

## ON THE ISSUE OF EFFECTIVE ECONOMIC POLICY IN REGION UNDER LEASING

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### **Abstract**

In the case of Mari El Republic the issues of creating an effective leasing policy in the region are revealed. The economic indicators are identified and can indirectly determine the effectiveness of leasing and its impact on regional economic development. Under certain indicators in financial statements of AO "Rosagroleasing" lessees it was conducted an analysis of companies, successfully acquiring property in leasing and the enterprises without effective dispose of leasing property. For the identification of shortcomings, it was proposed to conduct a series of the activities that could improve leasing business in region and the influence on growth of the economic potential in Mari El Republic.

**Keywords:** Leasing, investment, regional development, investment policy and leasing in the agriculture

**JEL classification:** R11, O1, O2, H83

### **1. Introduction**

The relevance of the study is due to problems of theory and practice of the implementation in regional effective leasing policy. The purpose of the work is disclosure of the issues in creation of effective economic policy under leasing in the case of Mari El Republic. This aim is achieved by solving the following tasks:

- to identify the economic indicators, indirectly allowing determination of the effectiveness in leasing and its impact on regional economic development;
- to analyze companies, successfully acquiring property in leasing and the enterprises without effective dispose of leasing property, on certain indicators in financial statements of AO "Rosagroleasing" lessees;
- to propose to conduct a series of the activities that could improve leasing business in region and the influence on growth of the economic potential in Mari El Republic in order to identify shortcomings.

The problems of regional leasing were considered in the works of such authors as V.D. Gazman (2016), I.A. Rybina (2009), E.A.Fedulova (2018), A.V. Tepkina (2017) Yalyalieva, T.V., Napolskikh, D.L.(2017). However, leasing issues at the regional level were derived from insufficient development and required further analysis and theory generalization and practice in regions, raised questions of problems' identification, requiring decisions by development of scientific support for leasing and their interpretation in specific businesses of lessors and lessees.

Effective management of the economy in terms of regional development means to create the essential conditions for development in real sector of the economy, to find such means that contributed to the increase in profits as each individual enterprise and for the whole region. Such aimed means for developing investment activity includes leasing, including the Republic of Mari El.

The efficiency improving of leasing market in Mari El Republic will ensure growth of some economic indicators:

1. The gross regional product growth is result of renewal in fixed assets for huge number of enterprises. The quality of these funds leads to an increase in volume and range of manufactured products.

2. New equipment, obtained under a leasing agreement, provides the employment growth by creation of new jobs as well as wage growth. It reduces social tensions in the region.

3. The increase in investment and business activity for region is due to growth of leasing activity as well as the creation of favorable conditions for the investment in the Republic of Mari El.

4. The increase in production volume for Mari El Republic will also be result of leasing as financial mechanism.

5. The activation of processes in introducing innovations of leasing sector results to competitiveness increasing of small and medium-sized businesses.

6. Stabilization of the agro-industrial orientation of Mari El Republic by the use of leasing schemes for sale of the agricultural products.

7. Growth of small business is due to growth of the opportunities to update its material and technical base and the infrastructure in view of support for small business as one of prior directions in state and regional policy in the Republic of Mari El.

8. During the import substitution policy, leasing is a tool for state regulation of its implementation, as evidenced by rules on enterprises' investment in fixed assets, namely, the issues of leasing are reflected in "plan for the import substitution in Mari El Republic for 2016-2020.

The same document regulates the application of such macro-and micro-tools in regional policy as general economic regulators and regulators of targeted influence. Moreover, the accents are placed on micro-tools in region, in connection with the value of their application in context of the individual impact on regional subjects in the areas of policy effect on labor and capital. There are quite a lot of being done to create necessary conditions for growth in the investment activity (specific actions are discussed below) in Mari El Republic. It was greatly influenced by policy on the investment support of the Ministry of Economic Development in the Republic of Mari El.

## **2. Data and method**

According to V.D. Gazman (2016), the investment strategy of region can be defined as "a system of multi-year purposes, priorities, benchmarks and limits (imperatives) of the investment activity that define trajectory of development of the economic system". As a part of practical approach, regional investment development strategy looks like a set of the interrelated elements according to a number of criteria: tasks, implementation timeframes, resources used.

The basic objectives of the investment policy in the republic are:

- creation of conditions for the attracting internal and external investments and resources;
- search and expansion of new investment sources and the efficiency growth;
- the involvement of public-private partnership for formation of regional infrastructure.

The mechanisms in the investment policy realization are state programs, private-public partnership tools, the investment programs of state monopoly companies; the system of interaction with investors; system of measures in state support for the investors; the investment projects of organizations in the Republic of Mari El.

Thus, it is necessary to match the leasing within control and regulatory sphere with the directions of general investment policy of the Russian Federation subject.

The leasing can become more than just an object for regulation by part of the state and in its potential acts as managing and controlling tool for regional economic processes (Rybina, 2009).

