

## DEVELOPMENT OF METHODS OF FINANCIAL SUPPORT FOR INVESTMENTS

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### Abstract

*The growth of the investment activity in the Russian agro-industrial complex (AIC) is substantiated by the specificity of the agro-industrial production, the functioning of which is related to overcoming the following systemic problems: underdevelopment of infrastructure facilities, shortage of qualified production and management personnel, and a low level of developing scientifically grounded economic forms. The article introduces methods for supporting the AIC investment activity, including the economic methods that were recognized as the most preferable ones. The following instruments that have a direct financial influence in the taxation, credit-and-monetary, budgetary and external economic areas have been defined within economic methods: provision of tax credits for the placed investments (so-called tax credit); provision of tax incentives and special tax regimes for investors at AIC enterprises; accelerated depreciation of fixed capital; targeted lending of AIC enterprises for investment purposes; subsidies and subventions from local budgets for AIC enterprises; forming and funding of AIC investment projects from regional budgets; provision of budgetary guarantees to AIC private investors; attracting foreign investment in the region AIC; provision of privileges (taxation, lending) to AIC enterprises that participate in the foreign economic activity, etc. The sequence of organizing investment processes in AIC is shown. The normative and legal support for the AIC investment activity in the form of a three-level system of normative acts is given.*

**Key words:** investment, agro-industrial complex, supporting investment activity

### INTRODUCTION

Since the population of the Earth increases, the agrarian sector of the world economy needs constant inflows of investments. According to the Food and Agriculture Organization of the United Nations (FAO), as on 2050 an annual funding of \$209 billion will be required to provide inhabitants from 93 developing countries (including Russia) with food at the minimum level [12].

In 2017 in the Russian AIC sector a new mechanism of preferential lending was introduced. It freed agricultural producers from issuing numerous documents for

subsidies and long waiting for public funds. Now they have the right for the preferential bank lending with a maximum rate of 5%, and state subsidies are sent directly to banks [1]. According to Interfax, in 2017 the total approved lending amount was RUB 700 billion, including RUB 500 billion for investment lending, and RUB 200 billion — for short-term loans [8]. In 2016, the amount of investment loans was less than RUB 130 billion. Today, 100 authorized banks participate in the new lending program, but due to the competition, the interest rate often decreased down to 2-3%. Due to preferential loans in the amount of RUB 66 billion, it is

planned to build 90 dairy farms, which in the future will increase the milk production by 500 thousand tons. Preferential loans in the amount of RUB 118 billion will be spent for creating 50 greenhouse complexes, which will increase the collection of vegetables by 480 thousand tons. Another RUB 72 billion of credit funds will be spent to process AIC products, and RUB 115 billion – to purchase agricultural machinery. [8]

The volume of investment in fixed assets in AIC has increased by almost 4% to RUB 612 billion. At the same time, the share of investments supported by the state increased from 26% in 2016 up to 46% in 2017. In 2018, the volume of state support for AIC is planned to remain at the level of 2017 – RUB 242 billion, including RUB 85.5 billion to support investments [10].

It is necessary to note that in the context of the sanctions imposed upon Russia on the EU food market, Russia has got an opportunity to enter the market of high quality food (dairy, fish and grain products) in the countries of Southeast Asia: China, Japan and South Korea. In general, in the context of the 17% decrease in total export in Russia in 2016, the export of agricultural products increased by 5.2% and was equal to the export of weapons. However, the volumes of foreign investments in the Russian AIC are still insufficient. According to the data of the Central Bank of Russia, they made up USD 830 million as on July 2016 [2, 3, 6]. However, the targeted foreign investment orders from countries of Southeast Asia, the Middle East and China for large quantities of food that are similar to foreign purchases of Russian weapons, energy resources, equipment for nuclear power plants could considerably contribute to the innovative development of the AIC companies.

For example, according to IPT Group experts, Chinese investments abroad exceed USD 116 billion per year, which is the third largest amount in the world after the U.S. (USD 337 billion) and Hong Kong (USD 150 billion). It is expected that after 2020 the volume of Chinese foreign investment will have exceeded USD 500 billion. However, the state task of increasing the Chinese investments in

the Russian economy up to USD 12 billion by 2020 happened to be rather difficult to achieve. In 2014, the Chinese direct investments in Russia amounted to only USD 7 billion. In 2015, there was a sharp reduction of the Chinese investments: in the first half of the year, the decline was one fifth of the total amount. According to Chinese investors, the main reasons that complicate investments in the Russian economy, including in the agro-industrial sector, include the following: instability in macroeconomics (57%); problems with the legislation (43%); corruption (14%); sanctions war and problems of Russia with the U.S. and the EU (14%); complicated procedures related to registering property rights and trademarks (14%); and reduction of consumer purchasing power in the Russian Federation (29%) [9].

