Management of small agricultural cooperation and corporatization

Alexey Tolmachev^{1,*}, Vitaliy Smirnov¹, Evgeniy Grishin¹, and Denis Syromyatnikov²

¹Kuban State Agrarian University named after I.T. Trubilin, Kalinin Str., 13, 350044 Krasnodar, Russia

²North-Caucasus Federal University, Pushkin Str., 1, 355017 Stavropol, Russia

Abstract. The possibility of applying the principles of corporate governance in the practice of small agricultural businesses is considered. The authors believe that cooperative associations of small market participants can transform into corporate associations at a certain stage of development. The scientific novelty is represented by an improved economic mechanism of two-level cooperation of small agricultural enterprises with the financial participation of municipalities, regional and Federal authorities and the formation of their own cooperative Bank. The mechanism recommended by the authors is aimed at motivating small business participants to cooperate by the possibility of subsequent corporatization. The implementation of the cooperation development plan will require temporary exemption of its participants from the tax burden, while the state should practice joint construction of processing, logistics and other necessary facilities in the agricultural sector, with the subsequent transfer of its shares to consumer cooperatives of small businesses.

1 Introduction

To date, there is no short complete definition of corporate management that meets all the set goals. Moreover, there is no such precise definition in Russian-language literary sources, and in foreign ones [1, 2, 3]. In our opinion, this definition includes a systematic method of managing a cooperative Association, aimed at a fair distribution of the final result of economic activity in the agricultural sector. In this way, in our opinion, participants in shared equity cooperative activities can also get an opportunity to continue closed or open corporatization within their associations, and to exercise control over the Association's management.

According to the Civil code of the Russian Federation (paragraph 1, article 65), in our country, corporate participants are considered to be founders, who form their own Supreme management body, beginning with a Chief Executive Officer (CEO). This may include all legal entities of a business that bring profits – or losses – to their majority and minority owners, regardless of whether they call themselves corporations or not.

According to Federal law No. 193 of 08.12.1995 "On agricultural cooperation", an agricultural cooperative is an organization formed by farmers of private subsidiary farms of

* Corresponding author: tolmachalex@mail.ru

citizens on the basis of voluntary joint production, as well as other economic activities, on the basis of combining property for the purpose of solving material and other joint problems of cooperative members. More than 15 persons or two justice units which produce products in agriculture may set up cooperative with one vote from one member. In this regard, cooperative associations of small participants in agricultural business at a certain stage of development can be transformed into corporate associations, corporations.

Until recently, research on the development of corporate governance was more focused on operational management, but in the recent period, this started to include a strategic horizon with control of corporate activity [4, 5]. In connection with the above-mentioned provisions, the study of the problems of small scaled cooperative development with subsequent joint-stock transformation appears to be an urgent task.

2 Materials and Methods

The methodology of this study is based on scientific results obtained by foreign and Russian experts. References, normative indicators, published materials of open scientific periodicals, information from the world Internet network, logical techniques, and authors' calculations have become the information base [6, 7]. For the purposes of this study, the authors have used abstract, comparative, monographic, and computational methods and techniques of econometric modeling.

The scientific novelty is represented by an improved economic mechanism of three-level cooperation of small agricultural enterprises united by the efforts of their participants with the financial support of municipalities, regional and Federal government entities with the formation of their own cooperative bank. The mechanism recommended by the authors is aimed at increasing motivation of small business participants in cooperation with the possibility of subsequent corporatization.

3 Results and Discussion

Currently, agricultural cooperative development is experiencing significant difficulties when working in conditions of perfect competition, the absence of market power, confidence of its participants in this form of organization, access to relatively "cheap" credit facilities, and other problems [8, 9]. To compensate for the uneven market conditions, Krasnodar regional and Federal government entities provide some subsidies, which is still insufficient within the framework of the agribusiness development program (Table 1).

