

## Investment and innovative vector of agroleasing

*The article describes the capabilities of agroleasing as a form of state support for innovative development of baking and grain processing industry through fiscal subsidies for the purchase of new equipment. The benefits of leasing finance schemes of investing in innovative projects compared to commercial bank lending are shown by means of specific calculations.*

*Innovative development of agricultural production; agroleasing as a form of state support for innovation in agricultural sector.*



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Modern agriculture operates in the context of globalization, international labor division and the formation of new markets, which conditions the relevance of requirements to improve labor efficiency and products competitiveness. Russia's entry into the WTO dictates the enterprises the need to improve the competitiveness not only of products but also the conditions of production ensuring the output of quality and safe products satisfying and even anticipating consumer demands, which suggests the need for innovative development of agricultural production.

Now, because of widespread and prolonged pressure of food imports in an open economy the problem of competitiveness of domestic agricultural products in domestic market is the most acute (one can say, it is even critical). And one cannot just be limited by raising only agricultural production. It is required to structure the entire agri-food system in the form of a complex high-tech industry, focused on use of innovation.

Grain products are of course the first among them, which are the basis for food security and the basis for the functioning of enterprises for the production of flour, cereals, bread and bakery products, pasta, and feed for livestock and poultry.

In modern conditions of increased competition in the market of bread and bakery the producers have to pay special attention to the quality of products, updating and extending their range to a more healthy and functional foods, production of cereal bread varieties, products of a mixture of wheat and rye flour. Hence it appears the problem of modernization of material and technical basis and innovation which requires investment of innovative projects. However, the development of new, promising bread products for the Russian market is not only a creative and responsible process, but also a process having costs and risk of innovation.

Against the general background of investment process enhancing and recovery of the process of renovation of basic production assets in the economy, the renewal dynamics of basic production assets of grain processing and bakery enterprises, which runs in conjunction with investment in fixed capital and which is preferentially subjected to impacts and opportunities of the market mechanism of lending to corporate entities in grain processing and baking industries, agricultural producers, small businesses and individuals is behind on a great scale.

As we found in the cognitive analysis, the production potential of grain-processing enterprises and baking industries is the derivative of key characteristics of the basic production funds state, and equity value and volume of long-term lending to enterprises directly and mainly influence on the resulting factor, i.e. capital investment. However, enterprises' resort to their own source of funding is limited with the scantiness of profit (especially in small businesses), obtained as a result of economic activity. Thus, the profits from sales of products of the milling industry of the Vologda oblast in 2003 – 2005 was within 12.6 – 17.3 million rubles and the profitability was 1.7-2.7%, having reached in 2006, respectively, 26.2 million rubles and 3,1%. The profits from sales of bread and bakery products in the period from 2003 to 2006 ranged from 56 to 63 million rubles a year and the profitability from sales was 3.8-5.2%. The financial and credit crisis in 2008 further exacerbated the situation. The amount of profit given, of course, cannot provide the solution of complex problems of updating and modernization of basic production assets of the enterprises of grain processing and bakery, and depreciation charges are almost fully utilized to support the operational and technical serviceability level of the existing technology equipment.

Lack of investment causes at the minimum the low rate of renewal of fixed assets. There also remains very high obsolescence of baking equipment and most enterprises use outdated, energy-intensive, low-productive machines, producing the high cost of manual labor. The performance of individual measures of technical rearmament of production capacities of some enterprises of grain processing and bakery industries caused by problems of self-preservation and survival do not solve the problems of improvement of their competitiveness and innovative development. There appears the loss of competitiveness and markets and an urgent need for financing investments. Hence, the search and attraction of funds of third parties becomes natural. At the same time the level of creditworthiness of grain processing and bakery enterprises is estimated by experts of the Department of Finance and Credit of the

VSMA as unsatisfactory. Moreover, as practice shows, and our calculations confirm, the acquisition of production equipment through loans from commercial banks turns out for inadequate debt service costs, limited funds of material incentive of the personnel and material dependence. The existing forms of interaction between grain processing and bread production enterprises (Russian Grain Union, Russian Union of flour and cereal enterprises, Russian Bakers' Union) have not yet obtained an opportunity to form the consolidated finances to support innovative projects.

Rosselkhozbank, which is now being revived through the state's efforts, is more concerned about the crediting of costs of agricultural producers for crop and livestock than the financing of the development of the milling and baking industry. Only with the release of the RF Government Decree № 1001 of 29 December 2007 for grants from the federal budget for the reimbursement of the cost of paying interest on loans received by enterprises and food and processing industries organizations of agroindustrial complex in the Russian credit organizations for construction and reconstruction (upgrading), technical re-equipment of production, Rosselkhozbank has begun to accept applications for investment loans, but the lending process has not turned around in practice, and in many ways, is constrained by lack of clarity of the attached Order List of purchased machinery and equipment for the food industry. We should note that other commercial banks in the region did not give positive respond to the decree of the Russian government.

