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О НОВОМ МЕХАНИЗМЕ ФИНАНСИРОВАНИЯ СЕЛЬСКОГО ХОЗЯЙСТВА

Аннотация. В статье акцентируется важность проблем финансирования сельского хозяйства, которое является одной из главных отраслей экономики Армении. Факторный анализ был выбран в качестве метода исследования, в рамках которого роль и развитие сельскохозяйственных кооперативов была проанализирована. Основываясь на результатах изучения состояния сельского хозяйства страны, автор приходит к выводу, что внедрение и развитие процесса, направленного на создание кооперативов поможет смягчить проблемы сельского хозяйства. С точки зрения улучшения экономических процессов автором также акцентируется важность аграрной стратегии. В статье автор предлагает сделать более активную вовлеченность фермеров и малых предпринимателей развивающихся стран в пользование услуг предлагаемых финансовой системой; инновации в области финансов, чтобы решить потребности сельского сектора и чтобы не ограничиваться только услугами предлагаемыми финансовыми учреждениями; специализацию финансов предназначенных правительством для сельскохозяйственного сектора и в финансовом секторе; а также управление рисками и выявление возможностей сельскохозяйственного сектора для успешной реализации аграрной политики.

Ключевые слова: сельское хозяйство, финансирование, механизм, кооператив, производство, кредит, развитие.

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ON NEW MECHANISM OF FINANCING FOR AGRICULTURE

Abstract. The article is to highlight the importance of the issues of financing for agriculture, which is one of the major sectors of the economy in Armenia. Factor analysis has been selected as a study method, in the frameworks of which the role and development of agricultural cooperatives has been analyzed. Based on the results of study of the state of country agriculture, the author concludes that cooperative establishment process implementation and development will benefit the mitigation of agricultural problems. From the viewpoint of the improvement of the economic processes the importance of agrarian strategy is highlighted. The author proposes drawing farmers and small entrepreneurs in developing countries into the financial system; innovation in finance to solve the needs of the rural sector in order not to be limited and subject to services provided by the financial institutions; specialization in agricultural finance by the government and the financial sector; and managing the risks and understanding the opportunities of the agriculture sector for successful agriculture policy implementation.

Keywords: Agriculture, financing, mechanism, cooperative, output, loan, development

Introduction. The purpose of the article is to highlight the importance of the issues of financing for agriculture, which is one of the major spheres in Armenia, and the consumption of agricultural goods. For this purpose the task has been put forward to analyze and coherently make appropriate solutions, which can contribute to the increase of GDP with 20% ensuring the enrollment of around 40% of the employed in the sphere and providing 20% of weight of the export of agricultural and related processed goods. Agriculture has an important role in the development of Armenia.

Factor analysis has been selected as a study method, which highlights the significance of agriculture in the field of the country food security.

As a practical application it is suggested to revise the fact, that there is still no systematic and consistent policy in the country directed to the provision of the long-term and sustainable development, which can be solved by introduction of new mechanisms of financing for agriculture.

Method and Methodology. Factor analysis has been selected as a study method, in the frameworks of which the role and development of agricultural cooperatives has been analyzed, which can positively change the living standards of the rural population and contribute to the development of rural areas.

Understanding how a value chain is structured and coordinated can reduce the risk and hesitancy of financial intermediaries to lend to the agricultural sector. It describes different value chain structures, defined in terms of the relationship between two stakeholders: the buyer and the seller [1]. Buyers are agricultural processors, exporters or distributors, or in some cases, supermarkets. Sellers are the producers or traders who sell their products to these buyers along the chain. The relationship between these two stakeholders, between the buyer and the seller, can be described through five types of linkages:

1. the instant or spot market, where producers come to sell their commodities, and prices fluctuate; this is the most risky in terms of setting market price; [2]
2. a contract to produce and buy, known more generally as contract farming;
3. a long term often informal relationship characterized by trust or interdependency;
4. a capital investment by one of the buyers for the benefit of the producer, characterized by high levels.

Literature Review. “Agricultural finance is the economic study of the acquisition and use of capital in agriculture. It deals with the supply of and demand for funds in the agricultural sector of the economy.”

