



IMPROVEMENT OF THE MECHANISM FOR FINANCING THE AGRO-INDUSTRIAL SECTOR IN THE RUSSIAN FEDERATION

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ABSTRACT

The content and features of the current mechanism for financing economic entities of the agro-industrial complex in terms of possible financing of the agro-industrial complex activities not from the state, but through the prism of instruments for financing credit organizations, project financing, international and "procuring" factoring and leasing operations are disclosed in the article. The ways to improve the mechanism for financing the Russian agro-industrial sector by using an algorithm for selecting sources of financing, depending on the sectoral distribution of the client (a company or a farmer), are suggested.

Key words: Financing Instruments, Credit-Related, Leasing, Project Financing, Factoring.

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1. INTRODUCTION

In accordance with the Federal Law No. 397-FZ of November 22, 2016, on state support for the agricultural production in 2016, the federal government provides subsidies to the budgets of the constituent entities of the Russian Federation in the amount of 157,000.1 million rubles. As of January 1, 2017, the number of budgetary obligations transferred to the personal accounts opened in the territorial bodies of the Federal Treasury amounted to 155,443.7 million rubles; as of May 10, 2018 – to 90.24 billion rubles (see the data in Figure 1). In particular, 69.7% of the total financing were transferred directly to the agricultural producers [1].

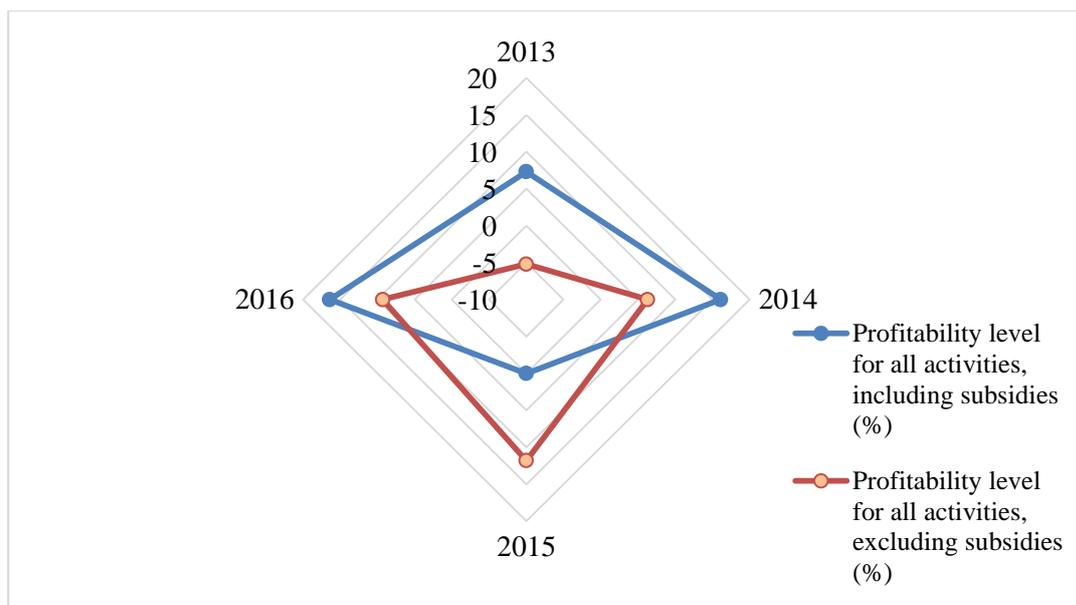


Figure 1 Dynamics of profitability index of the agricultural organizations

The data reflecting the level of agricultural development are presented in more detail in Figure 2 [2].

