FINANCING SMALL FORMS OF MANAGEMENT IN THE AGRO-INDUSTRIAL SECTOR

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ABSTRACT

The article examines the mechanism of organizing credit and financial services for small forms of management in the agro-industrial complex of the Russian Federation at the expense of current state support program by means of concessional lending, as well as by means of developing a financing scheme through addressing microfinance organizations (credit cooperatives). The authors analyze the experience and results of the agricultural sector development during the last agricultural season. This resulted in the identification of the main problems, faced by the farmers. The paper also presents an algorithm for collecting documents for obtaining a concessional loan in the agro-industrial sector within the framework of the current state support program for the sector development. The authors analyze lending practices of credit cooperatives for small forms of management in the agro-industrial sector as a rapid funding instrument.

Keywords: Agro-Industrial Sector’s Market, Concessional Lending, Credit Cooperatives, Individual Entrepreneur, Peasant (Farm) Enterprise, Loan.

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1. INTRODUCTION

Current state of the agro-industrial sector’s market: achievements and challenges

A new agricultural season commenced on July 1 in Russia. The past 2017/2018 agricultural season was characterized by a record grain harvest of 135.4 million tons and exports at the level of 53 million tons. Nevertheless, such indicators were overshadowed by the fact that given the
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High gross harvest, the prices fell, and accordingly, the profitability of agricultural business decreased by 15-20% on average, while the cost of the means of production (seeds, spare parts, fuels and lubricants, and etc.) increased [1]. Furthermore, during the year, many market players spoke about the reducing amount of state support and the problems with obtaining concessional loans.

Companies and farmers growing potatoes faced unforeseen problems during the last season. That year, cheap potatoes from Egypt began to enter the market earlier than usual – in April, which led to the collapse of products' prices. The price of domestic potatoes, which permitted to earn money and cover the losses of domestic producer, amounted to 22 rubles per kilo in April, while the price of Egyptian potatoes in wholesale was 17-20 rubles per kilo.

Moreover, in 2017, there was almost no spring and summer, and due to severe climatic conditions, many companies of the agro-industrial complex could not harvest in time, about 20% of the crop remained in the field.

The previous agricultural year was mediocre for companies, engaged in crops, mainly due to the low prices for wheat, corn, sugar beet and soybean. The companies that operate geographically in the fields in the south of the Russian Federation were affected by a long dry period, which resulted in poor crop production.

All companies raise a concern about a significant increase in the cost of diesel fuel: from 28 rubles per liter to 44 rubles per liter, accompanied by the problems of its supply.

That season was successful for agricultural companies engaged in dairy farming and fodder production, despite the drop in market prices for milk, destabilizing the industry and adversely affecting the rural economy, since in general, they managed to keep the selling price within acceptable limits. Same companies also noted the problem of rising prices for diesel fuel, which dramatically affected the companies' cost structure during the harvesting and fodder conservation periods.

In the last season, the unforeseen instantaneous increase in freight rates seriously affected both the position market and the mood of the market participants in terms of uncertainty, which entailed massive speculation and price distortions. Therefore, only individual agricultural companies report the development of a new "southern" direction of business growth to fully support exporters by creating an integrated logistics chain for product delivery to the southern ports, including transportation, storage of agricultural products, transshipment and preparation of all the necessary shipping documents. This became possible due to the Charter's action in the sphere of agricultural products' turnover: many suppliers and producers wanted to act as independent exporters.

Nevertheless, these successes and the development of measures to mitigate the impact of negative factors are feasible only with further reforms in the agro-industrial sector (AIS), which is impossible without capital injections into the fixed and working capital of both peasant (farm) households and individual entrepreneurs.

2. METHODS

Many well-known scientists studied the problems of financing and development of the peasant (farm) enterprises' activities, such as V.I. Kuznetsov and A.I. Piskunov [2], R.S. Zhussupov [3], H. Bachev [4] et al.

This article presents a step-by-step formalization of competitive interaction between the forms of funding options for small forms of management in the AIS and credit organizations (commercial banks and microfinance organizations) in the form of a theoretical model that allows making optimal management decisions when choosing the form of financing under different conditions.
This article uses the case study analysis methodology. The examples of tools for financing and development activities of farmers of small forms of management in the AIS were selected as examples that helped to demonstrate the importance of additional financial assets available to small businesses in the AIS in modern Russia, which ultimately resulted in increased AIS competitiveness.

3. RESULTS

Achievements in the industry: concessional lending and state financial support

The Decree of the Government No. 1528 dated December 29, 2016, came into force at the beginning of 2017. According to this document, banks began to grant concessional loans to the Russian farmers at 5% per annum. The shortfall will be replenished to credit institutions by the state.

The list of 10 banks participating in the program for the current year was approved by the Bank of Russia in September: Sberbank, VTB, Rosselkhozbank, Gazprombank, Otkritie FC Bank, UniCredit Bank, Raiffeisenbank, Promsvyazbank, AlfaBank and Rosbank. At the initiative of the Association of peasant (farm) enterprises, paragraph 6 of this Decree provides for sending at least 20% of funds for crediting small forms of management.

The loans for seasonal work (purchase of fuels and lubricants, spare parts, veterinary drugs and young farm animals) and purchase of the agricultural equipment are of greatest demand by the farmers.

Small agricultural legal entities normally could not afford loans at 13-15%, thus the new subsidized form of lending allowed many farmers to purchase equipment and prepare for seasonal works.