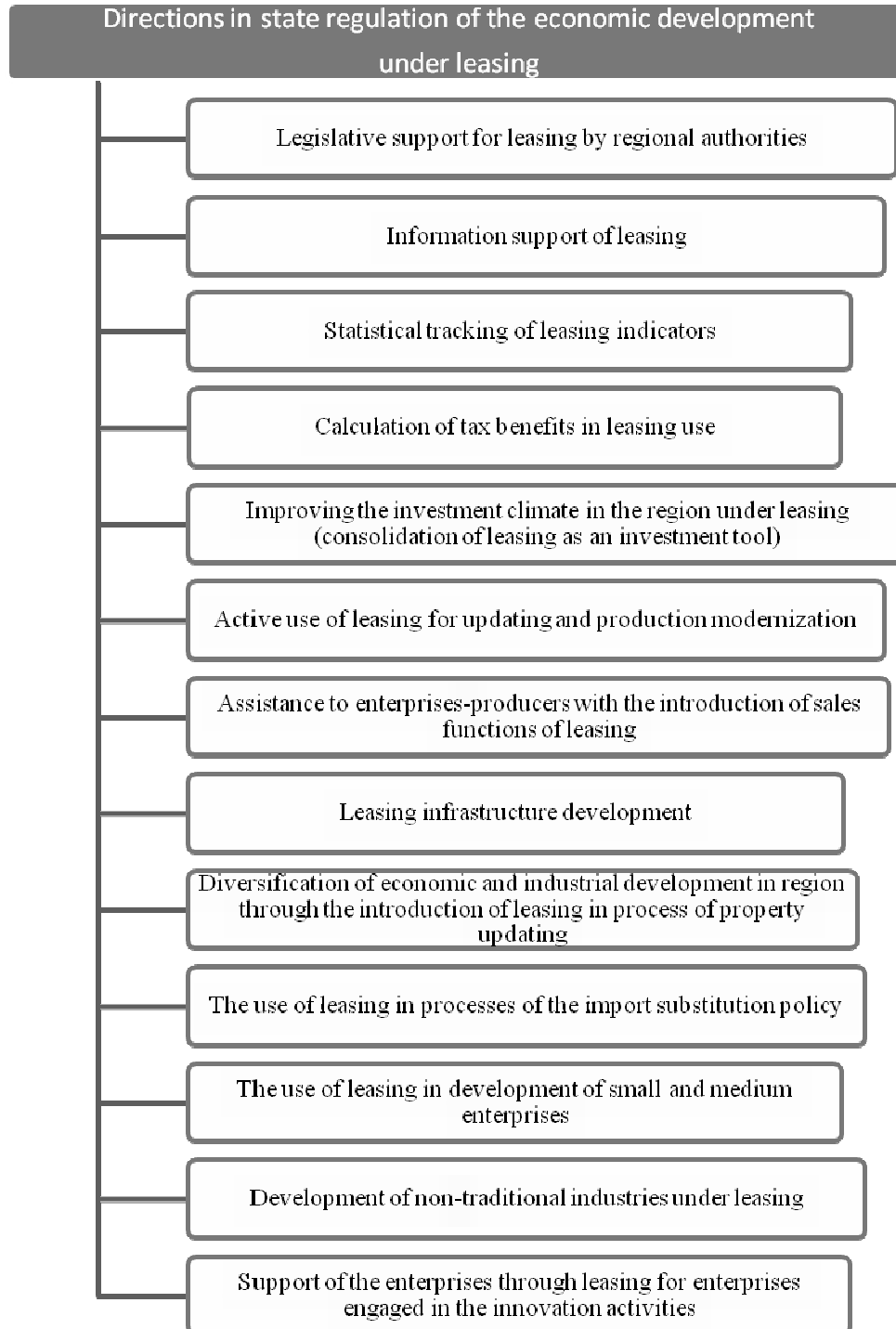
Figure 1 shows priority vectors of development and support for the implementation of leasing projects, taking into account specificity of regions.

Therefore, the leasing in regional economic structure is a tool of the improvement the investment climate efficiency and productive potential in region. It is also diversifying industry factor of regional economy and means of financial infrastructure enhancing. The leasing is a way of the economic differentiation reducing in regional economy. The development of leasing is due to the establishment of condition for its effective use in the Republic of Mari El.

There is an assumption on more intensive process of the leasing transactions implementation in region as a result of the active state-business cooperation in the leasing

sector. In addition, development of leasing will be contributed by well-considered investment regulation in the Republic of Mari El; consulting support for the entrepreneurs. Thus, only with such interaction between two levels of management subjects in leasing processes will provide effective management of regional leasing services market (Fig. 2).

**Fig.1 - Directions in state regulation of the economic development under leasing**



**Fig.2 - Effective model for development of leasing market in the Republic of Mari El**

In this regard, it is proposed to monitor the effectiveness in the investment component of leasing for development of the Republic of Mari El.

