

## **AGRICULTURAL INVESTMENT OPPORTUNITIES WITHIN THE REGION: RISKS AND DEVELOPMENT STRATEGIES**



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The article examines investment opportunities in agriculture, in terms of the food security. Investment highlights as well as the basic risks are defined. Low output profitability, outstanding debt liabilities of the agricultural organizations, differentiation of the agricultural investment opportunities on the area basis as well as differentiation of the companies providing services within the industry according to their ability to raise the external funds are considered to be the principal risks for the Smolensk Region. Based on the state control and regulation pattern in agriculture, there were defined actions to be taken in order to improve investment opportunities in agriculture - this is a budgetary financing of priority sectors. The key farming sector in the Smolensk Region is considered to be dairy cattle breeding: according to the estimated and forecasted development, it is possible to expand the cow population by more than 20 % and to practically double the amount of milk produced by using high technologies. The support of investors will lead to better infrastructure development, including storage facilities, processing plants, technical maintenance. The sales of products remain another big problem: this risk results in losses despite the efforts of the landowners, therefore future state control shall be aimed at further expansion of the sales channels.

**Keywords.** Investment opportunities in agriculture, investment highlights, investment risk, rural area types, tools to improve investment opportunities.

The issue of justification and proposing measures to enhance the investment attractiveness of agriculture is most relevant at the present stage, where the first place goes to ensuring economic security and actual becomes the theme of food security. Since the adoption of the law "On Agricultural Development", much attention is paid to the realization of the goals of the State agrarian policies to create a favorable investment climate. This suggests that the state change the vision of agricultural development in terms of market economy model with government regulation.

The structure of investments of Smolensk region is dominated by funds, where budget funds occupy a large proportion (table 1). However, in the year 2010, favourable economic environment attracted both private investment and bank loans. By the end of 2014 year the situation moved into a phase of investment, which was unfavourable for the Smolensk region. It was the worst year for agriculture over the last decade, as the proportion of investments had shrunk to 1.7%. From the total amount of public support, federal funds accounted for more than 55% [1].

**Table 1 - Fixed capital investments, by sources of financing in the Smolensk region, million rubles**

Investment resources	Year 2005		Year 2010		Year 2014	
	Mln. rubles	structure, %	Mln. rubles	structure, %	Mln. rubles	structure, %
Funds in total	12699,1	100,0	33179,4	100,0	29414,9	100,0
own funds	4592,1	36,2	7015,4	21,1	11749,1	39,9
borrowed funds	8107,0	63,8	26164,0	78,9	17665,8	60,1
Including budget funds	2995,9	23,6	3935,1	11,9	4956,9	16,9
- federal	648,7	5,1	1589,3	4,8	2917,0	9,9
- sub-federal entity	2313,2	18,2	1887,0	5,7	1561,4	5,3
- local	33,9	0,0	458,8	1,4	478,4	1,6

Factors affecting the investment attractiveness of agriculture were identified by N. Morozov and O. Zarjankina [2] in the following groups:

- legal: social and political stability, legal security, public policy regarding external links (for example, customs policy);

- economic: internal financial policies of an enterprise (including depreciation policy), capacity and solvency of the domestic market, state support of agricultural producers, tax policy

stimulating the development of local agriculture, the investment climate in the country, regions and in specific rural areas;

- natural-biological: climatic conditions, quality of agricultural land, the species composition of farm animals, the composition of agricultural crops;
- resource: optimum composition of main funds, manpower;
- science and technology: the scientific potential of the country and the region, innovative-technological availability.

Agriculture, according to some researchers, is one of the unattractive investment industries (table 2).

**Table 2 - Dynamics of figures of investment attractiveness in agriculture, in % to the previous year**

Figures	Years					
	2005	2010	2011	2012	2013	2014
GRP growth rate	105,0	107,4	104,7	104,2	104,5	101,9
Fixed capital investments in the GRP, %	29,8	31,6	31,5	28,0	24,8	...
The share of agriculture in the GRP, %	11,4	6,8	7,4	6,5	6,3	8,0
The growth rate of investment in fixed assets	110,7	129,0	100,1	86,9	95,0	100,8
Agricultural production index	93,3	92,3	116,6	100,6	102,2	95,3
The growth rate of sales of products of agriculture (current prices)	99,7	103,8	106,7	125,7	124,7	...
The growth rate of fixed capital investments in agriculture	89,4	74,4	124,0	84,5	61,2	33,9

Increased agricultural production has the same tendency, as increased investment in the agricultural sector, but we must not forget that return takes place several years after the investment. In addition to investments increasing production volumes the purchasing prices had an effect (the rate of growth of sales of products has been increasing since 2012).

