

IMPROVEMENT OF INVESTMENT ACTIVITY IN THE AGRICULTURAL SECTOR OF THE REPUBLIC OF KAZAKHSTAN

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ABSTRACT

Successful operation of various industries in the contemporary economy is possible only under dynamic development, based on investment and innovation. The main obstacle to effective functioning of the economy is the lack of sufficient conditions for investment; their use should ensure the competitiveness of goods and services, its innovative development, economical and food security of the country. Although, agriculture is not very attractive to investors, both domestic and foreign, the industry is economically and socially important for the regions of Kazakhstan. The article describes the key factors of investment attractiveness of agriculture, the size and structure of investments.

KEYWORDS: agricultural sector, investments, government control, agricultural market, Customs Union member-countries, directions of development of the agricultural sector, competitiveness, external and internal factors, price, quality of agricultural products

INTRODUCTION

Investment activity is an object of government control which represents systematic, structured and economically reasonable investments attraction from variable sources for their effective placement in the most socially-significant and economically attractive projects and directions of agricultural sector development, with the simultaneous creation of favorable legal and economic conditions for its implementation. Improvement of state regulation of investment activity in the agricultural sector is an important challenge that determines the efficient use of investment resources, sustainable and dynamic development of the agricultural sector of the country. The weight of the studied problems is enhanced by changes in the external and internal business environment of the entire economic system in Kazakhstan in connection with its entry into the Customs Union.

The investment processes in agriculture are influenced by significant variety of factors, which primarily include the availability and condition of natural resources, industrial, scientific-technical, innovation, financial and credit potential, as well as macro-economic, institutional, social and market

factors. They act at both the macro- and micro levels. Investment activity in the agricultural sector is an integral part of the economic activity of the country. Its effectiveness directly characterizes all aspects of state economic policy. Through the synthesis of market and information infrastructures in conjunction with the credit and financial system and the resource maintenance of agricultural complex is formed the supply and demand for investment resources. Objective of the state in this case is to become the unifying force, stimulating the full development of agricultural production [1]. The purpose of this study is to develop scientific and practical recommendations to improve the state regulation of investment activity in the agricultural sector, providing increase of the investment attractiveness of agriculture.

Investment issues in the agricultural sector were considered by such scientists as V.V. Maslova and N.A. Kuznetsova [1], Sh.M. Kantarbayeva, M.I. Sigarev and others [2], B.T. Aymurzina [3], M.I. Sigarev, G.N. Grudinina and B.M. Userbaeva [4], A.S. Narynbayeva, S.E. Kaidarova and D.M. Khamitova [5], F. Mantino [6], M. Ospanov and Daniel A. Witt [7], A.D. Chandler [8] and others.

RESEARCH METHODS

The methodological framework of this research was formed by general scientific methods of knowledge (dialectical, abstract-logic, structural-functional, analytical) and special (economic-mathematical modeling, statistical) methods.

RESULTS AND DISCUSSION

Investments should be primarily directed to those areas of agriculture production that possess high technology and have competitive advantages in the world markets. These are so-called "points of growth" that enhance efficiency of investment, create increasing investment demand with simultaneous updating of fixed capital [2].

Analysis indicates that in 2010-2012 the largest share of investments in the republic in the average to total grain production was - 27.2 %, livestock - 20.6 %, forage crops and pastures - 13.9 %, veterinary - 8.2 % (Tab. 1).

Table 1: Investment in agricultural production in Kazakhstan in 2010-2012".

Program name	Share in the financing, %	Range of application
Economics	5,6	Improving management forms
Grain	27,2	Better use of soil fertility and seeds
Horticulture	12,7	Ways of cultivation
Industrial crops	2,8	Seeds, forage improvement and processing
Forage crops and pastures	13,9	Forage reserve development
Melioration and water economy	2,1	Improved security
Forestry	2,7	Restoration
Livestock sector	20,6	Improving the gene pool
Veterinary	8,2	Medicinal maintenance
Food products	1,4	Manufacturing technology
Medicinal agromaterial	1,1	Innovative products
Agroecology	1,7	Ways of preserving

Application - Composed by the Ministry of Agriculture of the Republic of Kazakhstan

Investments have been made: to improve forms of management, to better use of soil fertility, to develop the forage reserve, to improve the gene pool, etc. For the development of agricultural

production, 3949.4 billion KZT of investments, including 880.7 billion (23.4 %) – of budgetary funds is required, according to calculations for the 2014-2018 (Tab. 2).

Table 2: Calculation of investment requirements for the development of agricultural production in Kazakhstan (bln KZT).