Special place among the agricultural enterprises in region is the agro-industrial leasing company AO "Rosagroleasing" ([www.rosagroleasing.ru](http://www.rosagroleasing.ru)). According to the results of study, conducted by the Higher School of Economics, at the end of 2016, AO "Rosagroleasing"

ranks the first place in leasing segment of the agricultural machinery and the equipment and the second place in terms of the interaction with small business.

The leasing of the agricultural machinery demonstrates increased dynamics on regional financial domestic markets with the active participation of state. The leasing gives you the opportunity to maintain and update the agricultural machinery park on special terms that can be evidenced by the statistics - every year the harvest is done with the participation of 20% leased equipment.

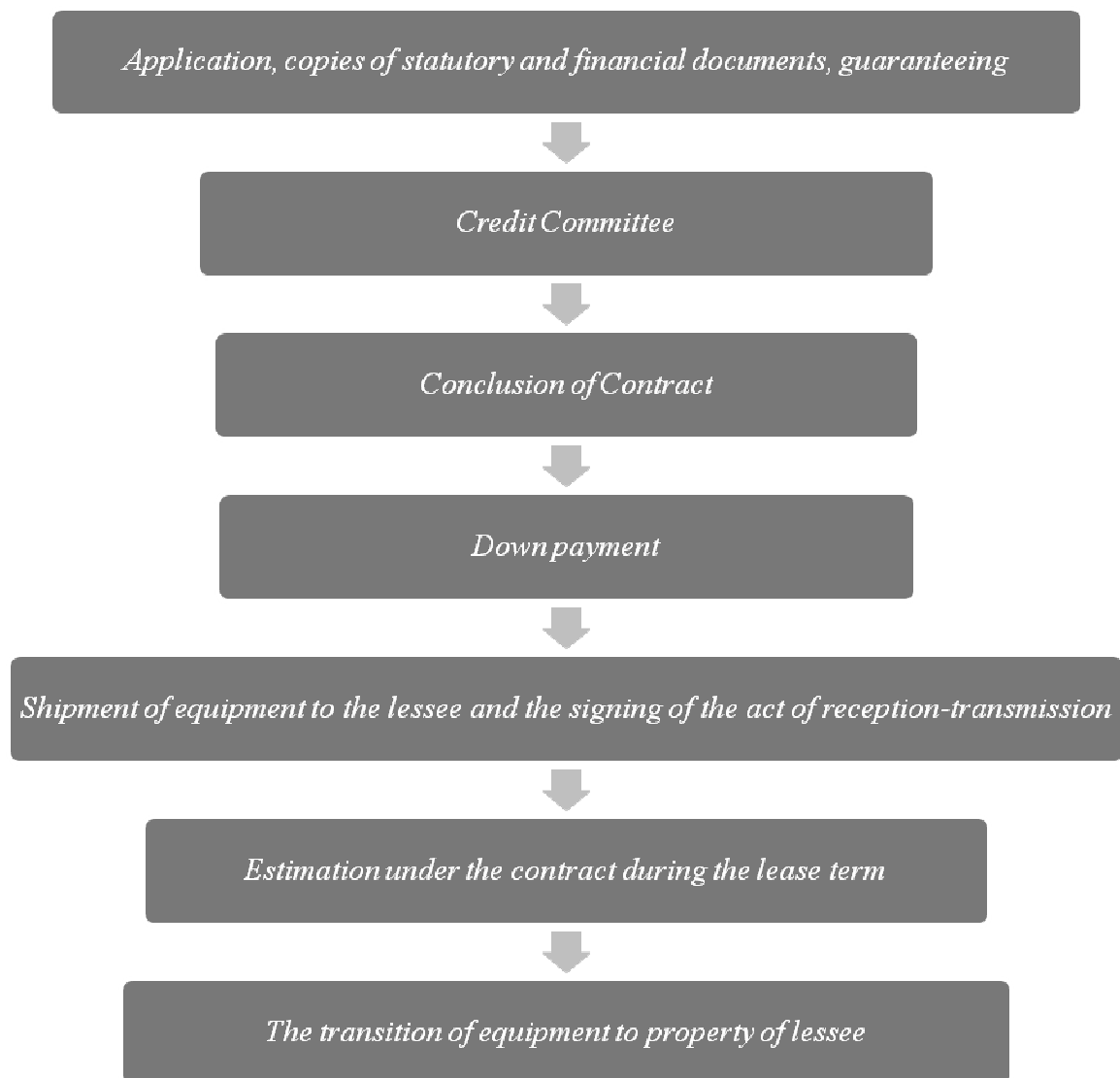
The largest number of lessee's companies operates in cooperation with the agricultural company as AO "Rosagroleasing" in the Mari El Republic. The company provides the opportunity to purchase equipment for farms, pig-breeding complexes, bloodstock (cattle, small cattle). According to data, received from AO "Rosagroleasing" company up to July 1, 2017, 129 contracts were concluded in the Republic of Mari El for which fixed assets of a total value of 693,098,619 rubles are acquired.

