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## Concessional Lending as a Perspective Tool of Development of Agribusiness

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**Abstract:**

*The aim of the research is to find the solution to the problem of food security in non-food countries, i.e., countries in which conditions for agriculture are unfavorable. The authors offer the hypothesis that solution to this problem requires development of agribusiness, a perspective tool of which is concessional lending. In the process of the research, in order to verify this hypothesis, the authors use the methods of modeling of socio-economic systems, as well as systemic, problem, institutional, and SWOT-analysis. As a result of the research, the authors come to the conclusion that the most important problem of development of agribusiness in non-food countries is lack and low accessibility of financial resources, which is caused by high seasonality of business, its low profitability, and, correspondingly, its low investment attractiveness. Concessional lending allows solving this problem and increasing the accessibility of financial resources for agro-enterprises, which gives them a possibility for modernization of equipment and technology of production, reduction of product cost, and increase of profitability and competitiveness. The article views the peculiarities of crediting agricultural enterprises, determines the role of small enterprises of agribusiness, develops recommendations for provision of concessional lending for agro-enterprises, and describes the mechanism of development of agribusiness by means of concessional lending.*

**Key Words:** *agribusiness, food security, concessional lending, global economy, non-food countries.*

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## **1. Introduction**

In the modern global economy, countries actively cooperate, exchanging goods and services. However, some countries are export-oriented and gain advantages from international trade while preserving national production, and other countries import too much and lose national sovereignty, with their own production declining and taking them into a trap, with them being unable to independently satisfy internal demand.

The general quantitative criterion of measuring the level of import dependence of countries is the trade balance. Significant excess of import over export is critical and threatens national security of the country. However, an important role here belongs to high-quality analysis of foreign economic activities of the country. A person can survive without most of goods and services, so their import is not critical, while dependence on the import of so-called inferior or essential goods is a serious threat, as a person cannot live without them.

The essential goods include accommodation, basic clothes, and food. Need for construction and basic textile production, is, as a rule, satisfied by internal production, but many countries cannot independently satisfy their internal demand for food products. This brings up a problem of food security. That's why the most serious threat is posed by country's dependence on food import. The reason for such dependence is lack or low level of agribusiness and, correspondingly, elimination of this reason allows solving the problem of national food security.

This causes the topicality of study of perspectives and search for new tools of agribusiness development. This research offers the hypothesis that concessional lending is a perspective tool of agribusiness development. The purpose of the article is to verify this hypothesis, determine the advantages, and develop recommendations for the use of concessional lending for agribusiness development.