“Agricultural finance is the study of financing and liquidity services credit provides to farm borrowers. It is also considered as the study of those financial intermediaries who provide loan funds to agriculture and the financial markets in which these intermediaries obtain their loanable funds.” [3]

“The investment on a farm is the combination of “ability to invest” and “willingness to invest” [4]. “Ability to invest” is production finance while willingness to invest the development finance. The credit agencies which provide liberal credit for production purposes induce ability to invest. Moreover certain level of infrastructure is essential to absorb the production-oriented loan, thereby making development finance as a pre-requisite for the production finance”. [5]

Analysis. The main directions of the rational distribution and specialization policy of agriculture are as follows (see table 1);

- effective use of natural resources and promotion of the production of goods with relative advantages;
- implementation of the differentiated approaches towards the conduction of targeted agricultural subsidy projects according to the regional development priorities [6];
- extension of small and medium enterprises by the increase of affordability of loans and marketing assistance;
- improvement of investment conditions by the development of the productive and social infrastructures of the rural areas;
- promotion and development of regional economic integration.

Substitution of imported food with the local production and development of export-oriented agriculture, which means to increase the competency of the local products. To provide this it is necessary to assist the local producers in terms of implementing new technologies, improving production quality, reducing production costs and application of other measures [7]. Provision of different subsidies

to agricultural enterprises will also benefit the increase of competency.

In order to provide the export of the agricultural food it is necessary not only to create favorable conditions both for the increase of production output and for the competency within the local and foreign market, but also to provide storage conditions, which is related to the manufacturers and sales prices, price fluctuations and production means [8]. The difficulties of sales are conditioned with the low solvent demand and the slow formation of buyer-seller infrastructure of agricultural.

Table 1

**Gross Output and Gross Domestic Product of the Republic
of Armenia according to the data of 2010-2015¹**

	2010	2011	2012	2013	2014	2015
Gross output of Agriculture at current prices, billion drams	636.7	795.0	841.1	919.1	993.4	1,002.2
Gross domestic Product of Agriculture (value added), billion drams	588.2	767.9	764.0	826.3	872.0	869.0
Share of Agriculture in Gross Domestic Product of the republic, %	17.0	20.3	19.1	19.3	19.3	17.3

Improvement of agrarian sector crediting: a serious problem in the development of the sphere is the less access to financial resources, which is caused by the high interest rate of the loans and the insufficient provision terms, as conditioned by the characteristics of agricultural sphere the agricultural farms need both the replenishment of circulation assets and large investments [9]. The main form of provision the latter mentioned means is loans, which is implemented by the commercial banks, microcredit enterprises. During the last years the density ratio of the agricultural loans in the loan investments of the commercial banks has been only 5.9-6.0%, which is several times less than the needed volume of resources in agriculture to avoid resource insufficiency. The problem remains connected with the short-term, rate and mortgage conditions. Many low-income rural farms do not apply to credit organizations because their access is not provided [10].

The implementation of the projects of agrarian policy carried out by the state assistance will benefit the increase of the viability and competitiveness of agriculture, especially to the food security, infrastructure capacity improvement, the improvement of ecological state of the productive and social infrastructure of the rural areas, as well as the increase of the fertility of agricultural land.

Agriculture is one of the key spheres of the state economy [11] and according to the data in Table 1 the portion in formation of the Gross Domestic Product of the country was 19.3% in 2014.

Agriculture has a considerable share in the GDP of Armenia, which can significantly contribute to the social-economic development of the country. The increase of gross output is quite noticeable. In 2014 it has increased with 8% compared to 2013 and amounted to 993.4 billion Armenian drams. The majority of gross output, about 97%, is produced by rural manufacturers and the remaining – by the commercial organizations operating in agricultural industry.

The main goal of the social-economic development of agricultural sphere is to add the income of rural enterprises and to reduce poverty in rural areas. To provide these, it is necessary [12];

- to provide the effective use of the work in agriculture and processing industry;
- to take steps to enlarge rural enterprises with the aim to increase the effectiveness of the production process;
- to create a common scope operating with the cooperative principles, thus solving the problems related to the production service, logistic field [13];
- to create and develop insurance system;
- to increase the level of commodity, which conditions the stability of the enterprises and the opportunity of the poverty reduction in rural areas [14];
- to provide access of loans [15].

In order to solve the problems related to the financial economic development processes it is necessary to create favorable conditions, which will direct the private capital to agriculture through finan-

¹ Data provided by the Ministry of Agriculture of the Republic of Armenia

cial market and market mechanisms providing increase of volumes of loans to the sphere and at the same time forming mutually beneficial conditions both for financial organizations and rural enterprises [16].