The activity of AO "Rosagroleasing" company is aimed for the achievement of target indicators in "State Program for Development of Agriculture and Market Regulation of Agricultural Products, Raw Materials and Food Markets for 2013-2020 and Food Security Doctrines of the Russian Federation".

The framework of the enterprise looks so as it is presented in Figure 3. The company AO "Rosagroleasing" has certain budget, allocated by the state for the agriculture's financing. Further, producer of the agricultural products submits an application to AO "Rosagroleasing" company for the necessary agricultural machinery or equipment; request is analyzed by the Credit Committee and it passes the approval or rejection. In case of positive decision, the equipment is supplied by manufacturer.

Thus, the landowner gets the opportunity to purchase equipment at a cost significantly lower than market price with comfortable terms - 3.5% rise in price per year, the lease term is up to 10 years and it is offered preferential insurance.

For manufacturer of the agricultural machinery, leasing transaction provides an opportunity of growth in production volume under sales demand in the agricultural sector machinery and equipment. It leads to growth in turnover, social effect in the impact of new jobs, the establishment of condition for further production development of the industry.

**Fig.3 - Scheme for the acquisition of property from AO "Rosagroleasing"**

There are many methods for determining the effectiveness of leasing. Typically, this analysis is based on comparison of leasing with alternative financing options or using methods, founded on discounted estimates. However, it is almost impossible and difficult task for the assessing of the leasing effectiveness in the region since information on leasing operations is either not collected at all or if this information is collected with very limited access. The relevant estimations are made by the executors of programs at the federal level. Nevertheless, such information is often confidential.

For instance, it is necessary to assess the impact of leasing on the basis in production expansion specifically for leasing government programs. In this case, the only thing that can be done is to make an approximate estimation of the state support. For example, preferential car leasing program is designed for 60,000 cars per year, when number of domestic produced cars is about 1.1 million in 2016. Thus, the share of leasing in total production of passenger cars will be  $60,000 / 1,100,000 = 5.4\%$ . That is, every twentieth domestic car is sold under the program of preferential car leasing.

### **3. Analysis and results**

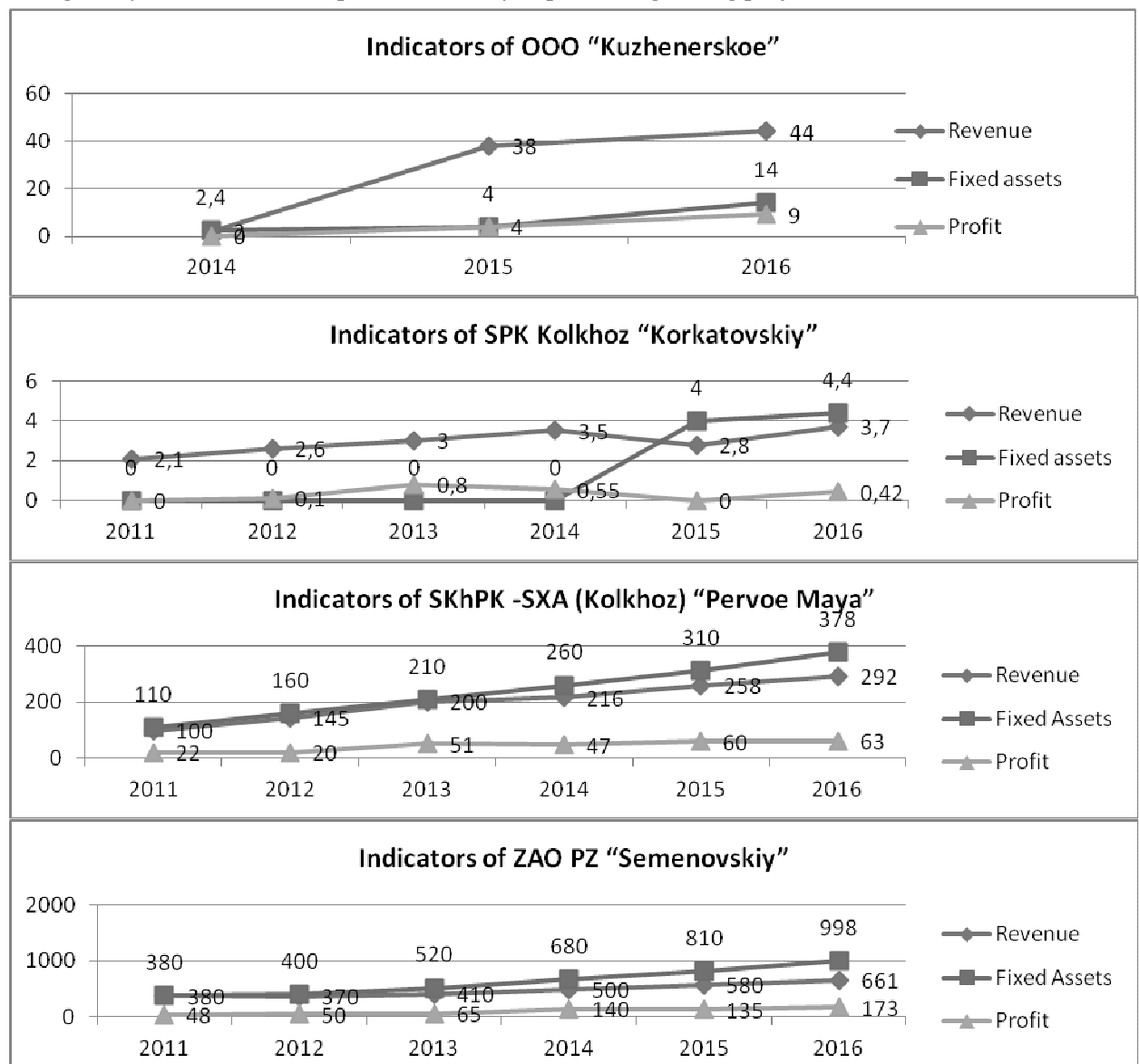
From 2002 to 2012, in the Republic of Mari El the leasing was more important according to the program of providing agricultural producers with the engineering products based on financial rent (leasing) at the expense of republican budget. Today, purchase of the agricultural machinery in leasing is possible only in the context of federal state programs in

