

Artículo de investigación

Program-target instruments of the mechanism of state support for agriculture

Programa-instrumentos específicos del mecanismo de apoyo estatal a la agricultura
Instrumentos de metas de programas do mecanismo de apoio estatal à agricultura

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Written by:
O.I. Khairullina (Corresponding Author)¹³⁵
T.M. Yarkova¹³⁶

Abstract

This paper considers the functioning of the economic mechanism of supporting agriculture in Russia as part of a program-oriented approach to the regulation of the economy. The directions of state support and their justification should consider the balance of economic interests of all market participants. A classification of the mechanisms of state support is proposed according to the sources of financing, the duration of the period of action of measures, to the levels of regulation, and to the reproduction stages. A retrospective analysis of the stages of state support for agriculture in the framework of program-targeted tools was carried out. Key issues that reduce the effectiveness of the current mechanism of state support are identified.

Keywords: state support, mechanism, agriculture, problems

Resumen

Este documento considera el funcionamiento del mecanismo económico de apoyo a la agricultura en Rusia como parte de un enfoque orientado a programas para la regulación de la economía. Las instrucciones del apoyo estatal y su justificación deben considerar el equilibrio de los intereses económicos de todos los participantes del mercado. Se propone una clasificación de los mecanismos de apoyo estatal según las fuentes de financiamiento, la duración del período de acción de las medidas, los niveles de regulación y las etapas de reproducción. Se llevó a cabo un análisis retrospectivo de las etapas del apoyo estatal a la agricultura en el marco de las herramientas específicas del programa. Se identifican los problemas clave que reducen la efectividad del mecanismo actual de apoyo estatal.

Palabras claves: apoyo estatal, mecanismo, agricultura, problemas.

Resumo

Este documento considera o funcionamento do mecanismo econômico de apoio à agricultura na Rússia como parte de uma abordagem orientada a programas para a regulação da economia. Os rumos do apoio estatal e sua justificativa devem considerar o equilíbrio de interesses econômicos de todos os participantes do mercado. Uma classificação dos mecanismos de apoio estatal é proposta de acordo com as fontes de financiamento, a duração do período de ação das medidas, os níveis de regulação e os estágios de reprodução. Foi realizada uma análise retrospectiva das etapas do apoio estatal à agricultura no âmbito de ferramentas específicas do programa. As principais questões que reduzem a eficácia do atual mecanismo de apoio estatal são identificadas.

Palavras-chave: apoio estatal, mecanismo, agricultura, problemas

¹³⁵ Doctor of Economics, Professor of Accounting and Finance Department of the Federal State Budgetary Educational Institution of Higher Education «Perm State Agro-Technological University named after Academician D.N. Pryanishnikov» Perm, Russia Phone.: (342) 217-99-35 (Work), Mobile +79128864463; Email: o.i.khayrullina@mail.ru

¹³⁶ Doctor of Economics, Professor of Organization of agricultural production Department of the Federal State Budgetary Educational Institution of Higher Education «Perm State Agro-Technological University named after Academician D.N. Pryanishnikov» Perm, Russia Phone.: (342)217-99-38 (Work); Email: tanyayarkova@ya.ru

Introduction

At the present stage of development of the market economy, agriculture is one of the few sectors of the economy that is subject to increased government regulation.

The program-targeted tools of the state support mechanism are of particular relevance in this direction. The lack of investment in agriculture can address many issues, including the dangers of climate change, inappropriate supply of inputs and services, seasonal and long-term financial and financial requirements, weaknesses in the basis of property rights, and destructive interventions of political approaches in the market. The rapid rise in global demand for agricultural products has led local actors and practitioners to develop and develop new mechanisms in financial management and risk management. Business investors are seeking to identify agricultural businesses as dynamic and profitable because of the growing trend in the food sector, which is showing a growing prospect in the markets. As most commercial investors focus solely on financial returns, government incentives and support should also focus on the strong integration of the community of local farmers and small and medium enterprises. This research has also been conducted to examine the mechanisms of government support for agriculture.

B.A. Raizberg, A.G. Lobko believe that target programs serve as a universal tool for program-targeted economic management (Raizberg & Lobko, 2002).

Kenneth A. Klase, Michael J. Dougherty, on the basis of empirical data, proved the positive influence of budgeting tools (Klase & Dougherty, 2008).

The concept of “economic mechanism” is described in the scientific works by A. Kullman, who defined the category as a sequence of economic phenomena, which occurrence requires no additional impulse (Kulman, 1993).