Activity	2014	2015	2016	2017	2018	Total
Plant cultivation						
Investment, total	373,2	396,6	400,6	399,5	398,8	1968,7
Including budget	99,2	122,3	123,7	124,2	136,7	606,1
Livestock sector						
Investment, total	59,9	58,9	63,7	67,6	71,6	321,7
Including budget	33,8	34,3	35,1	36,8	37,2	177,2
Agricultural production processing						
Investment, total	230,3	299,7	341,1	375,2	412,7	1659,0
Including budget	12,2	18,4	20,2	22,2	24,4	97,4
In all:	63,4	755,2	805,4	842,3	883,1	3949,4
Including budget	145,2	175,0	179,0	183,2	198,3	880,7

Note – compiled by the authors based on the data of the Ministry of Agriculture of the Republic of Kazakhstan

Analysis indicates that in the structure of the total investment, the cost of plant cultivation will amount to 1968.7 billion tenge (49.8 %), of which the budgetary funds - 606.1 billion tenge (15.3 %); on the livestock sector, respectively, 321.7 billion (8.1 %), of which the budget - 177.2 billion (7.5 %), processing of agricultural products - 1659.0 billion (42.1 %), of them at the budget expense - 178.8 billion (4.5 %).

The investments in fixed capital occupy the main place in development of the agricultural production, and influence the efficiency of the agrarian sector of the country's economy. However, analysis shows that the share of investment in fixed agriculture capital in foreign countries is much higher than its level in Kazakhstan. For example, in Kazakhstan, the proportion of gross output in the total GDP is 5.6 %, while the share of investment in fixed agriculture capital in the total investments of the

republic is only 1.9 %, which is insufficient for the expanded reproduction of competitive agricultural products and has no significant impact on the logistics of the industry [3].

Despite the fact that the proportion of investments in agriculture in the total investment into fixed capital in 2011 has increased by 0.2 % and amounted to 2.1 %, in foreign countries the figure is over 25 % along with considerable government support of producers. Moreover, the worse are the conditions of production – the higher is the support. Over the last decade the number of the country's tractor fleet decreased in 3 times, while less than 2-3 % is updated a year, 13-15 % is disposed out of exploitation, i.e. the gap is within 6-7 times range. As a result the load on one tractor and combine harvester has increased, which adversely affects the compliance with scientifically grounded farming system, increasing the expenses for crops

production. At the same time the provision of livestock premises and equipment does not allow to implement the comprehensive mechanization of production processes, so manual labor prevails. The annual demand for upgrading the main types of agricultural machinery reaches 106.5 billion tenge, including acreage covering – 57 billion (53.5 %), current equipment repair – 49.5 billion (46.5 %) [9].

The model of investment resources attraction into the agricultural production economics involves three main sources of investment resources, namely: self-financing through equity capital, sinking fund and profits of the enterprise; debt external financing, comprising loans from funds, banks and institutional investors, other companies, bond loans, promissory notes and guarantees, equity investments, leasing, mortgages; direct or real investments, including direct investments from international financial institutions and organizations, states, enterprises, direct investments, domestic and foreign, portfolio investments, financial investments, assets of private pension funds, investment funds, investment of insurance companies [10].

The share of investments in the agricultural sector of the Customs Union is heterogeneous. Under better climatic conditions and through a developed system of national agricultural engineering, production of material and technical resources, the

Russian Federation and the Republic of Belarus have provided the best productivity in the industry. The analysis shows that internal funds in Kazakhstan constitute 0.41 billion dollars (69.6 %), budget funds - 0.06 billion dollars (8.8 %), borrowed funds - 0.13 billion dollars (21.6 %); in Russia - equity funds constitute 9.44 billion dollars (45.7 %), budget funds - 0.60 billion dollars (2.9 %), loans - 10.63 billion (51.4 %); in Belarus, respectively, own funds - 1.24 billion (46.6 %), communal property - 0.51 billion (19.2 %), budgetary funds - 0.85 billion (32.0 %), borrowed funds - 0.06 billion dollars (2.2 %) [5].

Thus, there is a necessity to recover the economy of Kazakhstan on the basis of innovative development of agricultural production, when the key roles in the formation of macroeconomic proportions play investments and related structural changes in the economy. Increased investment in the industry is characterized by an ambiguous situation: the effectiveness of investment takes place against the background of declining population engaged in agriculture and reducing the cost of fixed assets in the industry. The assets of economic entities whose share exceeds 50 % per year, still remain the main source of investment, the total support of the republican and local budgets has improved, private capital, as before, does not tend to invest in the agricultural sector (Tab. 3).

Table 3: Sources of investment in fixed capital in agriculture of the RK for 2006-2012 (bln KZT).

Parameter	Year						
	2006	2007	2008	2009	2010	2011	2012
Investments in total including:	44059	52647	73587	77544	83586	109424	133945
Republican budget	4935	12425	14570	13624	4890	6565	8037
Local budget	1278	1622	4415	4265	2506	3611	4018
Foreign investment	4009	2053	147	101	167	328	536
Other loan resources	5684	4949	13025	10701	17887	16852	8439
Equity	28153	31598	41430	48853	58136	82068	112915

Note - Compiled according to the Agency of the Republic of Kazakhstan on Statistics

Current state of the investment potential of the republic's agriculture is characterized by the following data. Investments in fixed capital of the industry as a whole is growing steadily, the dynamics across regions reflect the current structure of agricultural production with a predominance of grain-traditional areas.