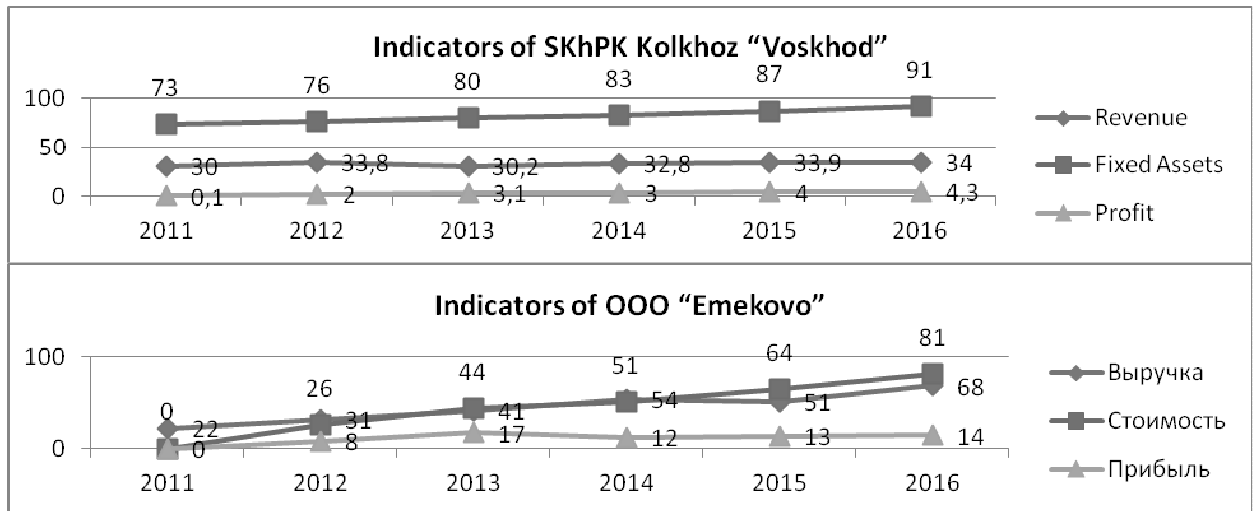
the Republic of Mari El. For the analysis of the effectiveness for lessee companies we select a number of regional enterprises, cooperating with AO "Rosagroleasing" company (Table 1)

**Table 1 – Sample of the enterprises in the Republic of Mari El, providing the acquisition of assets from AO "Rosagroleasing" company**