## **2. Subject**

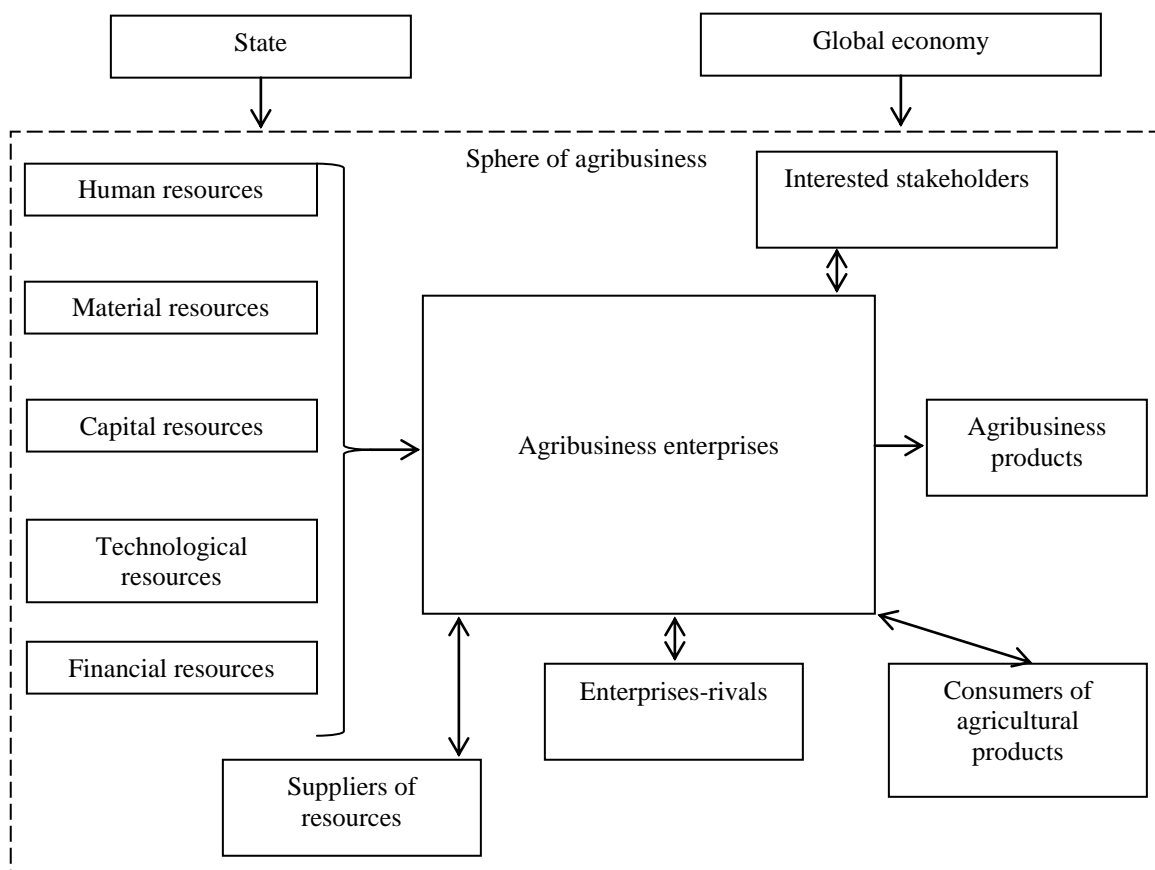
The object of the research is agribusiness in non-food countries. The topic of the research is organizational & economic and managerial connections and relations which emerge in the process of use of concessional lending as a tool of development of agribusiness in non-food countries. Non-food countries are countries that do not specialize in agricultural production due to unfavorable natural and climatic situation, but are interested in development of national agribusiness for provision of national food security.

### **3. Materials and methods**

Analysis of works of modern scientists on the problem of development of agribusiness showed that most of research is devoted to substantiation of expedience and necessity for development of agribusiness; among them are the works of (Garthwaite et al., 2015), (He, 2015), (Jacknowitz et al., 2015), (Maitra & Rao, 2015), (Mazaeva and Rogachev, 2012), and (Bannikova et al., 2015). Also, a large number of works are oriented at allocation of national peculiarities of development of agribusiness and solving the problems of particular socio-economic systems, related to provision of food security: (Grouiez, 2012), (Bernardes, 2015), and (Medernach & Burnod, 2013). However, there is a lack of research, devoted to the search for perspective tools of development of agribusiness which are universal for various countries, which reflects the necessity for further studies in this sphere.

As a method for determining the perspectives of development of agribusiness, this work uses SWOT-analysis. Also, the article uses the method of factor analysis for allocation of the factors of agribusiness development, method of institutional analysis for allocation of current and innovational means of influencing these factors, and method of problem analysis for determining the ley problems of development of agribusiness and search for their solution.

In order to determine the limits of the research and simplify the work with the research object, the work uses the methods of modeling of socio-economic systems and systemic analysis. Use of these methods allows representing the agribusiness sphere as an open system that functions within national economy while cooperating with global economy. Graphically, the model of agribusiness, as socio-economic system, could be shown in Fig. 1.



**Figure 1.** Model of agribusiness, as socio-economic system

As is seen from Fig. 1, the agribusiness enterprise is a so-called “black box”, into which human, material, capital, technological, and financial resources go, and which produces agribusiness products. Within the sphere of agribusiness, the enterprise cooperates with resources suppliers, rivals, consumers, and interested stakeholders (investors, creditors, etc.). The enterprise is influenced by the state and global economy.

#### 4. Discussion

Key problems of development of agribusiness in non-food countries are the following:

- high risk component of entrepreneurial activities in the sphere of agribusiness – unpredictability of climatic conditions and diseases cause a high level of risk;
- lack and low accessibility of financial resources – unpredictability and low profitability of agribusiness – cause its low investment attractiveness;
- high cost of production – unfavorable natural and climatic conditions cause the use of expensive technologies and equipment;
- high level of foreign competition – competition from the countries, in which natural and climatic conditions are more favorable for agribusiness and cost is lower.