Under these circumstances, based on the high social significance of food production, and taking into account the active role of the state to limit price increases for bread and bakery products, it would be logical to expect a systematic budget subsidy of enterprises expenses on production of grain and grain products, bread and bakery products, primarily for innovative projects that ensure their competitiveness. However, in reality it does not happen; there were no subsidies from the regional budget to finance investments in fixed assets, for example, the milling companies in 2002 – 2007, as is evident from

the statistics. In general, for the development of regional production of food (including meat and dairy products, beverages and tobacco) in 2006 – 2007 there have been granted subsidies from the federal budget in the amount of 69.1 mill. rubles, including 1.5 mill. rubles to the baking industry.

Thus, it is objectively necessary to enhance state support and regulation of the region's grain processing and bakery industries development, the development of appropriate forms of organizational and economic mechanisms of sub-federal administrative actions. The need for a taking a complex of measures with the participation of regional authorities to update the fixed assets and maintain a high competitiveness of cereals, bread and bakery products producers is obvious.

In the current situation of chronic lack of financial resources for expanded reproduction in the grain processing and bakery industries the most rational solution of funding sources choice is leasing scheme of investment in fixed assets, supported by fiscal subsidies of priority areas for development. The essence of the leasing transaction is that an enterprise having selected the necessary equipment, signs a contract with a leasing company, which acquires this equipment and sends it to the company in operation under a financial lease (leasing). Upon the expiry of the contract the organization becomes the proprietor of the equipment.

The calculations show that it is economically profitable for the enterprise to acquire property under the leasing scheme. For example, when purchasing baking equipment worth 590 thousand rubles through leasing a company

during its operation will reasonably reduce the amount of tax payments to the budget by 26.3% compared with the option of buying by their own expense, and by 22.3% compared with the acquisition through a loan from the bank, it will not withdraw from circulation a considerable part of its own financial resources and will be able to repay the lease payments from the proceeds received from production with the new equipment. If a company takes loans from a commercial bank, it will have additional costs amounting to 21.1% of the cost of purchased equipment (*table*). We should also emphasize such an important fact that the amount of current lease payments made by lessees, are included in production costs.

In this regard, it is natural to accumulate positive experience in the use of leasing finance investment schemes. The most significant is the practice of leasing by agricultural producers. Here in terms of investment hunger leasing, supported by the state, marked the beginning of counteraction to a systemic crisis in the agricultural sector and subsequently stopped the disposal of fixed assets in agriculture, and then provided a steady dynamic of their updating and, ultimately helped to stabilize and revitalize agricultural production. Agroleasing also contributed to reducing the rate of decline in engineering companies output and increase in the volume of its sales to the basic consumer – agro-industrial complex.

In structure of assets leased to the Russian Federation, agricultural equipment accounts for 11.76% and only information systems (17.73), vehicles (16.0), petroleum and geo-

Financial and economic benefits of enterprise's using the leasing scheme of investment in fixed capital, rubles

Indicator	When purchasing equipment through:		
	own funds	loan sources	leasing schemes
The one-time diversion of funds from the circulation	590,000	4,020*	73,750
Deficiency of profit in connection with one-time diversion of funds from the company's circulation (with 15% profitability)	88,500	503	10,063
The amount of tax payments	491,100	465,457	361,736
Additional costs for the period of transaction	-	174,595	168,498
Payments from the net profit of the enterprise	-	63 729	-

\* At a rate of 200 rubles per copy of each document; 500 rubles – information about cash flows in the company's accounts; 3000 rubles – wages of workers and other travel expenses in connection with the preparation of documents for the loan agreement.

logical equipment (13.35) are ahead of it; food, commercial and refrigeration equipment account for 5.84% (seventh place).

As is evident from the balance sheet data of the Department of Agriculture of the Vologda oblast, at the beginning of 2008 large agricultural producers used under the current lease deals (contracts), supported by subsidies from the budget, fixed assets amounting to 56,582 rubles, including buildings and structures on the amount of 425 thousand rubles., machinery and equipment – 20,985 thousand rubles, vehicles – 18,880 rubles, working and productive livestock – 15,403 thousand rubles.