L. Hurwicz considers the economic mechanism as a form of the game, where economic actors can act (Hurwicz, 1960).

Research by Russian scientists proved that the effective functioning of agricultural production is impossible without the substantiation and implementation of the modern economic mechanism (Buzdalov, 2014; Khairullina, 2017; Khairullina, 2014; Khairullina & Yarkova, 2018; Kochkarov, 2007; Akbari et al, 2013; Mazloev, 2015; Mazloev & Ozerova, 2017).

Materials and Methods

To study the economic nature of the program-target approach, monographic, dialectical and empirical research methods were used. To summarize information on the development of rural Russia on the results of the implementation of state programs, a typological grouping is presented. The data of the Federal State Statistics Service of the Russian Federation and the Federal Customs Service of the Russian Federation are used.

Results

To develop a mechanism of economic impact on the agricultural sector in Russia, a program-target approach is used. In particular, programs are the main instrument regulating relations between the state and business within budget support. The life cycle of a program can be presented in several stages (Fig. 1).

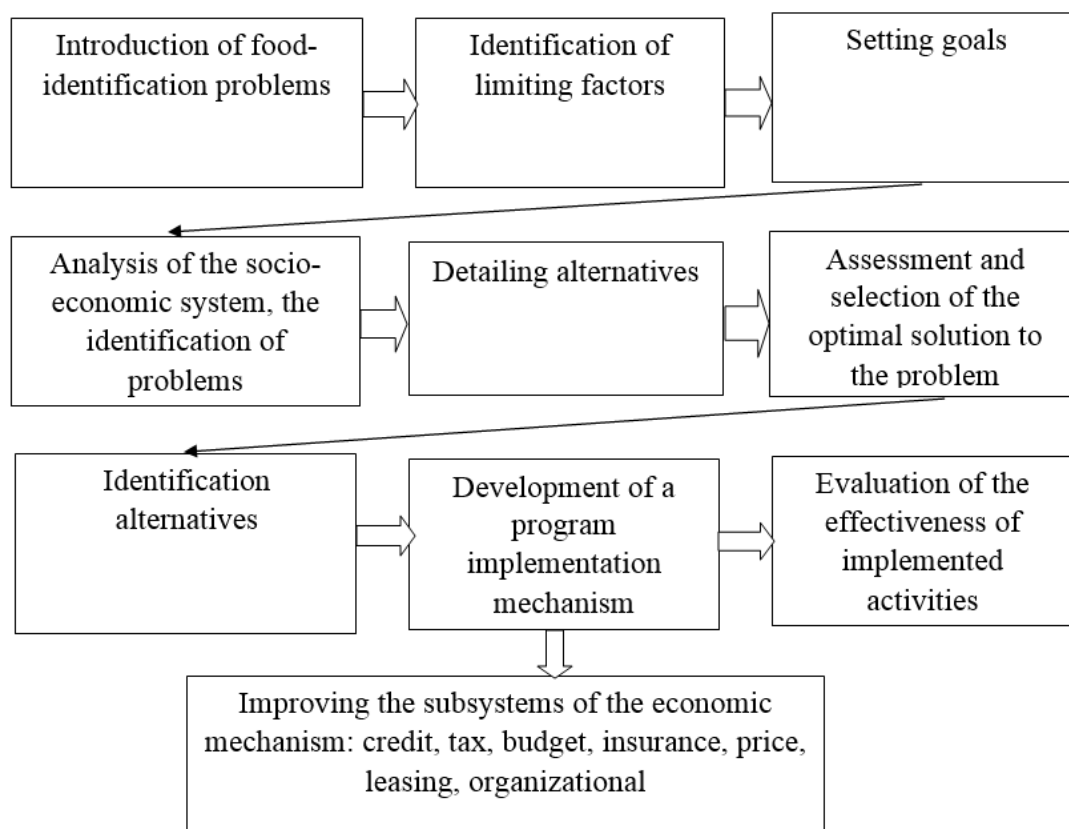


Figure 1. Stages of the program life cycle

Source: compiled by the authors

The state of legislative support for the implementation of the economic mechanism of state support directly affects the development of agriculture.

The system of economic interests, which, in our opinion, is the basis of the mechanism, should be aimed at the formation of a competitive offer that can meet the demand in the market. In this case, it is necessary to observe a balance of interests of the state, private business and the final consumer of agricultural products.

To receive state support under the program, it is necessary firstly to comply with the status of "agricultural producer". According to modern Russian legislation, agricultural producers are an organization, an entrepreneur who sells products, provided that the share of agriculture in their income is not less than 70% per year.

