



SPECIAL FEATURES OF INVESTMENT IN AGRICULTURE

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Annotation: The article devoted to the topic special features of investment in agriculture. On the other hand, in the article role of farmers in investing in agriculture were highlighted.

Key words: *agro-industry, financial capital, productive capital, fixed capital, overlap, agro-industries.*

Investment in agriculture must be viewed in the wider economic context in which agricultural development occurs. In designing policies and programmes for promoting investment in agriculture it should be recognised that agricultural development depends on the simultaneous growth of agricultural production and the value chains to which it is linked. These value chains include a wide range of small- and large-scale activities that involve supplying farm inputs, processing, storing, distributing, wholesaling, retailing and exporting farm products. All these activities can be referred to collectively as ‘agro-industry’. When considering agricultural investment, it should also be recognized that there are different types of investors operating in agriculture and its value chains. These investors have different objectives and roles[1]. In addition, there is a variety of sources of financing for investment and all the sources are not equally accessible to all investors. It must also be acknowledged that investment capital comes in many forms: financial capital, productive capital, fixed capital, working capital, as well as human capital, social capital and natural capital.

Different forms of capital cannot simply be added together to determine the



total amount of capital available or needed. They overlap and complement each other, and some forms of capital cannot be substituted for others. Moreover, different types of investors exercise varying degrees of control and ownership over these different types of capital, and at different stages along value chains. Investments made by different investors can on occasion complement each other, whereas in other situations different investments cannot simply be substituted for others. For example, farm capital formation, which is essential for increasing agricultural production, depends on farmers' own investment of labour and financial resources and cannot be substituted by other investors and sources of financing investment. Likewise, there are certain areas where only the public sector can or will invest[2]. Conflicting goals can arise between different types of investors leading to tradeoffs that require public intervention to find the right balance between the economic, social and financial costs and benefits.

For any investment to have positive impact on production and productivity, it must contribute to capital formation at the farm level. In this respect, the investments made by the farmers themselves are indispensable. Public investment in agriculture and private investment in agro-industries complement farm-level investment, but cannot substitute for the investments that need to be made by the farmers themselves. The most comprehensive and readily available data for empirical measurement of investment in agriculture is the FAO estimate of on-farm capital stock. FAO has prepared estimates of on-farm capital stock for 206 countries from 1975 to 2005 based on inventories of agricultural assets contained in the FAOSTAT database. According to this dataset, farmers are the largest source of investment in agriculture for agricultural capital stock (ACS). On-farm investment in agricultural capital stock by farmers is nearly three times as large as other sources of investment combined, including public investment, foreign direct investment and official development assistance.

According to the FAO publication, State of the Food and Agriculture 2012



– investing in agriculture for a better future (SOFA 2012), in the 47 countries that are on track to achieve the Millennium Development Goals (MDGs) hunger-reduction target, agricultural capital stock per agricultural worker (a proxy for private domestic agricultural investment) has grown by 0.7 percent per year since 1992. Whereas, this ratio has declined slightly in the 25 countries where progress has been insufficient and strongly in the 15 countries where rates of undernourishment have stagnated or regressed[3]. Available data indicates that public investment, although small relative to farmers' investment, is the second most significant contributor to farm-level capital formation, both directly through the provision of rural public goods and its effect on private investment. Hunger is more prevalent in countries where public agricultural expenditure per agricultural worker is lower, suggesting that both public and private investment in agriculture is important in the fight against poverty and hunger. There is no comprehensive data on corporate private sector and foreign direct investment (FDI) in agriculture. However, the limited and country-specific data collected through case studies and sources such as UNCTAD, demonstrates that bulk of the corporate investment goes into agro-industries and the higher end of the value chain.

Private sector investments along value chains are opening up new market opportunities for some farmers, but it is also becoming apparent that many small farmers are being left behind[4]. There are signs of an increasing chasm opening up between small farms that are commercializable and noncommercializable subsistence farmers. This polarization could lead to a situation where policies and investments geared towards strengthening commercial agricultural production and value chains are not consistent with policies and investments geared to reducing poverty and food insecurity.

Public investment is deemed to be exogenously determined in the sense that political economy compulsions determine the level and composition of public investment. Therefore, increasing attention is being paid to improving budget and



the policy making process. The political economy considerations influencing agricultural policy choices includes, among other things, ideas and ideology. These play an important role in explaining agricultural policy choices. In many countries, the public sector is making concrete efforts to guide and improve investment in agriculture by developing country investment plans (CIPs), based on predefined development strategies and national priorities. It is important that the development strategy leads to the adoption of policies and programmes that will contribute to increasing farm household savings and investment. Farmers who cannot save, cannot invest and any economic activity that does not generate positive savings is not sustainable. Savings are essential not only for increasing the level of capital, but to cover the depreciation of the current level of capital stock. Farmers' capacity to invest depends on their capacity to save. This report proposes strategies to enhance farm household savings, leading to increased investment in agriculture[5]. They are aimed at facilitating farmers' own efforts to increase their savings and investment in order to break away from the vicious cycle of poverty and enter the virtuous cycle that can be described as 'save, invest and grow'.

In conclusion it should be noted that every country that has made the transition to development, reduced poverty and increased food security has done so during periods of high agricultural growth. Empirical evidence shows that higher levels of economic development and non-farm activities are positively correlated with agricultural development, particularly with improved efficiency of the sector in terms of land and labour productivity and its aggregate value added. Conversely, the persistence of poverty and food insecurity is often associated with, and can largely be attributed to, lower growth of agriculture as well as low land, labour and total factor productivity². The experience of developing countries strongly suggests that a sustained increase in agricultural production and productivity is required to make the transition from economic stagnation to self-



sustaining growth in the agricultural sector and consequently in the overall economy.

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