Due to the above, the objectives of financial support for the AIC investment activity are the following: to create many financial conditions and opportunities for the sustainable development of the agricultural complex; to timely provide financial resources to the industry enterprises that produce competitive products that can be sold to return the made investments.

In case of the smooth-running investment process, the deficit of public funds in AIC should be compensated by private financing, and the state plays a special role in attracting private investors.

The purpose of the study is to analyze methods of efficient financial support for the AIC investment activity.

The study hypothesis: the authors assume that the efficient financial support for the AIC investment activity is achieved by developing and implementing regulatory and legal, organizational, and resourceful support for investment processes by using administrative, economic, and institutional methods of supporting the investment activity.

## **MATERIALS AND METHODS**

To achieve the set goal and confirm the hypothesis, an expert survey with 50 respondents was carried out.

Samples are characterized by:

- Specialization of experts: managerial (general director of the company), 10%, financial (preparing financial statements, financial control, taxation, etc.), 90%,
- Type of company: processing and marketing 20%, agricultural production 78%, consulting 2%,
- Number of the company employees (persons): up to 500 – 34%, from 500 to 2,500 – 40%, more than 2,500 – 26%,
- Period of the company’s strategy
- Form of the company ownership: 1-2 years – 22%, 3-5 years – 44%, 6-10 years – 34%.

The experts were asked a number of questions suggesting the possibility of choosing several statements related to:

- Identifying and studying trends on the agricultural products’ market in general,
- Existing AIC problems and preferred strategies of AIC enterprises.

In the context of the goal set in the study, the following issues were considered:

- Groups of methods for supporting the investment activity in AIC,
- General characteristics of the methods indicated in the survey, and
- Certain methods and instruments for supporting the investment activity in AIC in relation to a particular group of methods.

Data were collected through an online survey and personal interviews. When analyzing the data, the following was made: identification and research of trends on the market in general and investment activity in AIC, in particular, and data analysis (analytical study of the survey results to integrate the obtained conclusions).

## RESULTS AND DISCUSSIONS

Business representatives gave a positive expert assessment of the industry and their own companies: 78% of experts said about positive or more likely positive state of affairs, almost 90% of respondents assessed the situation in their company positively or rather positively.

AIC experts assessed the Russian AIC perspectives as follows: 40% of experts did not expect any considerable changes in the AIC development, while 14% of them

believed that the situation might change for the worse.

According to the experts, 85% of AIC companies’ profits for three years are generated by state subsidies that are still one of the main factors of investing in AIC.

At the same time, 44% of companies intend to increase the volume of external, nonsubsidized financing in the near future (by borrowed funds or by a capital increase). The most demanded sources of financing for AIC are still loans from a Russian bank (62% of respondents) and the use of domestic sources of financing (54% of respondents).

Based on expert answers, the 2017 Top 10 problems of the Russian AIC were compiled (Table 1).

Table 1. Top 10 Problems of the Russian AIC in 2017

No.	AIC problem	% of references
1	Lack of state support and financing	44%
2	Insufficiently qualified staff	36%
3	Imperfection of the industry regulation by the state	30%
4	High cost of energy resources	22%
5	Low payment capacity of the population	20%
6	Nonflexibility of the tax system in relation to AIC	18%
7	Weak introduction of high technologies	10%
8	Risk of changes in stock prices for agricultural products	10%
9	Lack of capacities and production potential	8%
10	Low attractiveness of the Russian AIC for foreign investments	8%

Source: Compiled by the authors

According to Top 10 AIC Problems in Russia, most of them are directly or indirectly related to insufficient financial support for investments in AIC.

Based on the experts’ answers, the Top 10 Strategies of Russian AIC Enterprises in 2017 had also been compiled (Table 2).

Table 2. Top 10 Strategies of Russian AIC Enterprises in 2017

No.	Strategy	% of references
1	Costs reduction	84%
2	Increase in overall production	70%
3	Entering new markets	66%
4	Increase in production and technical potential (introduction of new capacities)	62%
5	Business development through natural growth	60%
6	Investing in the personnel’s development	58%
7	Investing in advanced technologies	48%
8	Attraction of external sources of financing	30%
9	Entering markets of new products or services	4%
10	Changing purchasing strategy	4%

Source: Compiled by the authors

According to the Top 10 Strategies of Russian AIC Enterprises, most of them are also related to the need in financial support for investments. Due to the importance of financial support for investments in AIC enterprises, the experts were asked about the characteristics and importance of methods for supporting the investment activity. The results of the survey are shown in Table 3.