Table 1. Subsidies of state support for the regional agriculture, million rubles

Indicators	2013	2017	2018	2019
Federal budget	6,317.6	4,431.7	3,642.6	4,091.6
including subsidies for: legal entities (LE) and sole proprietors (SP)	6,063.6	4,367.9	3,589.5	4,008.2
municipalities	117.0	63.8	53.1	83.4
other participants	136.9	—	—	—
regional budget	3,374.3	3,019.3	4,105.2	3,973.5
including subsidies for: LE and SP	1,264.0	1,492.6	2,038.2	2,330.5
municipalities	117.6	168.7	105.2	135.0
other participants	326.0	1357.9	1,962.0	1,508.0
local budgets	29.3	—	—	—
additional supply	1,637.1	—	—	—
Total:	9,691.9	7,451.0	7,747.8	8,065.1

Since 2014, the amount of state support funding has been significantly reduced due to the well-known sequestration of Federal spending, and so far, even without taking annual inflation into account, which has not reached the level of 2013. This lag has reached 23.1% by 2017, while capital investment has been transferring to legal entities, individual entrepreneurs and other market participants at the expense of regional budgeting funds that were growing significantly.

The program for the year of 2019 provided by Central Federal government and local budgeting in the amount of 8,295.2 million rubles was implemented on 8,065.1 million rubles, or, in other words, 97.2% of the dotation was spent.

The state development program also includes financial support for agricultural cooperation for the implementation of investment development projects in the Krasnodar territory. The 2019 subprogram was planned to provide grants to agricultural cooperatives for development of the material and technical base. 220.0 million rubles were allocated for this purpose, but 214.7 million rubles, or 97.6% of the planned amount of funds, were disbursed. The balance of 5.3 million rubles was formed due to the absence of applicants who meet the conditions and requirements for granting. As a result of the subprogram's implementation, the material and technical base of eight agricultural consumer cooperatives was modernized with the planned four units.

The modern system of agricultural consumer cooperation is formed by first-level cooperatives that operate within certain regional entities. Regional-level cooperatives are forming the second level of cooperation, while Federal districts can also organize the third level. In 2019, there were 160 cooperatives operating in the Krasnodar territory, including 51 credit institutions, 21 processing companies, including supply, sales, and service companies, and 88 of others. The total number of participants (farmers) in these cooperatives was 2,537. Over the past 10 years, the number of cooperatives has decreased by 6.4% and the number of their participants – by 7.9 %, which is a negative factor in agricultural production (Table 2).

Table 2. The dynamics of decline of the number of regional agricultural cooperatives

Number of cooperatives, units	Years						
	2010	2014	2015	2016	2017	2018	2019
At the beginning of the year	171	166	165	163	163	161	160
Newly created	4	5	3	1	4	2	3
Liquidated	9	6	5	1	6	3	4

In order to stimulate the development of the system of agricultural consumer cooperation in the Krasnodar territory, regional target programs with the participation of the state had been developed and approved. As a part of these programs, the government of the Krasnodar territory has formed a target guarantee Fund for supporting second-level cooperatives by annual assets in level about 350 million rubles. The main goal of the guarantee Fund is expanding the access of small agricultural producers to financial collateral for agricultural development projects. Consumer cooperatives Garant Kuban and Business Partner are acting as performers of the regional system of the guaranteed financial security created this way.

However, the dynamics of the retrospective state support for the development of the system of agricultural consumer cooperation shows a decrease in its volume in recent years, which is the reason for the above-mentioned decrease in the number of cooperatives and their participants.

The mechanism of the guarantee Fund (GF) is as follows: the funds of the GF cooperatives of the 1st level are obtained and safe money on the accounts in bank institutions, which perform the role of provision. At the same time, district cooperatives can

apply for a loan guarantee to a level 2 coop while simultaneously requesting a loan from a bank, the cash flow is shown in table 3.

Table 3. Performance Indicators of the regional guarantee fund, 2017–2018, thousand rubles

Indicator	Cooperatives		Total
	Garant Kuban	Business Partner	
Regional budget	157,231	113,715	270,946
Returned money to budget	27,450	17,370	44,820
Guarantee Fund assets	196,030	138,264	334,293
Sureties granted to level 1	407,722	217,923	625,645
Quantity, units	117	68	185

Practice shows that the channel of consumer credit cooperatives is often the only way to attract additional financial resources. With an annual decrease in the number of cooperative participants, their lending volumes show a relatively steady increase in financing of small businesses through credit cooperatives against the background of a decrease in bank loans.