The analysis shows that inflow of investments into fixed capital in agriculture has increased by 22.4 percent in 2012 and amounted to about 133.9 billion tenge. Since agriculture is mostly privately owned, the predominant sources of financing investments into fixed capital of the industry are investors' own funds (84.3 % of total investments). The main volume of foreign investment falls on the provision of services in crop and livestock production [11].

However, despite the growth of investment in general, the agricultural sector is currently invested as a residual in Kazakhstan. So, if the total investment in the Republic of Kazakhstan over 2002-2012 years was 18917 bln KZT at the average annual level of investments in 3152.8 billion, the volume of investment in agriculture during the same period amounted to only 600.7 billion tenge with the average annual level of investment in 59.1 billion. Investment in the fixed capital in agriculture in 2012 amounted 1.85 % of the total investment into the national economy, or 133 945 billion tenge. As a result of this investment policy there is a decrease in GDP of the agricultural sector to the total GDP of the Republic of Kazakhstan, so if in 2002 it was 34 % then in 2012 in the agricultural sector was created only 7.3 % of Kazakhstan GDP,

while the share of the rural population was 48 %. This figure reaffirms low productivity, poor equipment appliances, and low utilization efficiency of the capacities involved in agricultural production [6].

In the total of investments into fixed agriculture assets the greatest amount occurs in cultivation of perennial crops (67.6 %) and livestock (19.1 %). The structure of investments indicates that the priority remains with the crop production. Here the labor productivity is higher due to medium and large farms, support of production, especially the grain is considerable, and insurance of major agricultural crops is retained (cereals, with respect to groups of regions, oilseeds, sugar beet and cotton). Moreover, high grain prices, the possibility of long-term storage of plant production, deeper processing, provide an increased interest in this segment of industry. Whereas the concentration of over 80 % of farm animals in households and unregulated, chaotic market of product development in this sphere, the need for significant material and labor expenses at low mechanization and high feed costs, despite the historical background of the domestic animals breeding, do not contribute to fundraising.

Annually expenditures comprise the construction of new facilities, purchase of equipment. At the same time the external environment for attracting investments is represented by budgetary expenditure. The costs of the programs of the Ministry of Agriculture of the Republic of Kazakhstan do not exceed 5 % of total expenditures. In spite of concessional provision of budgetary loans at 8-12 % per annum on the various programs, as opposed to commercial – at 15-21 %, the loan terms are, still, unaffordable for the producers [7].

Created in order to optimize the state support and improve government regulation of agriculture, seven companies of "KazAgro" holding serve as operators in redistribution of the republican and local budgets, assets from the National Fund, borrowed loans, international credit lines and leasing programs, equity. The volume of the agroindustrial complex financing by "KazAgro" holding in 2012 amounted 235 billion or 1.5 times more than 151.5 billion tenge in 2011.

Lending procedures of these companies are strictly stipulated, particularly the credit rate, terms and return security. This sources structure enables companies to investment and, consequently, structural policies in the agricultural sector, in view of specificity of agricultural production form and implement the export potential of the industry, to develop rural areas. For the further development of the agricultural production structure and increase of the investment policy efficiency in the agricultural sector, it is reasonable to establish a competitive environment among these companies under existing

intersections of their activities' directions, since the managing holding sets the corporate governance development in the industry as an target, including at the level of organization and regulation. Taking into account the implementation of the territorial development policy and strategy, these companies can coherently and simultaneously participate in the evaluation, information and analytical support and development of the agricultural investment potential of territories inside the formation and interregional processing systems, storage and delivery of agricultural products, which will exert a stabilizing influence on pricing [8].

CONCLUSIONS

In general, the investment policy in the agricultural sector of Kazakhstan needs to shape an optimal structure of investments in the sector and create favorable investment climate factors. Influence of investment institutions on capital inflows in the agrarian sector remains insufficient to ensure the competitiveness of domestic producers of agricultural products. Increased attention is required to the issues of investment system development focused on providing expanded reproduction of fixed assets in agriculture.

In order to create an effective investment mechanism in the agricultural sector it is necessary to solve the following problems: to dramatically increase the volume of investment in fixed capital from all sources; consistently implement the decentralization of the investment processes, to increase the share of equity in total agricultural investments, enhance the role of depreciation; allocate state investments for production purposes on a competitive basis, to carry out a return centralization of capital investments, to expand the practice of joint public-commercial project financing; increase state control over the proper spending of budget funds aimed at investment, to expand the practice of insurance and guaranteeing the state supported investment projects; to stimulate foreign investments [12].

Revival of investment activity is a precondition for the agricultural enterprises to step on the sustainable path of economic growth. World and domestic experience suggests that without the enhancing the role of the state and local authorities in the investment process, through its direct and indirect regulation to overcome the depressed state of the economy, the recovery and growth of the economic potential of agriculture is impossible.

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