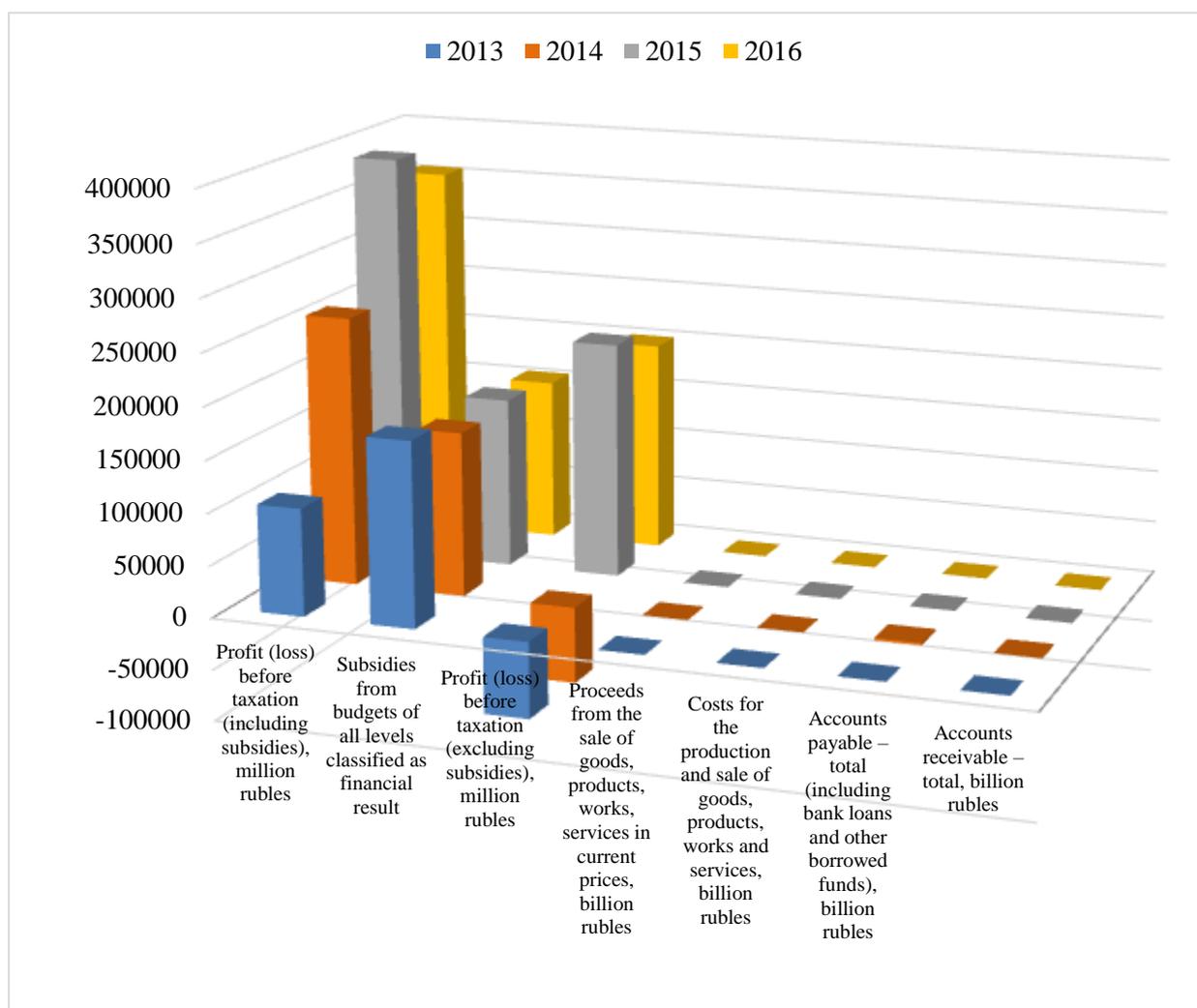


Figure 2 The main economic indicators of financial and economic activities of agricultural organizations

Despite the steady growth of the agricultural sector in recent years, Russia has a high potential for growth in the share of final products in comparison with the currently prevailing production of primary commodities. The following can serve as examples of promising directions: extensive processing of grains and pulses (including the production of lecithin, protein concentrates and amino acids); extensive processing of chicken eggs (including dry protein and yolk, as well as non-food products).

2. BACKGROUND AND METHODS

The theoretical and methodological basis for this study is grounded in the works which characterize ins and outs of transformation of Russia's agro-industrial sector (AIS) by reference to the degree to which the sector is in demand in the minds of theoreticians and practitioners [3, 4], and the role of economic and social development of the state linked to any component of credit institution [5].