Table 3. Methods of Supporting AIC Investment Activity

Group of methods	General characteristics	% of references
Administrative	They are based on the authority and strength of the state that creates and regulates legal conditions for regional industry investors. They formalize the nature of interrelations between investors and entities for investments, which allows directly resolving the most acute investment contradictions on a purposeful and operational basis.	44%
Economic	They take into account various interests and motives of various subjects of regional investment markets and create terms and conditions that contribute to the formation of their economic interest.	88%
Institutional	They are involved in establishing a system of institutions that are necessary for the activity of the entities involved in regional investment processes to achieve their goals and objectives within the regional investment strategy.	36%

Source: Compiled by the authors

According to the survey results, the experts define economic methods as the most important ones when supporting the AIC investment activity. Therefore, the experts were asked about the most preferred economic instruments for supporting investment activity in AIC. The results of the survey are shown in Table 4.

The growth of the investment activity in the Russian AIC, as stated earlier, has gradually increased over the recent years. Due to this, new areas of the regional AIC activity and new investment projects implemented by them need to develop optimal financing schemes based on external sources.

According to the experts, in the AIC investment activity its regulatory and legal support on the regional level is of great importance, because regional legislation, as

the majority of experts believe, determines legal, economic and social opportunities for implementing investment activities, the procedure of providing investors with state support and equity guarantees within the region, the forms and methods of financing priority sector investment projects and programs, the procedure of providing preferential loans for investment and tax benefits.

Table 4. Economic Instruments for Investment Activities in the AIC

Instruments	General characteristics	% of references
Taxation	Providing tax abatements for the placed investments (so called tax credit)	72%
	Providing tax incentives and special tax regimes for investors in AIC enterprises (investment tax holidays for income tax and regional taxes for several years)	62%
	Accelerated depreciation of fixed capital	58%
Credit-and-monetary	Targeted lending to AIC enterprises for investment purposes	64%
Budgetary	State guarantees for repayment of the borrowed funds allocated for the investment tasks of AIC enterprises	66%
	Subsidies and subventions to AIC enterprises from local budgets	26%
	Formation and financing of investment projects at AIC enterprises by using fund from regional budgets	24%
	Selection and financing of investment projects of AIC enterprises on a competitive basis	44%
	Control over the effective use of budget funds aimed at financing investment projects of AIC enterprises	42%
	Providing private investors of AIC enterprises with budget guarantees	20%
External economic	Attraction of foreign investments in the AIC of the region	32%
	Providing privileges (tax, credit) for AIC enterprises that participate in the foreign economic activity	16%

Source: Compiled by the authors

According to the experts, in order to ensure the maximum efficiency of the agrarian investment policy, it is necessary to develop it together with the nationwide investment strategy based on the maximum consideration of the world experience. Due to this, the agricultural investing experience of foreign countries causes interest.

It is necessary to note that Germany, Great Britain, France and Italy are the developed European countries that pursue efficient

investment policies. In addition to the national policy, they actively develop investment incentives within the EU's general agricultural policy (Table 5).

Table 5. Instruments of Investment Incentives in the EU Common Agricultural Policy

Instruments to stimulate investments in AIC	Countries			
	Germany	Great Britain	France	Italy
Accelerated depreciation of fixed assets	+	+	+	+
Preferential loans for AIC	+	+	+	+
Subsidizing AIC	+	+	+	+
Tax privileges				+
Special system of agricultural lending	+			

Source: Compiled by the authors

The German investment policy is characterized by a high level of openness and liberalization. In terms of investments in material and technical assets, the German experience is very valuable. Thus, after uniting the country, the government took measures to create favorable conditions for capital inflows to the East Germany. During this period, the state provided additional opportunities to debit or increase depreciation charges on fixed assets if these funds were invested in acquiring or producing new fixed assets. The 12% compensation rates for acquiring agricultural machinery and renewing production were applied, and the compensation for the expenses for creating production capacities and restructuring production were up to 23% of such expenses. Foreign investors were treated as domestic ones by their status and rights.

Nowadays in Germany, it is an important factor of developing the agricultural investment policy to create a special system of financial and credit relations that would not only accumulate and provide production processes with the necessary resources but will also stimulate the material and technical renewal of the industry.

In Germany, there is a whole system of agricultural lending that consists of the Raiffeisen banks group, the Union of German People's Banks that unite about 1,470 associations of farmers and rural entrepreneurs of the territories, the Agricultural Rent Bank, the German and Settlement Land Bank, the Credit Institute,

and a system of saving associations that are controlled by the state. German farmers are provided with preferential loans either according to the General Program of Agricultural Loans that offers a 4–7% rates reduction for the existing loans, or according to the Investment Incentive Program that provides loans at 1% per annum. In addition, in the country there are special programs like "Young Farmers", "Agriculture" and "Village Renovation" that offer preferential terms and conditions for agricultural lending [7].