In international practice, in order to provide state support and regulation of agriculture in general, a differentiated approach is also used to determine the beneficiaries of budget funds.

In the European Union countries, in order to gain access to direct payments, farmers must comply with the requirements of the safety of agri-food products, humane treatment of animals and uniform standards of environmental protection. In the United States, in order to qualify for some programs, manufacturers whose average three-year income before tax exceeds \$5 million must prove that more than 75% of their income comes from agricultural activities. In Russia, the concept of "agricultural commodity producer" is limited only to the share of products produced and sold in total revenue.

Depending on the goal of studying the regulatory impact on the agrarian economy, we can use several options for classifying government support mechanisms: depending on funding sources (to determine the effectiveness of support measures (direct or indirect); on the duration of the action period of measures (definition of strategic and tactical regulatory instruments); on the levels of regulation (the possibility of using tools depending on the level of institutional structure) (Fig. 2).

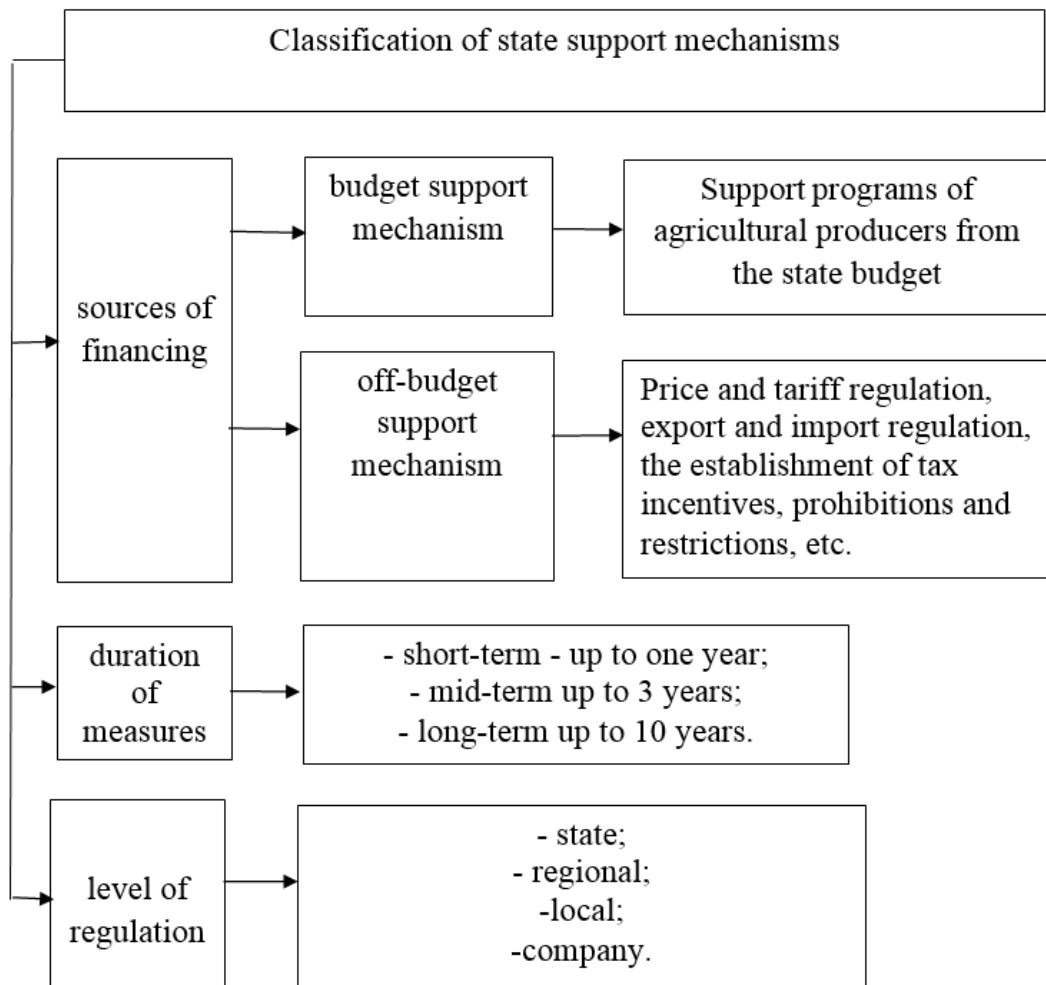


Figure 2. Classification of state support mechanisms in Russia
Source: compiled by the authors

An equally significant study of the methodology of the economic support mechanism for agricultural producers is the differentiation of program-targeted instruments according to the stages of reproduction. Buzdalov (2014) and Class & Dougherty (2008) also confirms this finding.