Organizations engaged in financial activities in the field of leasing in the Vologda oblast, consistently increase the amount of work performed. The total value of financial leasing contracts concluded in 2007, reached 1,238 million rubles where the purchase of vehicles accounted for 46.5%, machinery and equipment – 34.7%, building and engineering constructions – 18.8%. The largest share in the structure of the contract value of financial leasing of machinery, equipment, vehicles is now occupied by manufacturing industries (55.5%), construction (15.5%), wholesale and retail trade (13.4%). Costs of enterprises producing food for the purchase of fixed assets on lease in 2007 amounted to 16.1 mill. rub., including the purchase of vehicles – 10.7 mill. rub., machinery and equipment – 5.4 mill. rub.

As can be seen, the economic entities of the region are becoming increasingly aware of the effectiveness of the fixed assets acquisition through leasing in comparison with credit and feel the tax benefits associated with leasing. In addition, the accelerated transfer of the equipment cost at the cost of enterprises allows them to upgrade fixed assets and maintain competitiveness at a faster pace.

Based on the data of the conducted analysis and the positive experience of agroleasing in the region, this study proposes the introduction of organizational and structural model of machinery and equipment leasing, taking into account the specifics of grain processing and bakery industries. The model implies a clear distinction between the functions of the state on legal regulation of contractual obligations of leasing

transactions parties, repeating with each new lease agreement, and the functions, ensuring the development of leasing as an activity aimed at resolving the problems of modernization of grain processing and bakery enterprises through the introduction of the technical and the technological innovations (figure).

Organizational and structural model of machinery and equipment leasing for the region's grain-processing and baking industries enterprises

The model is not oriented to the introduction of direct intervention in the organization of a leasing transaction of government authorities of grain processing and bakery industries in the face of the department of agriculture, food resources, trade and services. The architecture of the model allows implementing state regulation as a scientifically based set of measures of targeted impact on leasing activity in order to enhance the competitiveness of grain processing and bakery enterprises and sustainable development of the regional economic system.

Accumulation of financial resources within a specially created regional leasing fund will make the economic basis of the modernization implementation of production capacities of grain processing and bakery enterprises in the prevailing conditions of limited investment in fixed assets. Regional leasing fund will naturally become the dominant financial link of leasing relations. It will take the role of the financial center, which will economically ensure the rapid investment and innovative response of grain processing and bakery enterprises to the changing market conditions.

In this respect, the designed draft Regulations on the Leasing Fund for the provision of grain-processing and bakery complex of the Vologda oblast with special equipment, approved by Decree of the Government of the Vologda oblast will act as the legal basis for operation of the regional leasing fund.

The format and direction of the regional leasing funds spending for provision of grain-processing and bakery complex of the Vologda oblast with special equipment are derived from the overall government support strategy and regulation of the region's economy development. The level of tax payments made by enter-

prises of grain-processing and baking of the Vologda oblast can be set as the minimum size of the annual budget subsidizing of leases.

The selection of specific projects for modernization of production capacities, innovation and scientific and technological developments on a lease is proposed to determine on a competitive basis, using where necessary, expert evaluation, conciliations, consultations, etc. It would be appropriate to use here the method of priorities establishing in reliance on the program of technical re-equipment of grain processing and bakery industries enterprises of the Vologda oblast for 2008 – 2020 which can be found in the department of agriculture, food resources, trade and services.

In order to form a rational policy of leasing development in grain processing and bakery industries, improve its efficiency and optimize the interests of leasing subjects, regulate the relationship of lessors and lessees the creation of the coordinating council of the Vologda oblast budget leasing fund is justified and a draft Regulation on it is developed.

For development of appropriate solutions it is also recognized important to form an information-analytical base in which the most important link will be leasing marketing and monitoring of leasing services, as well as the systematization of data on consumer characteristics of the production produced by machine building plants for grain processing and bakery industries, on the effectiveness of leasing transactions and the level of innovation leasing potential use.

It will be necessary to authorize a number of officials of the Department of Agriculture,

food resources, trade and services with appropriate powers to influence on behalf of the state on leasing activity in the grain processing and bakery industries. In particular, the spectrum of problems of leasing state regulation will need to perform the following functions:

- strategic planning leasing activity in the grain processing and baking industries;
- substantiation of the lessors and lessees;
- organization and managing the financing of leasing activity;
- making calculations on the needs for equipment, supplied on a leasing basis, the preparation and submission of materials to the contest of monitoring of the lessors' implementation of equipment delivery date under the lease contracts;
- planning, organizing and controlling the targeted use of leasing funds;
- developing recommendations for accounting and taxation, audit of rule-correctness of leasing operations reflection in the accounting;
- performing analysis of the effectiveness of leasing activity and predicting the prospects for leasing development in grain processing and bakery industries in the region.

The implementation of key provisions of production-economic justification for establishing a regional leasing fund for technical re-equipment of grain processing and bakery enterprises of the Vologda oblast will have a positive impact on their competitiveness and will help consolidate the positions of domestic enterprises in the market of cereals, bread and bakery products.

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