The ability of credit institutions to respond to the dynamics of the external environment, to restructure priorities while allocating assets, and to emphasize certain credit services, as well as show their willingness in solving joint problems considering the interests of the "segments", increases the efficiency of all sectors in the market [6].

This reaction of financial markets is one of the reasons for reducing financing of the state program of agricultural development for 2018-2020 according to the Ministry of Agriculture of the Russian Federation, by 1.7 times from the planned 1.012 trillion rubles (the corresponding government decree was signed by the Prime Minister Dmitry Medvedev on March 31, 2018).

It should also be noted that investments in the shares of the Russian agricultural companies are considered as much riskier ones than the average market indicators, accordingly this method of financing is inefficient to consider a priority at the current stage.

3. RESULTS

In the current timeframe, it can be noted that the number of concessional loans is growing in the agricultural business sector, which is confirmed, primarily, by the farmers themselves, considering that obtaining borrowed funds at low-interest rates is an effective form of state support for the agricultural business. However, financial markets offer a wide arsenal of instruments, apart from bank loans, which allow providing financial resources to the AIS sector on mutually beneficial terms.

3.1. Leasing

Let us analyze leasing as a source of financing for the AIS enterprises and farmers. To date, leasing as a market phenomenon is a very popular financial instrument – this is due to the new market participants and the improved legislative base. Fortunately for the farmers, leasing did not bypass the agricultural sphere, moreover, it has become its integral part.

The post-crisis period marked the growth of the leasing market in Russia. Moreover, experts note that agricultural leasing is gaining in popularity. Thus, the review "The leasing market following the results of 2016: reactive recovery" prepared by the rating agency "Expert RA", writes about the growth in the share of agricultural machinery in the general structure of the leasing market up to 3% in 2016 [7].

When analyzing the situation in dynamics, it can be noted that after the 2014 crisis the sphere of leasing started to recover, and the process continues up to date. According to the commercial director of AGCO Finance, Evgeni Astashkin, "only in the first 5 months of 2017, farmers purchased about 100 pieces of our machinery through leasing arrangements."

President Vladimir Putin signed the law on leasing of the breeding stock of beef breeds' cattle, obtained and bred in Russia; the document was published on the official portal of the legal information.

The government of the Russian Federation believes that the possibility of leasing cattle allows expanding the base of farm animals' suppliers. Moreover, it has a beneficial effect on the development of beef cattle breeding in the country and will reduce the costs of agricultural enterprises for purchasing beef cattle by 18-20%.

Investment projects of small and medium businesses aimed at creating production facilities for processing of agricultural products will receive support in the form of preferential leasing for the equipment. According to statistics, the segment of small and medium businesses accounts for about 60% of the new business.

The main leasing advantages are the possibility of applying the accelerated depreciation factor and the minimum amount of investment at the initial stage. That is the reason why leasing deals will be of interest to suppliers and leasing companies, as well as their lessee clients: the number of offers to purchase the equipment with the possibility of subsidizing from the manufacturer is already increasing.

Another undeniable advantage is that, in contrast to the above-described instruments, leasing can be used by legal entities and individual entrepreneurs that meet a number of conditions. The major one is a guarantee of integrity, or more precisely, a financial opportunity to make payments on leasing. This possibility is reflected in the financial statement of a future lessee, which is included in a set of necessary documents provided to the lessor once the application is submitted.

The key factors for the approval of leasing are the financial status of the lessee, the ability to pay the advance amount, the duration of an organization, the availability of additional guarantees in the form of collateral, as well as the lack of litigation. Leading Russian leasing companies provide an opportunity to insure leased equipment "at one place".

When using leasing, buyers need to pay their attention to several factors that form the basis of a leasing transaction. They include the following factors:

- - The rate of rise in cost of leasing – the ratio of the amount of overpayment to the initial value of leased property – an overpayment for the use of machinery. The amount of the rate of rise varies depending on the chosen lessor and within the framework of special offers can start at 3%.
- - Advance payment – the payment paid by the lessee prior to the moment when he receives the leased item. As a rule, the amount of advance payment should not be less than 5-10%, and the upper value should not exceed half the value of the property.
- - Lease payments are the amount to be paid to a leasing company or a bank. It consists of the cost of purchased equipment plus the interest rates.