Modern reproduction is a cycle of social capital, which determines the movement and the resumption of production and income in four successive stages: production, distribution, exchange, and consumption (Tab. 1).

Table 1. Agriculture support tools in Russia by stage of reproduction

Stage	Regulation mechanism	Main areas
	Compensation of producer's costs for the purchase of means of production	<ul style="list-style-type: none"> - subsidizing and preferential taxation of the purchase of fertilizers, feed and pesticides, fuels and lubricants; - subsidies for property insurance payments.

		- subsidizing and providing grants for the reconstruction and modernization of fixed assets of agriculture;
Production		- subsidies for the implementation of irrigation and land rehabilitation projects;
	Subsidies for the production infrastructure	- grants for the creation of family livestock farms;
		- subsidies for the development of elite seed and animal husbandry;
		- subsidies for small forms of husbandry.
		- support for the national currency;
		- financial and credit policy;
		- preferential tax policy;
Distribution	Macroeconomic policy	- regulation of foreign trade activities;
		- regulation of investment activities;
		- regulation of innovative activities.
	Producers' income support	- subsidizing of the cost of products sold;
		- payments for damage from natural disasters.
		- commodity and purchasing interventions;
Exchange	Price intervention in the food market	- the establishment of import and export food quotas and duties;
		- non-tariff regulatory measures
	Promotion of market infrastructure development	- provision of information and consulting assistance;
		- subsidizing of the food transport cost;
		- development of cooperation and logistics centers.
Consumption	Promotion of the expansion of production	- subsidizing of interest payments on loans received;
		- procurement of food for state needs;
		- subsidizing of economically significant regional programs.

Source: compiled by the authors

The stages of development of the economy and society predetermine the evolution of the regulatory impact methodology.

A retrospective analysis of the stages of development of state support for agriculture in the Russian Federation allowed us to identify the main patterns.

The first stage (1990 - 1995) - the period of transformation and transition to market relations, the diversity of forms of ownership.

Characterized by a decline in agricultural production, an increase in imports, and a minimum level of state support.

The second stage (1996 - 1999) - stagnation of agricultural production, degradation of the rural lifestyle, lack of investment.

The third stage (2000 - 2005) - stabilization of the economy, a slight increase in agricultural production, a return to government regulation through direct subsidies to agricultural production, writing off debts on taxes and of raw materials companies, and provision of preferential loans.

At the beginning of the fourth stage (2006 - 2012) in the agrarian sector of the economy, for the first time in many years, there was a tendency for growth in production and investment. The law "On the development of agriculture" was adopted, the priority national project "Development of the agro-industrial complex"

for 2006-2007 was implemented. The implementation of the program-targeted tools was carried out under the State Program for the Development of Agriculture for 2008-2012. The use of the following measures was updated: preferential insurance, modernization of production, free information and consulting support. The adoption in 2010 of the Food Security Doctrine predetermined the strategy for the development of agriculture.

The fifth stage (2013-2020) implies managing in the conditions of the WTO, the need to form the state agri-food policy for the long term. The implementation of the State Program for the Development of Agriculture and Regulation of Agricultural Products, Raw Materials and Food for 2013-2020 is being implemented.

The main areas are:

- improving the competitiveness of agricultural products in the domestic and foreign markets within the framework of the WTO;
- improving the financial sustainability of agricultural enterprises;
- sustainable rural development;
- reproduction and increase of efficiency of use of resources in agriculture;
- production greening.

With the introduction of sanctions from 2014 to 2017, adjustments were made to the existing state support mechanism: lending volumes were

increased, a preferential lending mechanism was introduced to provide a subsidy directly to credit institutions (2017), capitalization of the state-owned Rosselkhozbank, increase in export potential (forming a system for promoting the export of products in foreign markets, creating a center for analyzing the export of products of the agro-industrial complex and studying the potential foreign markets, in 2017). Khairullina (2017), Khairullina (2014), Khairullina (2016) and Khairullina & Yarkova (2018) also confirms this finding.

Despite the adopted development programs, investment activity in the agriculture of the Russian Federation is insufficient for solving strategic tasks. In particular, the industry's share in the total investment is 3.1%. State support funds account for 7% of the value of agricultural production. At the same time, the growth in production (2.4% in 2017) is accompanied by an annual decrease in energy capacity. This indicates the technical and technological lag of the industry (Table 2).

