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INDUSTRIES AND SECTORS: ISSUES AND POLICIES

**THE ROLE OF INVESTMENT IN THE
EFFICIENCY OF AGRICULTURE - CASE OF
SERBIA**

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Abstract: Investments are one of the main factors of agricultural development and agricultural development can be considered a function of investment. Agriculture, as one of the most important economic areas in Serbia is need of investments which can intensify agricultural production. The whole progress of humanity caused by the continuous separation of part of the surplus and its investment in the steady development of productive forces of every society, regardless of the mode of production and productive relations that govern it.

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Increased agricultural production is of great importance for the economic development of a country because food is a strategic product. Although the investment represents a significant factor for stimulating agricultural production, they bring alongside with them a certain risk. Insufficient consideration of all aspects of investments can cause many problems that are difficult to remove, with significant losses in social capital accumulation. In addition to human factors and natural conditions, the investments represent the basic material factors of economic and social development. The scope, structure and efficiency of investment is largely dependent on how and to what extent should be resolved basic issues of economic and social development of each country (economic growth, balance of economic development, employment, standard of living).

According to official statistics¹, during the period of 1980-2007 the most significant volume of investments was made in early 80's of 20th century. However, the development of Serbian agriculture in the eighties took place in the environment characterized by the deepening crisis in different domains of the socio-economic development in the country. Agricultural policy, and funding for agriculture, have retained a fundamentally conceptual features from the previous period, with the changes that inaugurated the system of social compacts and self-management agreements² in the social and economic development of the country.

After 1989 the investments in agriculture are in permanent decline in absolute and in relative terms. Decline in the volume of investments was particularly pronounced in early 90s. Wars in former Yugoslavia, UN sanctions, and

the beginning of transition reforms were the main causes of this situation. At that time, agricultural development of the former Yugoslavia was marked by the sanctions of the UN Security Council, which voted just one month after the constitution of the new federal states of Yugoslavia (UN Security Council Resolution no.757 from 31.05.1992). Forcibly closed economy model triggered decrease of agricultural production and accordingly investments in agriculture. The function of agriculture was reduced to the provision of food to domestic needs and the needs of the refugee population.

In conditions of inflation escalation and low salaries people were not able to increase their savings. The situation was not much favorable even after the abolition of UN sanctions. All this factors negatively impacted on the amount of investment at national level, not only in agriculture but in all other industries.

Agriculture of Serbia, compared to other activities, contributes more in the creation of gross domestic product; however, it takes less part in the capture of total investment, which is one of major structural disturbances in the Serbian economy. Lack of capital for long-term financing, which is a long-standing chronic problem of domestic agriculture, as a rule, stands out as one of the major causes of this situation. Although in recent years, there has been declaratory commitment that the agrarian sector is a priority of Serbian economy, the measures and activities delivered through agricultural policy have not provided significant effect on changing the status quo.

A number of economists believe that the volume of investments in the agriculture of Serbia, seen relatively, in relation to gross national product of agriculture and the depreciation of assets was uneven. During 1980-1989 the share of investment in agriculture was over 20% of gross domestic product in agriculture, and investments in agriculture were more than two times higher than the depreciation of assets in agriculture. Time before transition is marked as development period, while the transition

¹ Statistics Institute of the Republic of Serbia.

² Social compacts and self-management agreements as a basic institutional instruments in so-called "Negotiated economy", which since the mid-seventies were a basic form of coordination of activities and alignment of interests and the regulation of relations on the basis of self-management, referred to, of course, and the agricultural sector in all its aspects.

period started in 1989 marked as stagnating period (Radmanovic and Potrebic, 2004). In the period since 1989 until the present day, investments constituted far smaller part of the agricultural gross domestic product.

Achievement of development targets and structural adjustment of agriculture mainly depends on the proper scope and structure of available investment capital.

In order to achieve production potential of agriculture, it is necessary to dispose land, labor and the accumulation of investment. Serbian agriculture was richer in terms of the first two factors of production rather than the third. However, in recent decades, awareness has increased that capital as a factor of production and development plays significant role. In fact, it is realized that the limited land and labor resources can be compensated by technology that in turn requires capital investment. The European Union is investing significant resources in agriculture and therefore endorsing the higher agricultural budget should be important imperative for Serbia. Large investors can bring good experiences from developed European countries and other countries in the world and thereby speed up the adjustment and convergence of Serbian agriculture business standards to ones of the European Union. Considerable technological backwardness of agriculture in Serbia makes necessary to increase the share of investment in the social structure of agriculture products to over 20%, which directly would influence the current level of standard living. Another adverse phenomenon in the (agricultural) economy of Serbia is low volume of foreign direct investments (FDI), particularly greenfield investments.

Analysis of the impact of investment on the performance of agriculture of Serbia belongs to the group of complex analysis in agricultural activities. The analysis is complex because it is necessary to examine economic conditions and the existence of adequate investment climate. Land and labor are increasingly becoming a limiting factor for the development of agricultural production; therefore, introduction of technology and technical equipment in production process becomes important in sustaining efficiency of agriculture. So, limited land and labor resources can be compensated for the development of technical progress in agriculture. Technology-based agriculture requires replacement of capital, i.e. investment capital to increase productivity of land.

The agricultural production is essentially related with the effects of the biological nature. Biological processes in agricultural production influence character and scope of investment. Consequently, the duration of the investment cycle in agriculture, in contrast to the investment cycle in other industries, is conditioned by the duration of natural processes. Production time in agriculture is longer than the work process as the growth and development processes of living organisms take place under natural laws. Investments in agriculture, their scale and character, should account the complexity of agricultural production process. This specificity greatly affects the volume of turnover of assets and investments.

The conclusion is that agriculture is destined to start the inferior economic position than the average of the economy. The adverse economic situation has resulted in low incomes in agriculture, regardless of ownership form. Such agricultural income was and remains very unstable, not only because of the peculiarities of agricultural production, but

also because of the unstable market of agricultural and food products.

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