In order to determine the perspectives of development of agribusiness by means of concessional lending, let us use SWOT-analysis (Table 1).

**Table 1.** SWOT-analysis of development of agribusiness by means of concessional lending

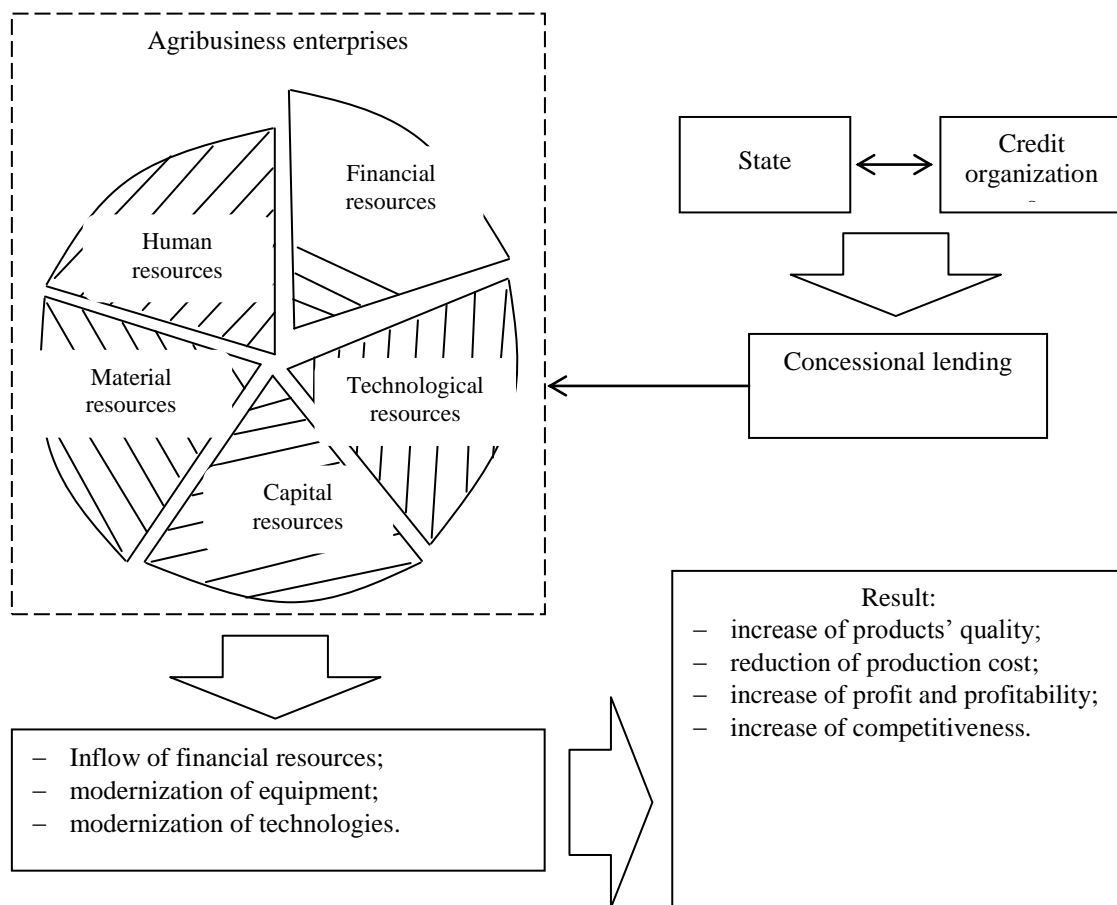
Favorable factors of agribusiness	Problems of agribusiness
High cost of products, its safety for consumers and ecological cleanliness	High risk component of business activities
	Lack and low accessibility of financial resources
Consumers' inclination to purchasing domestic products	High cost of production and, consequently, low profitability
	High level of foreign competition
Perspectives of development of agribusiness by means of concessional crediting	Threats to development of agribusiness without concessional crediting
Increase of accessibility of financial resources for modernization of technology and equipment	Incapability for modernization of technology
Reduction of cost, increase of profitability and competitiveness	Incapability for modernization of equipment

As is seen from Table 1, agribusiness in non-food countries has a lot of problems which were mentioned above, while favorable factors are not that many. They include high cost of products, its safety for consumers, ecological cleanliness, and consumers' inclination for purchasing domestic products.