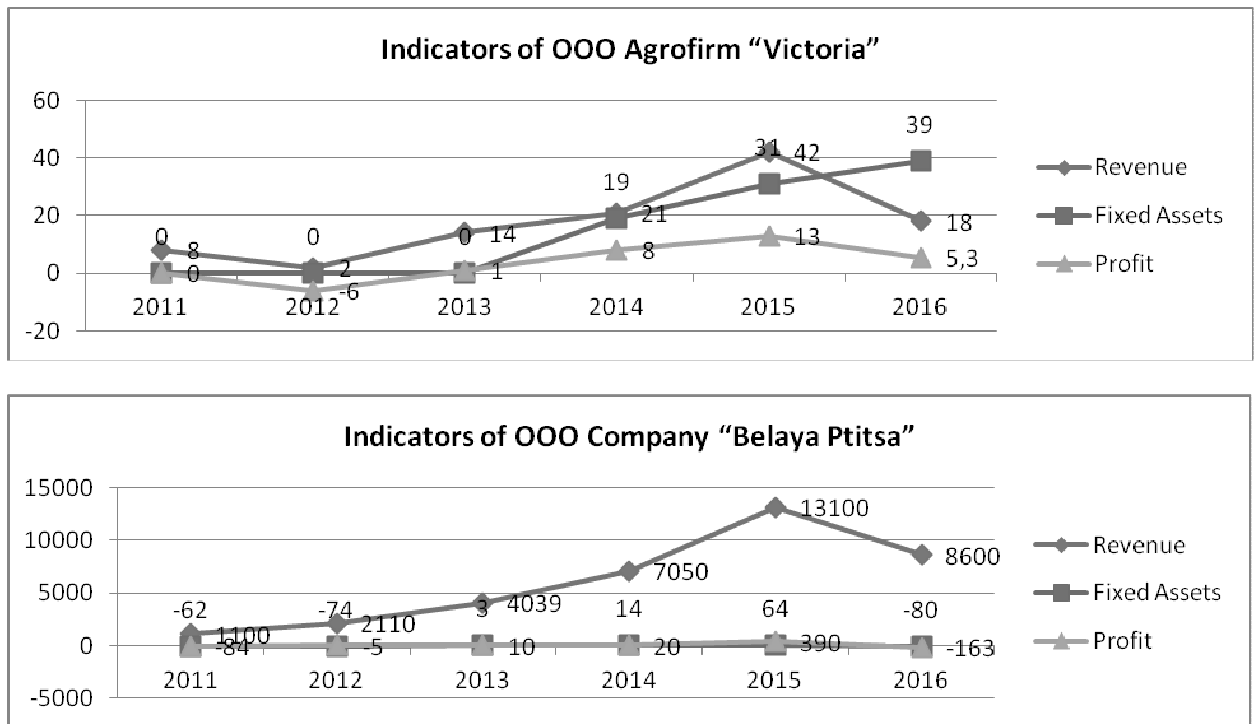
№	Name of counterparty	Number of Contract	Total of commitments, rubles
1	OOO Agrofirma "Victoria"	1	2 500 368
2	OOO Company "Belaya Ptitsa"	1	21 386 644
3	OOO Agrofirma "Zalesie"	29	349 352 059
4	SPK Kolkhoz "Korkatovskiy"	1	742 263
5	OOO "Kuzhnerskoe"	2	9 684 071
6	SPK SKhA "Marisola"	2	1 520 939
7	SKhPK -SXA (Kolkhoz) "Pervoe Maya"	6	27 464 311
8	ZAO PZ "Semenovskiy"	6	45 658 809
9	SKhPK Kolkhoz "Voskhod"	2	4 751 113
10	SKhPK Kolkhoz im.Tukay	1	2 256 004
11	OOO "Emekovo"	3	3 203 885
	...		...
	Total	129	693 098 619