We present data on the directions of spending credit funds by small agrarian business participants (Table 4). Their main users were small entities in the fields of crop production, animal husbandry, and greenhouse vegetable growing.

Table 4. Directions for spending credit funds by small farms, 2017–2018

Direction of expenditure	Value, тыс. руб.	Specific weight, %
Purchase of mineral fertilizers	142,034	22.7
Purchase of seeds	86,035	13.8
Plant protection products	83,844	13.4
Purchase of fuel and lubricants	49,430	7.9
Acquisition of land plots	38,168	6.1
Purchase of equipment	31,914	5.1
Purchase of cattle	28,782	4.6
including cows	24,403	3.9
Purchase of vehicles	23,151	3.7
Spare parts	23,151	3.7
Greenhouse construction Costs	21,274	3.4
Purchase of tractors and agricultural machinery	19,397	3.1
Construction of production facilities	19,397	3.1
The cost of building materials	18,771	3.0
Other directions	15,643	2.5
Subtotal	625,645	100.0

Analysis of the economic activity of small agricultural entities shows that increasing the availability and efficiency of obtaining loans in credit agricultural cooperatives for the purchase of fertilizers, plant protection products, seeds, machinery, spare parts, equipment, purchase of livestock and poultry, reconstruction of livestock facilities, organization of procurement, purchase of feed, etc. entails an increase in the gross volume and profitability of the agricultural business. Note that in 2017 through 2018, 34,335 thousand rubles were returned to the regional budget from the guarantee fund.

In the Figure 1 we show the possibility and project improving the existing scheme of vertically integrated cooperation in order to increase efficiency of regulating the development of consumer cooperation of the subjects of small farming with the possibility of subsequent corporatization.

Fig. 1. Vertically integrated system for regulating the development of small agrarian cooperation with the possibility of corporatization (projection)

Given the low current motivation of small business participants for construction and development, we recommend creating infrastructure facilities for joint management with the active involvement of the state. In terms of supply and sales cooperation, it is necessary to actively create an economic infrastructure, using state capabilities to carry out the increasing volumes of production, supply, logistics, processing, sales and other objects that are in demand on practice. In conclusion, we note that the state's participation in the construction of the agricultural cooperation economy is at a low level; it does not correspond to the tasks of import substitution, the development of a small agricultural economy, social factors of employment, and food security.

4 Conclusions

Modern state-subsidized support for small businesses does not compensate for the deformation of market development, perfect competition, and the lack of market power of the small farming in relation to other market participants. In this regard, in the external economic environment of agricultural production, there is an objective need for state regulation of the development of small agricultural entities. At the same time, foreign experience is still underestimated [10], and these factors will continue to hinder the development of small businesses, dooming them to a slow, painful pace.

In the process of the development of the subjects, issues of social protection of participants in small agricultural enterprises should be addressed in a timely manner. We support the initiative of small business participants to introduce small business employees into the unified classifier of professions. We believe in the importance of direction of development of small business by creating a structure of lobbying of interests of small business opportunities regional chamber of commerce and industry, associations of small agrarian business, other instruments to protect the interests of small business entities for

land use, resource providing, lending, product sales, corporatization of ownership of cooperatives, and other fields.

We are also proposing an improved scheme of property transformation in the system of vertical cooperation of small agrarian entities with the participation of the state, which differs from the existing approaches by increasing motivation for cooperation by corporatization of new business assets.

The state can create its own production, supply, logistics, processing, marketing and other capacities for the production, processing, storage, warehouse storage of material reserves and other objects that are in demand in practice. Subsequently, based on the willingness of participants created with the participation of the state infrastructure units can be transferred, sold partially, and privatized fully by the members of cooperatives with their further corporatization and the introduction of corporate governance. The shared participation of the regional and Federal governments in the creation and management of assets of agricultural cooperatives of the first two levels will allow to save these capacities from reprofiling until a certain time.

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