The package of documents required to obtain a concessional loan includes the constituent documents, the financial unit, as well as references from servicing banks and the Federal Tax Service. Individual entrepreneurs need to submit a tax return, while organizations should file a statement of financial results. Depending on the credit project, information on income and expenses is submitted for a different period of time. For a short-term loan, most banks will require information for the last 5 quarterly reports. For an investment loan, the data for the last 3 years are required. The amount of a short-term credit (up to 1 year) for the development of crop and livestock production should not exceed 1 billion rubles. The amount of an investment loan (from 2 to 15 years) should not exceed 8 billion rubles. Moreover, it is possible to take out a loan for a deposit. The Ministry of Agriculture of the Russian Federation decides on time limits for bank's consideration of the full set of documents, which is about 2 weeks. Then the approved application is sent to the Ministry of Agriculture. After that, the loan is issued to the borrower. A concessional loan is given out "in pipeline mode". This means that the applications are considered in order of priority and the earlier it has been submitted, the earlier a farmer will receive his money.

The above-mentioned commercial banks examine a borrower's credit history. The most frequent reasons for refusal are delays in credit payment, the lack of actual activity or official revenue. Today the business entities, which operate in the format of a limited liability company, are more likely than others to experience difficulties in obtaining a loan. It should be noted that concessional lending extends only and exclusively to an individual entrepreneur and a peasant (farm) enterprise.

The authors propose the following algorithm for collecting documents to obtain a concessional loan for the agro-industrial complex. The list includes the constituent documents, the financial unit, along with references from servicing banks and the Federal Tax Service (see Figure 1).
However, with all the positive feedback from the AIS, 15,000 out of 3 million farmers have received money so far, which requires further work on simplifying the mechanism for issuing credits. Furthermore, some farmers cannot predict force majeure situations, when funds are required within the shortest period.

Credit cooperatives' loans for small forms of management in the AIS as a rapid funding instrument

In this connection, there is a need to organize microfinance institutions in the countryside that can meet the financial needs of the rural households [5]. The microfinance segment is presented by various organizational and legal forms of microfinance institutions defined by the Federal Law No. 151-FZ dated July 02, 2010 "On Microfinance and Microfinance Organizations" in the following form: credit consumer cooperatives of citizens; credit cooperatives and consumer societies; state (regional, municipal) funds supporting small business; agricultural credit consumer cooperatives; private funds; private microfinance institutions registered in the form of commercial organizations; nonbanking deposit and credit organizations [6].

Today the Russian Federation has established a conditional system of rural credit cooperatives. Those are divided into 3 groups. The first one, as a rule, works within one settlement. Several farms unite in a partnership to preserve their savings or take out a loan. Larger cooperatives already perform at the regional level. These are usually associations of several local partnerships. The last stage of development can be a cooperative, under the auspices of which the second group partnerships operate. They become an association or a
union already at the country level. According to the information of the Bank of Russia, as at April 25, 2018, 1163 agricultural credit consumer cooperatives are currently working in 85 regions of the country, including those under reorganization. By the end of 2016, the figure had been higher: according to the Federal Service of State Statistics, it amounted to 1,381.

As it was noted above, to obtain a concessional bank loan, an agricultural representative needs to collect a large set of documents, then wait until the application is approved and the money appears on the account. Yet there is no guarantee that a commercial bank will agree to cooperate. Interest rates in microfinance institutions – credit cooperatives – are usually higher than those in the banks, the difference is 5% and above. However, farmers are willing to take out a more expensive loan for several reasons. Apart from saving time and a low chance of refusal, cooperatives also understand the seasonal character of the agricultural business and the possibility of considering this factor without additional restrictions – thus, a flexible payment schedule is formed. Usually, if a farmer takes out a bank loan, he or she should return a fixed amount of money every month. It is difficult to negotiate another schedule with a bank, in contrast to a cooperative. The model of using a credit cooperatives' loan for small forms of management in the AIS as a fast instrument of financing is shown in Figure 2.

![Figure 2](image_url) The model of using a credit cooperatives' loan for small forms of management in the AIS (IE – individual enterprise, PFE - peasant (farm) enterprise)

It should be emphasized that farmers, in fact, receive their salary once a year, plant growers – in autumn, and cattle breeders – in winter. Only in these months, they earn revenue, which partially covers the loan. There are fewer financial resources available before the sale of harvest and production.

The traditional payment scheme of credit cooperatives for the AIS – throughout the year they only pay interest money, while after the harvest – the loan, either at once or in several tranches. This scheme is very convenient for farmers.

4. DISCUSSION

Equipment, fertilizers and seeds grow in price from year to year, and the cost of crops, milk, meat and other products, on the contrary, falls. Therefore, farmers are forced to take out loans and credits. But, in case of failure to enter into a system of concessional lending, they turn for additional financing not to commercial banks, but to the credit consumer cooperatives.
5. CONCLUSION
It should be noted that small forms of management in the AIS are ready to take out a more expensive loan or a credit, rather than work through the current system of state support and concessional lending for several reasons.

The first reason and the most important one is they want to save time. Application, processing of documents, approval of a credit cooperative and the transfer of money – the entire process does not last for 2 or 3 months, but for only a few days. This issue is relevant in the case when the effect of destabilizing factors is intensified, or the risk is maximal for this branch of industry.

The second aspect is that the number of refusals is several times less when applying for financing in credit cooperatives than when applying with the corresponding application to commercial banks.

The third aspect is that in addition to saving time and low probability of refusal, credit cooperatives have another advantage, that is a flexible payment schedule. Usually, if one takes out a loan in a commercial bank, the borrower should pay a fixed amount every month. It is difficult to agree with a commercial bank on a different schedule for small forms of management, as compared to a credit cooperative.

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REFERENCES


