

УДК: 330.322.54

## **POSSIBLE MEASURES TO SUPPORT THE IMPLEMENTATION OF THE OMOLON PROJECT**

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**Abstract.** *Over the past few decades, the reindeer husbandry in Russia has gradually degraded. This is manifested in a reduction in reindeer herd, a decrease in the economic efficiency of production, and a lack of financial resources for development. The article discusses possible measures to support the implementation of the project directed to technological transformation of the reindeer industry.*

**Keywords:** *reindeer husbandry, economic effect, investment project, state support*

According to experts, the trends of reindeer herd reduction, reduced economic efficiency, and degradation of the reindeer husbandry industry are irreversible unless drastic measures are taken aimed at the technological and economic development of the industry.

The pilot project of technological transformation of reindeer husbandry has three successive stages of implementation, corresponding to three interrelated components: conversion to hedge maintenance, introduction of technologies for slaughter and primary processing and introduction of technology for deep processing of products.

The net benefits in all variants have large negative values during the investment period – from the first to the fourth years of the project implementation – and become positive only from the fifth year when the number of reindeer in the hedge reaches its maximum value and the processing capacity of the products will be fully introduced. However, these positive flows ultimately do not cover the cost of generating them. It should be noted that the more in-depth processing the project option offers, the lower the absolute value of the negative result of the total net benefit flow. So, if the first component generates the negative result -190 million rubles, then in the second it is already -155 million rubles, and in the third -90 million rubles. That is, in principle, the option with deep processing of products has a chance to have a positive effect, but in the rather distant future. Calculations indicate that this may occur as early as the 14th year of the project's implementation. In other words, if the

project is implemented, it will significantly alter the situation in the industry and create the conditions for its efficient operation in the future.

A drastic improvement in the situation requires a change in the technological structure, including the transition to hedging and the organization of deep processing of products. However, such a transition requires large capital investments in the initial period, and reindeer herders simply do not have such funds. That is, the implementation of such projects is financially infeasible without government support.

According to the methodology, the feasibility check is carried out on the basis of calculating the amount of net benefits in a "project" situation. In our case, without any support, it requires savings of 260.7 million rubles to ensure financial feasibility. However, this is an unaffordable amount for the initiator of the project without government support. There may be several support options. Let us have a look at some of them.

The first option of support is through direct public financing of the project initiator's capital expenditures. This type of support completely changes the values of the project's performance indicators. The total net benefits without support in nominal terms (-89.96 million rubles) due to the support acquire a positive value: 185.33 million rubles.

However, despite a sharp increase in efficiency and a reduction in the need for own funds for financing (the accumulated net benefits change from -260.7 million rubles to -9.8 million rubles), nevertheless, support does not ensure the financial feasibility of the project, since the minimum accumulated balance has a negative value.

To solve this problem, additional financing of current expenses is required for the first 4 years. In this case there are no more negative cash flows, that is, the project becomes financially feasible. At the same time, the performance indicators are expected to increase even more.

Support can take other forms, not only direct investments. Concessional lending is widely used, which is usually expressed in a reduction in the interest rate for a loan. For example, it is possible that the state finances capital investments, and the initiator assumes responsibility for financing the missing funds expressed in negative net benefit flows. Let us suppose that the initiator has the opportunity to take out a loan to finance the missing funds with some reserve during the first four years at interest rate of 10% (table 1). The borrower is unable to repay the principal amount of the debt and interest for its use during the investment period (up to 4th year of the project). Therefore, it is advisable to apply a debt service scheme with deferred debt and interest payments for 4 years with capitalization of unpaid interest.

Calculations show that in this case, negative values of the accumulated net benefits are not observed any more, which indicates the financial viability of the project. Both full government support and mixed (support and credit) ensure high efficiency and financial feasibility of the project.

**Table 6 - Cash flows, taking into account the receipt and servicing of a loan to finance the missing funds, thousand rubles**

	Years of the billing period							
	0	1	2	3	4	5	6-10	11
Loans to finance current expenses for the first four years with deferral and capitalization	2287	2533	2832	3148				
Debt on an incremental basis	2287	4820	7652	10800	10800			
Interest accrued		229	482	765	1080			
Capitalization of interest		229	482	765				
Interest payment (capitalization is completed)					1080			
The amount of the principal debt at the end of the period (with capitalization)	2287	5049	8363	12276	12276			
Repayment of debt with interest in the fourth year					13356			
Net financing	2287	2533	2832	3148	-13356			
Net benefits "before financing"	-2079	-2303	-2575	-2862	24410	24410	...	24410
Net benefits "after financing"	208	230	257	286	11053	24410	...	24410
Accumulative net benefits "after financing"	208	438	696	982	12035	36445	...	182779

The results of the conducted research have shown that short-term but significant financial support during the period of technological transformation (for our pilot project - the first 4 years) creates favorable conditions for the transition of the industry to full self-financing in the foreseeable future.

If the state is interested in overcoming the crisis in the industry and creating conditions for the sustainable development of the northern territories, then it should reconsider its economic policy from constant ongoing support for reindeer herders towards financing fundamental technological transformations.

### References

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