In 2017, there was a tendency to increase the tax burden on agriculture. In recent years, the pressure of the tax authorities on agricultural companies has increased: administrative penalties have tightened, the reclamation of documents, additional taxation and the freezing of current accounts have increased. Mazloev (2015), Mazloev & Ozerova (2017) and Yarkova & Khairullina (2019) also confirms this finding.

Table 2. Indicators of the agricultural activities in Russia

Indicator	Year							
	2010	2011	2012	2013	2014	2015	2016	2017
Share in total investment, %	3.0	3.0	2.9	3.1	3.0	2.9	3.4	3.1
Share of agriculture in GDP, %	0.6	0.7	0.6	0.5	0.4	0.4	0.4	0.4
Agricultural products, billion rubles	2587.8	3261.7	3339.2	3687.1	4319.1	4801.9	5119.2	5119.9
Investments per 1 ruble of agricultural products	0.08	0.08	0.08	0.08	0.07	0.06	0.07	0.07
State budget funds per 1 ruble of agricultural products	0.10	0.08	0.08	0.10	0.07	0.08	0.06	0.07

Energy capacity per 1 employee, h.p.	67.0	69.0	70.0	72.0	75.0	74.0	77.0	75.0
Energy capacity per 100 hectares of cultivated area, h.p.	227.0	212.0	211.0	201.0	201.0	197.0	200.0	198.0
Tax burden, % (excluding social taxes)	4.2	3.6	2.9	2.9	3.4	3.5	3.5	4.3

Source: compiled by the authors based on data from the Federal Statistics Service of the Russian Federation

We should note in general that economic entities receive state support funds regardless of their financial and economic situation, as evidenced by the below presented grouping (Table 3).

Table 3. Grouping of agricultural producers by their level of profitability (2017)

Level of profitability (incl. subsidies), %	Number of entities, un.	Share, %	Revenue, million rubles	Expenses, million rubles	State support (subsidies), million rubles	Share of subsidies in the total amount of expenses, %
Unprofitable	2308	13	294,225	307,533	19,746	6
0% - 20%	9343	51	1,355,551	1,232,874	59,089	5
20% - 40%	3787	21	621,856	488,322	32,807	7
40% and more	2990	16	316,655	203,288	18,038	9
Total	18,428	100	2,588,323	2,232,016	129,680	6

Source: compiled by the authors based on data from [13]

State support funds are concentrated in the group of companies with profitability ranging from 0% to 20%.

Conclusion

The mechanism of state support of Russia is an integral part of the system of state regulation of the agro-industrial complex. This allows protecting Russian companies from the effects of internal and external destabilizing factors.

The state is trying to develop an agricultural crediting institution. For this purpose, the interest rate on loans is subsidized, the state bank is functioning. However, the relative availability of loans has led to new problems - the growth of accounts payable and a decrease in the share of own funds in the total assets of agricultural enterprises.

The supply on the loan market is monopolized, in particular, the share of Rosselkhozbank and Sberbank accounts for about 85%.

Agricultural insurance has not properly developed yet. Meanwhile, this area provides for subsidized expenses of up to 50%. In 2017, a decrease in the insured sown (planting) area was 52% compared with 2016 (The national report, 2017).

An instable state support for the industry, its annual adjustment and change in the rules of provision, as well as excessive requirements for applicants and documentation restrict access to this resource, especially for medium and small businesses. In such conditions, the processes of integration and absorption of non-competitive economic entities continue in Russia. As a result, the bulk of support is concentrated in the hands of large industrial agrarian formations, which lobby their interests at the state level and control a significant part of the agri-food market.

The mechanism of agricultural support that has spontaneously formed over the years of modern agrarian reform is neither systemic, nor satisfies the real needs of this sector of the economy, and is not adaptive and anti-crisis in nature, and therefore requires further improvement (Khairullina, 2016; Yarkova & Khairullina, 2019). It is necessary to strengthen the investment activity of agricultural producers in order to carry out technical and technological modernization. In addition, the drop in real incomes of the population (from 2014 to 2017) identified an equally important problem - a decline in demand for certain types of livestock products.

The application of program-target instruments of the mechanism of state support for agriculture shows their inefficient use. Therefore, it is necessary to highlight the main problems to be addressed in the near future:

- the costs for the implementation of a number of targeted programs are not agreed with the budget possibilities during the whole period of the programs implementation;
- some of the tools do not contain a specific algorithm for the practical implementation;
- a number of programs have no qualitative indicators for assessing the effectiveness of the use of appropriate mechanisms;
- a competitive selection of beneficiaries of state support does not always allow for optimal use of budget support funds.

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