Level of investment attractiveness of agriculture depends on present risks: Russia's accession to the WTO and the international situation, the low yield of production, lack of risks insurance, concentration of debts liabilities of the agricultural organizations, differentiation of investment attractiveness of agriculture by region, differentiation of enterprises in the industry by the ability to attract external funds [3]. Scientists are coming to the conclusion that the ways of reducing investment risks are the order of land allocation for realization of investment projects, developed production, processing and storage of agricultural products, the use of innovative technologies, the availability and adequacy of infrastructure [4].

The analysis shows a sharp decline in the number of technical means. Compared to the year 1990 the tractors and agricultural machinery park has declined by seven times. Updating of existing technology does not happen, because there has been a sharp disparity between the prices of equipment and prices for agricultural products. In such circumstances, not many enterprises can update the technical park, machine-tractor park by now is physically and morally obsolete. The gravity proportion of tractors over the age of 9 years present 79%, of combine harvesters - 66%, of forage harvesters-50%. Lack of equipment (the most part of fixed assets in agriculture) has a negative impact on the production and sales.

The loss of production since the year 1991 is not possible to recompense, while the existing measures of State support may not have a significant impact on the pace of agricultural production. Production capacities of the agriculture industry are underutilized, thus the public authorities need to find potential for more effective utilization due to increase production volumes [5]. To date, the capacity utilization dropped from 2 to 4 times. It is connected not only with a large amount of import of finished products (including those from neighboring countries), but also with the fact that we lost our own agricultural production, affecting the quantity of raw materials for processing plants. At present, the security of their own raw materials for meat products is about 50%, for dairy products it's not more than 20%. It can be assumed that if processing plants worked only on local raw materials, their power would be used up to no more than 8-15%.

Looking at calculations for optimizing capacity utilization, the following conclusions can be drawn. For optimal capacity utilization of processing plants milk production must be increased up to 2485 tons, which is 8 times more than the volume produced in the year 2014; weight gain in cattle - up to 652 thousand tons, pig 28 thousand tons, which is 10 times more than produced in the year 2014. To retrieve those products only, the increase in cattle head by 502 thousand heads, pigs 257 thousand heads, will be required. Such increase will require improved forage base, which in turn would require an increase in the cultivated area up to 630 thousand hectares.

Potential investors can use the following strategy in order to achieve their goals:

- 1) investment policy focuses on traditional processes, maintaining the current specialization;

2) growth strategy is to increase agricultural production by improving fund supply and modernization of production, as well as application of advanced technologies and diversification of agricultural production [6].

The basis of Agriculture in Smolensk region is dairy cattle, but it loses its value in today's economy scope, as the percentage of milk production in the Central Federal District is 4%, cattle and poultry for slaughter 1.7%, egg production 3.2%, cattle 3.5%, cows 4.5%. According to the development forecast, cattle livestock should increase by the year 2020 up to 116.7 thousand heads (18% compared to the year 2014), cows to 63.6 thousand (20%), which would increase the cultivated areas by 36 thousand hectares. The strategy of investment projects will increase the share of Smolensk Region in the Central Federal District (in terms of fixed conditions) in milk production up to 9%.

The positive point is that investors do not ignore the system for storage and processing. From 2016 onwards projects in Temkinskom, Ugranskom, Krasninskom and Jarcevskom areas will run for storage and processing of potatoes and vegetables by more than 20 thousand tons, which will contribute to the development of potato and vegetable production.

Large livestock enterprises create production capacities on the handling and processing of grain (grain elevators and feed mills) to fully ensure their own forage [7].

A promising direction is the project for the processing of oilseeds (rapeseed, sunflower, soya, etc.), which is developed by "Greenluks", LLC, in the Roslavl'skiy district, with capacity up to 60 thousand tons per year. Another new thing for the Smolensk region is an investment project for rabbit breeding farm for 3249 rabbit livestock "KROL and Co", LLC, in Gagarinsky district.

The Smolensk region is ready to develop itself as a traditional industry and a new one, using innovation as a growing point in the economy.

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