Many farmers will be interested in paying post factum, that is, after the equipment brings first benefits, i.e. there is an increasing need to consider the seasonality of payments, which becomes possible due to leasing.

Since the equipment, in fact, belongs to the lessor, the farmer will not have an opportunity to lease it (if necessary). The repair of equipment is made at the expense of the leasing company, which brings additional benefits during the validity period of the lease agreement. Moreover, farmers should consider an opportunity to redeem the leased equipment prematurely at a residual value.

Given this approach, leasing will become particularly attractive to the manufacturers: availability of spare parts, constant expansion of the product range and new technologies have

made the equipment of the Russian manufacturers more marketable compared to the foreign counterparts.

To date, the major Russian companies providing agricultural machinery for leasing are Sberbank Leasing, MKB-Leasing and Inter-leasing. All of them, as well as dozens of others, are presented in the ranking of the Russian leasing companies, compiled by the leading rating agency "Expert RA" [7].

According to statistics of the Ministry of Agriculture of the Russian Federation, over 60% of tractors, 45% of reaping threshers and 42% of fodder choppers are characterized by a high level of wear and tear in the Russian agricultural businesses. Equipment capability is the most important factor in the development of agricultural production. Worn out fixed assets cannot provide the necessary level of labor productivity and the quality of the production. It is important for a manufacturer to provide farmers with solutions that will positively affect the agricultural business efficiency. Therefore, leasing of a high-performance machinery is certainly one of them. Domestic manufacturers of agricultural machinery are ready to offer the necessary products, though serious investments are required to renew the servicing yard. Farmers do not have spare money, loans are still too expensive and unaffordable to everyone. The market requires an offer that addresses interests of a manufacturer and responds to its capabilities. Leasing can be considered one of the most effective instruments for this target market. This mechanism will also be of great interest to agricultural machinery manufacturers, which will allow turning leasing into a valuable alternative to traditional bank credit products. Leasing prospects in the agro-industrial sector are good, depending on the segment of the agro-machinery market, one can speak about at least 10-30% increase in total sales.

Expanding the choice of financial instruments for the acquisition of machinery makes it more accessible to a wider range of agricultural enterprises.

3.2. Factoring

According to the study conducted by the insurance company "Coface" in May-June 2017, 43% of the Russian agricultural exporters had repeatedly run into a situation when they could not receive money from their counterparties (including those with whom they have repeatedly worked) abroad. Undoubtedly this problem is particularly important for the representatives of large and medium business of the AIS. Nevertheless, small farmers also need to consider such risks, since they can become critical to them.

Over the past few years, export of the agricultural products from Russia is actively growing and diversifying. However, this is due to the countries with a low level of financial discipline. Germany and countries of the Northern Europe obtain the highest rating "A1" (very low risk) and the USA, France, Australia have "A2" (low risk). However, it is necessary to distinguish a list of countries with high risk, such as Libya, Syria, Yemen and Bangladesh, which become partners with the farmers of the Russian Federation.

To date, almost 83% of the Russian companies use prepayment system as a means of protecting business while exporting, 34% use bank letters of credit, 32% check counterparties via security service. In the western countries, these tools are far less popular. Such prepayment amount is absolutely inconsistent with developed countries. On the contrary, about 80-90% of shipments are followed by a deferred payment. However, in contrast to the European countries, modern financial protection tools – especially international factoring – are uncommon in Russia. Russia is classified as a country with high risk of nonpayment by its own companies ("C" level on a scale from "A1" to "E"). Although, in the nearest future the

rating of our country will raise to the "B" level (a significant risk of nonpayments). This is a positive moment for both the Russian economy and the neighboring countries.

To survive and try to succeed in difficult conditions, the enterprises of the AIS unite in corporations and participate in existing state support programs, but practically do not use other tools for business development, such as factoring.