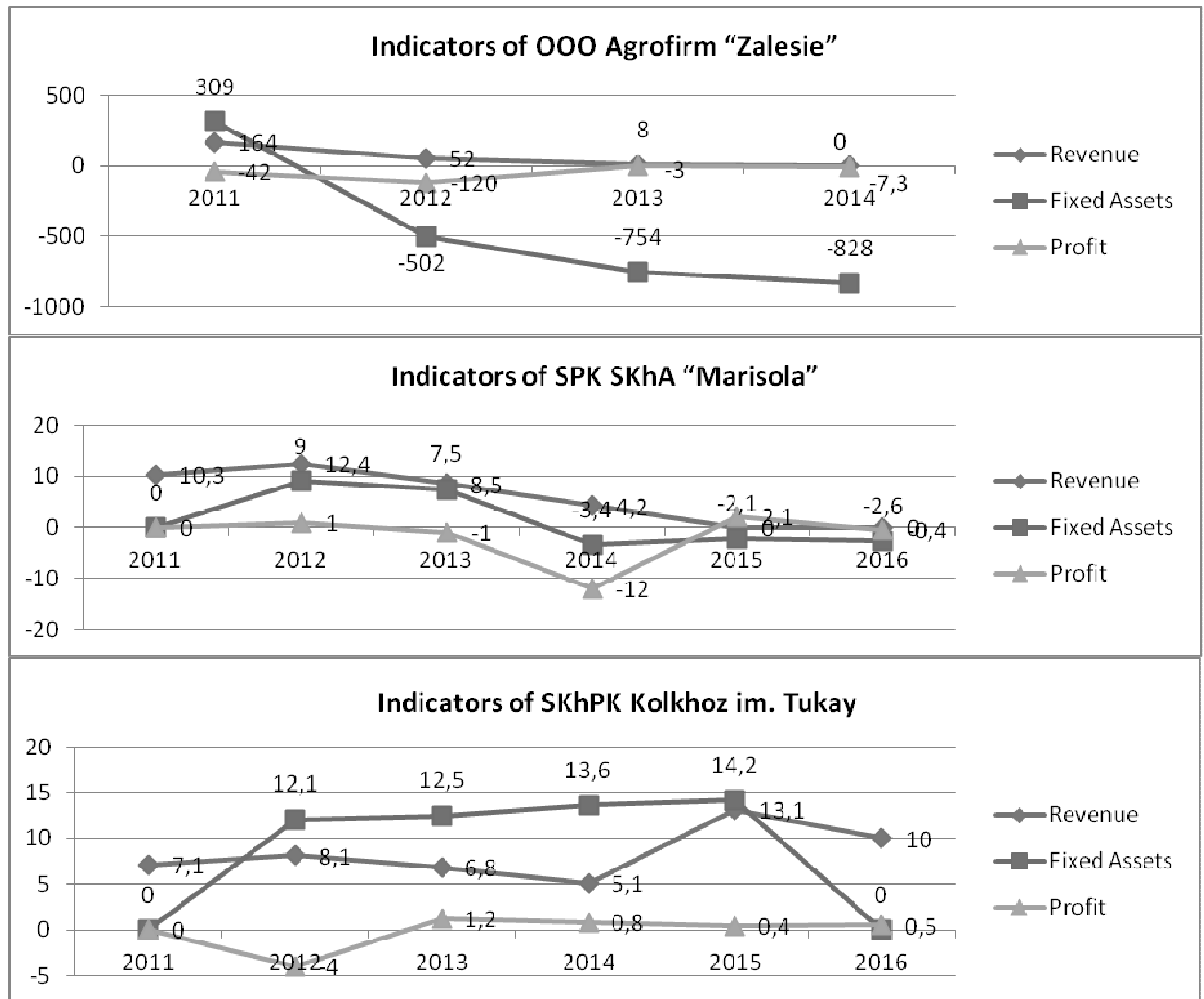
**Fig.4 - Dynamics of the enterprises, effectively implementing leasing projects, million RUB.**





**Fig.5 - Dynamics of the enterprises, purchasing property in leasing, under conditions of financial uncertainty, million RUB.**





The company may have a direct and indirect influence on development of region. The direct influence is beyond counting, but the indirect impact is not subject to direct measurement. Defining the essence of lease operations, it can be tried to follow how AO "Rosagroleasing" and lessee companies realize the investment activities and how leasing projects can affect development of these enterprises.

The valuation of the enterprises held by three indicators: revenue from sales of products and goods, receipts from the execution of works, provision of services (reporting line - 2110), profit before taxation (line 2300) and value of fixed assets (line 3600). A significant disadvantage is the lack of information for 2017, because data of AO "Rosagroleasing" company is presented for 2017. However, from the analyzed sample the enterprises purchased property on lease few years earlier, and by the time of 2017 companies continue to pay leasing payments. The financial accounting reports are published by the Federal State Statistics Service with delay, the report for previous (2017) year usually becomes available in September-October of the current year (2018). Thus, it is not possible to analyze 2017 by the thesis completion.

The revenue includes funds resulting from the sale of goods or services, and with main purpose of compensation on cash expenses of company in process of its economic activity. In the case of the earnings income in planned period is ensured by continuous operation of the enterprise at the expense funds' circulation.

The profit until tax represents full amount of financial result that obtained by in the reporting period the enterprise. The analysis of this indicator is carried out on the basis of the "Report on financial results". A positive value indicates profitable activity of company, but negative value indicates its unprofitable nature. The value of this indicator is defined as difference between the income and the expenses as determination by the accounting rules. The domestic tax legislation applies leasing payments in production costs, leading to decrease



in tax base, and the lessee receives higher profit, provided tax savings in the outflow of leasing payment (Alpatov, 2016).

The increase in net assets is criterion for growth of the investment attractiveness and the indicator of company's own capital growth under capitalization of retained earnings, additional and reserve capital. As a result, financial stability of company and its rating in financial market also grows (Tepkina, 2017).

As shown in Figure 4, the enterprises of this group actively use and introduce the leasing into their activities. There is positive trend of three analyzed indicators for these enterprises. Figure 5 shows companies that are unable to benefit of it, despite the acquisition of property in leasing, or the effect of property acquisition on lease was substantially less than the effect of other economic processes in the enterprise.

For instance, "Agrofirm "Zalesie" company was included in the list of strategic enterprises and the organizations in real sector of the economy in the Republic of Mari El since 2009. It was allocated 137 million rubles from the Mari El budget. Moreover, under guarantees of Mari El government it was obtained a series of loans and grants with total amount of 1,100 million from the Agricultural Bank, AO "Rosagroleasing" company and other organizations. In this case, the company had undeveloped sales system, incomplete capacity utilization, limited expansion possibilities of markets, staff turnover and low qualifications, debt growth and insolvency of the enterprise by the end of 2015 led to bankruptcy and further liquidation.