Organic farming became an important direction in German investing. It is stimulated due to direct payments that make up 200 Euro/ha per year. Direct payments are a common instrument in the EU to stimulate the development of agriculture and provide farmers with fixed payments as calculated per 1 hectare of agricultural land. They are often temporary and aim at assisting farmers in the redevelopment of their production activity [4]. In the United Kingdom there is also a favorable investment climate. Here foreign investors are not required to obtain any permits to carry out their activity on the territory of the state. In the UK, there is no specialized agrarian bank, and the policy of the banking system in relation to agriculture does not differ from other branches of the economy. However, banks are involved in various government subsidies, and this often makes a loan preferential. Investments in the agrarian sector are carried out mainly by the method of permanent lending. According to it, the loan amount, interest rate and type of debt are reviewed between the creditor and the borrower on an annual basis and are determined by the economic state of the company [5].

To speed up the modernization of agriculture and to ensure the competitive production, France provides special preferential terms and conditions of lending. In particular, depending on the terms and conditions of agricultural production, the interest rate of preferential loans varies from 3.1 to 8.9%. Privileged borrowers (cooperatives on machinery use) use a preferential loan with an interest rate from 4.1 to 4.35%. In addition, the country has an efficient system of attracting its own

and foreign capital. The government provides investors with subsidies at a rate of 25% of the cost of all capital investments made in land and equipment that are bought during the first three years of the project implementation. A system of long-term preferential loans is also widely used. The mechanism of preferential loans for the agricultural sector functions according to the bonification principle that is implemented in the form of the state compensation of the difference between the preferential interest rate of the loan and the contractual interest rate [3].

The legislation of Italy is rather protectionist in relation to investors. The main means of stimulation are subsidies, tax and credit benefits. In particular, the companies established for agricultural activity in the south are exempted from the income tax and a local tax equivalent for 10 years. The profit from foreign investments that was reinvested in the south of the country is also exempted from a number of other local taxes. Investors who buy land in this region to construct industrial agricultural facilities are exempted from registration, mortgage and land taxes [11].

It is necessary to note that the amortization policy is greatly important when managing the investment process. It is of great priority in stimulating investments in such countries as France, Germany and the United Kingdom. In addition to the traditional uniform debiting of depreciation charges, the amortization legislation of these countries includes the use of accelerated depreciation rates. The purpose of this method is to stimulate intensive renovation of the production means and to overcome the moral wear and tear of technical means.

The use of accelerated depreciation rates is also applied in the USA, Japan, Italy and other countries. In Germany, it is permitted to write off 40% of the expenses related to acquiring new equipment during the first year of operation.

Thus, summarizing this information, it is possible to state that in the AIC of the developed countries, investment processes are primarily determined by the market situation, peculiarities of the agrarian area in relation to

the size and sources of financing the investments that are made mainly by private capital (domestic and foreign), direct budgetary financing, indirect budgetary subsidies for private investments (through tax incentives and investment loans), and investments from public and charitable foundations. At the same time, various methods of state stimulation of investment processes are used — tax, depreciation, credit, etc. Tax holidays, tax investment deductions and investment tax credits are widely used to stimulate productive investments, taking into account the economic situation and the need in the development of various industries.

Based on these facts and the foreign experience, the authors believe that the following measures should be the efficient instruments for stimulating the AIC investment activity:

(i) According to the example of Great Britain, investments in R&D and construction of industrial facilities should either not be taxed (subject to their strategic importance) or be subject to a tax credit. Tax credits for the use of equipment should be differentiated according to its age: new equipment should not be taxed; equipment with a service life of 1 year should be subject to a 50% tax credit, that of 2 years – 25%, etc.

(ii) Based on the example of Italy, the funds of foreign investors reinvested in the agriculture of depressed regions should be completely exempted from taxation.

(iii) Based on the international experience with the market economy, in order to accelerate the innovative renovation of the material and technical state of agriculture, fixed assets should be subject to the norms of accelerated depreciation.

## CONCLUSIONS

The financial support for the AIC investment activity is closely related to other types of support: administrative, economic, institutional, etc. That is why it is necessary to consider it taking into account interrelations of the investment processes in the industry. It allows to make the conclusion that efficient financial support for the AIC investment

activity is achieved by forming and implementing regulatory and legal, organizational, and resource support for investment processes by using administrative, economic, and institutional methods of supporting the investment activity.

Having considered the experience of foreign countries in the area of agricultural investment, it is necessary to note that approaches to attracting investments in the industry vary greatly and depend on the goals of the country. Thus, some countries determined the attraction of foreign capital to the agrarian sector as an unconditional priority and, based on this, they created conditions for foreign investors that sometimes were even better than those for domestic entrepreneurs. In addition, successful use of tax incentives, the policy of credit reimbursement, contribution to investing in scientific and technical progress, and depreciation policy can become efficient factors in financial insurance of investments in AIC.

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