The use of factoring would allow a company, first, to meet the requirements of the market and to keep its regular customers, and secondly, to find new customers, with which the company would start working immediately on provision of commercial credit. This result is an increase in profits. An AIS company can use factoring not only to finance accounts receivable. There is a special financial product in the market that is not familiar to farmers – "procuring factoring" - when a factor makes payment for the purchased goods on the date of shipment at the rate of 100% of the delivery amount. Any company in the AIS sector experiences the most acute need for working capital from the end of September to December. The manufacturer must purchase raw materials at the most favorable prices. This allows minimizing the "dependence" on the yield of the year since the manufacturer's working capital becomes sufficient for purchasing raw materials from a client.

Factoring can be used in the AIS to finance supplies to customers-retail network representatives. However, this proposal is more interesting to the large agricultural holdings. Accordingly, factoring is a tool that should be considered as a flexible source of financing for the company and a means of increasing sales, which becomes an additional source of increasing the company's competitiveness.

3.3. Improvement of the AIS Financing Mechanism

Let us consider one of the options to improve the current mechanism for financing activities of the AIS by using an algorithm for selecting sources of obtaining financial resources depending on the sectoral distribution of the client and his needs, with respect to the client's capabilities and the risks of his activities (see Table 1).

Table 1 Option to improve the current mechanism for financing activities of the AIS by the source of resources

Direction of the AIS representative's sector activity / Size of business	Large agricultural holdings	Medium-sized companies	A newly opened enterprise / emerged as a result of diversification of the company's activities (allocating a non-core asset)	Peasant (farm) enterprises	Population's households
Capital construction in the agro-industrial complex branches	PF, SP, Lfa, Lwc F, L	SP, Lfa, Lwc, F, L	PF, F, L	SP, Lfa, F, L	SP, L
Processing industry					
Expansion of the agricultural land in all types of farms					
Social and engineering development of the rural areas					
Investments in the fixed assets of the AIS (excluding forestry)					
Land reclamation	SP, PF	SP, F	PF, L	SP	
Crop production					
Agrochemical works and supply of mineral fertilizers	SP, PF, F,				
Works on acreages of					

agricultural crops in farms of all categories					
Import of the basic types of food products and agricultural raw materials to the Russian Federation					
Harvesting agricultural crops on farms of all categories	SP, PF, L	SP, L		SP	SP
Animal husbandry				SP, L	
Fodder procurement and consumption in agricultural organizations					
Production of the most important types of food and goods	SP, PF, L, F	SP, L, F	PF, L, F	SP, L	SP
Production of infant products					
Production of agricultural products and consumption of basic food products					
Conventions: SP – the opportunity of participating in the state program with obtaining a subsidy in accordance with the conditions of the current statutory acts Lwc – working capital loan Lfa – loan for replenishment of fixed assets L – leasing PF – project financing F – factoring					

Thus, it can be concluded that the size of the company directly affects the forecast dynamics of its development and permits to choose the source of financial resources, which will cover the marginal requirements for working capital or fixed capital and will allow the company to obtain the most positive financial result. Optimizing sources of debt can help in timely repayment of a debtor's obligations, using the received money to settle the accounts payable. Furthermore, it provides an opportunity to use the money resources withdrawn from the turnover, as well as to reduce interest, credit, currency and liquidity risks. In this case, such an algorithm for selecting sources of financing will also reduce the risk of working capital's erosion and at the same time the risk of cash deficiency.

4. DISCUSSION

The authors believe that the proposed scheme will also increase the financial stability of companies in the AIS, as well as reduce their costs.

Interpretation of the obtained indicators can serve as a basis for management and handling of an AIS company when making managerial decisions and can also be used as a basis for planning future financial operations focused on improving financial sustainability and companies' overall performance in this sector.

5. CONCLUSIONS

This article analyzes credit-related tools, except for traditional bank lending, which allows to financially support the development of the AIS of the Russian Federation. Moreover, the authors examine the mechanism of using various credit-related instruments for financing the Russian AIS, along with specific features of its tools and the ways of its improvement by using the algorithm of selecting sources of financing depending on the sectoral distribution of a client (a company and a farmer).

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