It is similar situation with "SKhA "Marisola" company that was also one of systematically important enterprises of real sector in the economy and received government funding, but in 2016, by decision of the Arbitration Court of the Mari El Republic from 13.04.2016, case № A38-6281 / 2015 it was declared bankrupt.

According to data of AO "Rosagroleasing" such companies as "Victoria", "Belaya Ptitsa" and "Kolkhoz im. Tukay" consistently pay leasing payments on property, but financial accounting statements of these enterprises indicate non-effective management. Despite the influence of the external macroeconomic factors in form of the economic and political crisis in 2014 and the overall decline in revenues and profits, the asset value indicator grows only in the first enterprise. It means that at "Belaya Ptitsa" and "Kolkhoz im. Tukay" companies the financial conditions can be assessed as unstable. So for the avoiding negative consequences it is necessary to pose a question about the effectiveness of using property, purchased in leasing.

The situation on leasing market in the Republic of Mari El, as well as common economic situation in the region, indicates the necessity for measures to improve leasing activities in region:

1. The development of leasing credit schemes and cooperation between banks for region in the context of procedure for joint lending for the investment projects. This promotion activates participation of banks and federal companies in the leasing process and gives the ability risk spreading among several investors.

2. The Ministry of Industry, Economic Development and Trade of the Republic of Moldova has to develop the effective mechanism for provision of state grants with financing of lease projects. It is especially important for federal leasing projects in priority sectors of Mari El Republic (agriculture, innovative industry, construction, small business).

For instance, the situation is unacceptable when 137.0 million rubles were invested from national republican budget for "Agrofirm "Zalesie" company. The planned tax revenues for republican budget (as long the enterprise will be profitable) are 1.9 million rubles. Thus, it will take 72 years to recoup the money, invested from the budget. The situation with the purchase of the equipment from AO "Rosagroleasing" company for 349 million rubles amount similarly indicates an insufficiently developed system of monitoring and risk assessment for the investment projects.

3. Create division (department) of leasing under the Ministry of Industry, Economic Development and Trade of Mari El Republic, similar to the Ministry of Economic Development of the Russian Federation and its main functions are shown in Figure 1.

4. It is necessary to create an information and consulting center on leasing issues in the Republic of Mari El. The classic success factors are the following prerequisites:

- the extensive database of leasing is caused by the need for the organization information support for development of leasing in Mari El Republic and outside. Transparency and

information about main leasing programs will help improve the collection of statistical data on leasing projects, for monitoring the situation and adjust strategic decisions on leasing;

- consulting services in the field of development and decision-making on financing under leasing scheme, management of leasing projects, efficiency analysis, risks calculation, organization of the accounting.

- the introduction of a leasing reform in 2016 may have very negative impact on local leasing companies owing to high demands and even lead to their closure. In this regard, the information and consulting center on leasing should be aware of all changes affecting the leasing activity, provide training on the basics of leasing activity in new conditions, its legal, organization, accounting and economic features,

- the importance of maintaining and improving high professional level of specialists in such leasing center, as well as cooperation with local authorities and liaise with universities, research centers or institutes.

- the foundation of advertising campaign in favor of a leasing and consulting center. The main types of incentives for leasing sales are the following possibilities: personal (individual or group) conversations with potential consumers, representatives of leasing companies in exhibitions and presentations of equipment and vehicles, test drives and other events; conduction of training with potential buyers about the advantages of leasing in comparison with other types of financing; organization of consulting sales.

#### **4. Conclusion**

Therefore, represented analysis of the theory and practice in lease using in regions on the example of Mari El Republic leads to the following conclusions:

1. The increase of the efficiency in lease market in the Republic of Mari El will ensure growth of such economic indicators as gross regional product; the employment and wages of population; the investment and business activity in region; the increase in production of certain goods; the activation of the innovation process, stabilization of industry and agriculture; small business development.

2. For creation of favorable conditions for leasing development, it is necessary to create a number of conditions that could ensure successful use of leasing in the Republic of Mari El.

3. For the analysis of the efficiency of lessee companies a number of enterprises, engaged in the active work with AO "Rosagroleasing" company in the Republic of Mari El, were selected. The rating of these companies was based on three indicators: revenue from sale of products and goods, revenues connected with performance of work, provision of services, profit before tax and value of fixed assets. There is positive dynamics of three analyzed indicators at the enterprises with active using and introducing leasing in the operations as shown by the analysis. Nevertheless, there are enterprises that could not take advantage of its benefits, despite the acquisition of property in leasing, or the effect to the acquisition of property in leasing was substantially less than the effect of other economic processes in the enterprise.

4. The formation of comprehensive system on leasing relations provides the opportunity for the most advantageous cooperation between participants of leasing activities that ultimately gives powerful impetus for development of entrepreneurship in general.

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