering that agricultural enterprises have movable means of production (tractors, harvesters, cars and other equipment), objects of labor remains at the same place, farms highly depend on means of production and their need in energy resources is much higher comparing with companies in other sectors.

Specific features of performance of agricultural enterprises have impact on investment process and, therefore, investment in farms depends on two factors: 1) risks of investment return; 2) level of uncertainty, which is effected by features of agriculture. Agricultural enterprises operate in conditions of significant amount of risks in comparison with other industries companies. Beside traditional there are also natural risks (environmental, weather and biological).

Agriculture is also characterized by territorial decentralization of production; it is particularly noticeable in crop and horticulture. This decentralization complicates process control and carries additional risks for timely work. Agrarian enterprises do not belong to attractive areas of investment resources. Therefore, to improve

investment climate in this sector the state should use its own leverage, which will positively influence on investment attractiveness of agricultural enterprises and will consider characteristics of their business.

DISCUSSION AND CONCLUSIONS

To improve investment attractiveness of agricultural enterprises the state should implement following actions:

1. To increase state budget funds for development of agricultural sector, that will positively affect financial situation of agricultural enterprises and enable them to form their own financial resources for business development.

2. To set tax-free mode for farms that spend significant financial resources for technical upgrading using advanced technologies. Such conditions should remain until complete update of agricultural machinery at enterprises.

3. State compensation of interest rates on credit resources invested in development of business.

4. To provide an opportunity for agricultural enterprises to buy agricultural machinery by possibility to get loans from state banks.

5. Establishment of agro-food markets at regional centers.

Public-private partnership is an additional incentive to invest funds in agricultural business. It will protect investors from a considerable number of risks and save public resources for development of agriculture.

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