Without concessional lending, the development of agribusiness is threatened by inability for modernization of equipment, which inevitably leads to reduction of

competitiveness and worsening of financial indicators of enterprise's activities, while concessional lending will allow solving most of problems of agribusiness and facilitate its development.

Thus, increase of accessibility of financial resources for modernization of technology and equipment will allow reducing the prime cost and increase profitability and competitiveness. Mechanism of development of agribusiness by means of concessional lending is shown in Fig. 2.



**Figure 2.** Mechanism of development of agribusiness by means of concessional lending

As is seen from Fig. 2, agribusiness in non-food countries has a lot of necessary production factors, except for financial resources. Concessional lending, which is provided within the framework of cooperation of the state and credit organizations,

increases the accessibility of financial resources for agro-enterprises, which creates possibilities for implementation of innovations and stipulates their development.

Concessional lending has large advantages, as compared to other tools of support and stimulation of development of agribusiness. One of these tools is preferential taxation. Despite the fact that this tool is a popular means of support for small business in many spheres of economy, it is characterized by low level of effectiveness.

Provision of tax subsidies for enterprises that work in the sphere of agribusiness supposes additional load on the state budget and creates additional stimuli for using this possibility by other enterprises which are not related to agribusiness.

As compared to preferential taxation, concessional lending can be selective. Concessional loans could be issued, for example, only for modernization of equipment and implementation of innovations, while tax stimuli could be used for increase of profit of owners and not stimulate development of agribusiness.

Another popular tool of support for agribusiness is provision of donations and subsidies. Similarly to preferential taxation, donations and subsidies supposes expenses from the state budget and lead to passive strategy of agricultural manufacturers. In other words, agricultural enterprises stop developing independently and wait for support from the state.

A significant advantage of concessional lending, as compared to donations and subsidies, is its return nature. That is, if donations and subsidies are provided for all agricultural enterprises and do not suppose return of spent assets of the state budget, then, in order to receive a concessional loan, agricultural enterprises have to substantiate necessity for allocation of assets and perspective of their investment projects and to return not only the sum of the loan but interest as well.

Another tool of support for agribusiness is policy of protectionism, which supposes limitation of access of foreign rivals to national agricultural products market. Protectionist measures, like the first two tools, are characterized by low effectiveness.

Limitation of competition in the market leads to growth of prices and reduction of innovational activity of enterprises. As a result, national consumers suffer, as they cannot purchase imported products of high quality and have to support national manufacturer who strives not for maximization of satisfaction of their needs but for maximization of own profit.

As compared to the policy of protectionism, concessional lending, on the contrary, stimulates healthy competition in the agricultural products market and leads to

improvement of its quality and reduction of prices. As a result, society, state, and agricultural enterprises win.

This work offers the following recommendations for using concessional lending for development of agribusiness:

- establishment of strict and clear rules of selection of recipients of concessional loans for the most important criteria (e.g., issue of loans only for realization of innovational projects, etc.);
- strict control over access to concessional lending – it should be granted only to agricultural enterprises, which are its targeted objects, not other enterprises which diversify their activities and manufacture agricultural products as one of their directions;
- provision to agricultural enterprises a possibility of selecting various variants of credit payments. This is necessary due to a high role of seasonality factor in agribusiness, due to which agricultural enterprises often cannot pay the credit regularly.

## **5. Conclusion**

Thus, as a result of the research, the offered hypothesis was proved and it was shown that concessional lending is a perspective tool of development of agribusiness. Due to its advantages, concessional lending possesses larger effectiveness, as compared to other tools of support for agribusiness.

The results of the research are somewhat limited by its universality and orientation at non-food countries in general form, caused by abstracting from national peculiarities of various non-food countries and viewing agribusiness as a model of socio-economic system. That's why a perspective direction of further research in the sphere of development of agribusiness is accounting of specifics of particular non-food countries and adaptation of the developed recommendations to practical reality of specific socio-economic systems.

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