Although there has been developed and carried out many social-economic programs during the last years, stability of agrarian sphere is not still anticipated.

Table 2

Preferred specializations and main branches of the Marzes of the Republic of Armenia (by the structure of Gross Output)²

Aragatsotn	Meat and dairy cattle breeding, fruit growing, potato-raising, sheep breeding, fodder production
Ararat	Viticulture, horticulture, dairy, cattle-breeding, fruit growing, early potato-raising
Armavir	Viticulture, horticulture, dairy cattle-breeding, early potato-raising
Gegharqunik	Meat and dairy cattle breeding, potato-raising, grain industry, fodder production
Lori	Dairy cattle breeding, potato-raising, grain industry, fodder production, beet growing, fruit growing
Kotayq	Dairy cattle breeding, poultry farming, fruit growing, grain industry, horticulture, fodder production
Shirak	Meat and dairy cattle breeding, sheep breeding, grain industry, potato-raising, fodder production, horticulture, beet growing
Syunik	Meat and dairy cattle breeding, sheep breeding, fodder production, grain industry, subtropical fruit growing
Vayots Dzor	Meat and dairy cattle breeding, fruit growing, small cattle breeding, viticulture, poultry farming
Tavush	Meat and dairy cattle breeding, fruit growing, viticulture, pig breeding, fodder production, tobacco growing

In order to face the competition, the following steps are necessary:

- Implementation of new technologies, increase of the product quality and reduction of production costs [17];
- Implementation of crops providing high added value, complying with the natural economic conditions and having market demand [18];
- Import of highly productive agricultural animal tribes;
- Subsidizing of loans, grants and interest rates in order to promote the production and export of export-oriented products;
- Implementation and application of product sales mechanisms in the market via direct sales;
- Necessity of operation and development of greenhouse enterprises, which demand huge investments. Now there are 145 hectares of greenhouse enterprises, which are specialized in vegetable production;
- State assistance to the small and medium greenhouses to introduce new equipment and technologies [19].
- Paying attention to the products, which have competitive advantage within the republic,
- Providing tax and customs privileges to the exporting enterprising, as well as security to the local manufacturers via import duties.

Conclusion. Currently around 220 agricultural cooperatives operate in the Republic.

Conditioned by the agricultural characteristics of the republic, the following cooperative activity types are preferred;

- Supply of agricultural inputs,
- Operation of agricultural equipment,
- Production of agricultural food,
- Accumulation and storage of products,
- Sales of products,
- Processing of the agricultural food,
- Provision of consultation services,
- Resource management,
- Mutually operating financial services,

² Ministry of Agriculture of the Republic of Armenia (www.minagro.am).

– Supply of logistics with non-profit base.

The reasons why the cooperative do not succeed are the laws regulating the cooperatives functioning sphere. They do not regulate the formation, activity and liquidation process and need to be improved and replenished.

The results of investigation of the state of country agriculture prompt that cooperative establishment process implementation and development will benefit the mitigation of agricultural problems. From the viewpoint of the improvement of the economic processes the importance of agrarian strategy is highlighted, because due to this strategy the necessity of state assistance of cooperative formation can be revealed. The cooperative establishment process will increase the employment rate of rural population, the amount of production of agricultural food and processed products, based on which the income of population and food security level will increase.

Recommendations.

1. Finance is a vital part of any developed agriculture sector, and drawing farmers and small entrepreneurs in developing countries into the financial system is far from accomplished. It is not mere coincidence that the countries with developed financial markets in the agriculture sector are the ones where the sector is also highly developed.

2. This does not necessarily mean that only developed countries can have successful stories of agriculture finance. In fact, many of the examples cited above come from developing countries. It requires a combination of good laws, a specialized financial sector and profitable businesses of small and large farmers and companies in the agriculture sector. Innovation in finance to solve the needs of the rural sector should not be limited to financial institutions.

3. The government can play a proactive role by promoting laws and regulations with new financial instruments or even raising awareness of existing ones to bring them to the attention of the financial and agricultural sectors. Specialization in agricultural finance in the government and in the financial sectors is an important driver to its development.

4. However, financing is not a charitable activity; it is primarily profit driven. This necessarily means that all possible regulation and programs to attract financing must be realistic with the characteristics of the sector and the viability and rate of return. Managing the risks and understanding the opportunities of the agriculture sector is key for any successful policy or law.

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