

## **ECONOMIC MECHANISM OF STATE SUPPORT OF AGRICULTURE IN THE CONTEXT OF ECONOMIC MODERNIZATION**

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### **ABSTRACT**

Although state regulation in the modern market economy is carried out in a much smaller scale than it used to be in the command-administrative system, the economic role of government is still high enough, especially compared with the system of free competition. State regulation of economy has become necessary for the implementation of social policy, and general strategy of socialization in the broadest sense. Collective consumption or satisfaction of social needs (healthcare, education, support for the poor, organization of scientific research, habitat protection, etc.) is impossible without the application of public instruments and institutions. The state always has an impact on agriculture. State support is an integral part of state regulation.

**Keywords:** Agriculture, agricultural budget, preferential taxation, subsidies.

### **INTRODUCTION, LITERATURE REVIEW AND DISCUSSION**

In the economic literature, such concepts as "state regulation", "financial support", "state economic regulation", "system of budget support", "state assistance to the industry" and others are usually identified, although these terms differ. Many authors reduce the system of state support only to financial and budgetary support. It is also impossible to agree with the opinion that state support is a set of various levers and instruments of financing from the state budget. In addition to budget and financial payments, the state can carry out various organizational and economic measures to create favorable conditions for the functioning of domestic producers. This is debt restructuring, tax incentives and others<sup>1</sup>.

The reasons why state support becomes objectively necessary are the specificity and uniqueness of the agricultural sector (dependence on natural factors, seasonality of production, work with biological objects, etc.) due to which market mechanisms of management cannot function with full efficiency and effectiveness, as in other sectors of the economy; this reform of agricultural production in accordance with the requirement of market mechanisms and the need to ensure the country's food independence from the industry through the price system annually in Russia is withdrawn 8-10% of gross or 18-20% of marketable products. The "invisible" withdrawal of income and price disparity have had a negative impact on agricultural development.

In Russia, with the declared preferential taxation of agricultural organizations and the growing amount of state support, the volume of tax revenues from agricultural producers per ruble of subsidies remains within 0.89-1.08 rubles, which significantly reduces the

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<sup>1</sup> Borhunov N.A. et al. (2008) Gosudarstvennaya podderzhka i mekhanizmy yeye realizatsii v APK (State support and mechanisms for its implementation in agricultural complex.) Moscow: Voskhod-A. p. 74

effectiveness of budget support. Its level is not in any comparison with the European Union, where the support of agricultural producers is 36 cents per 1 Euro of manufactured products.

A certain scientific and practical interest is the study of the economic mechanism of state support, which operates in a transitional economy.

The organizational and economic mechanism of the state support as the most important subsystem of uniform system of state regulation of agrarian sector in the conditions of market economy has to be formed on the basis of the following principles:

- the sufficiency of the allocated budget and strict implementation of the planned indicators of budget financing;
  - \* timeliness of support and assistance in solving urgent problems of the agricultural sector;
  - \* proactive support measures to prevent destabilization of the agricultural market;
  - \* target nature of state support, priority in the distribution of budgetary allocations to support the agricultural sector of the economy;
- the targeting of budgetary support;
  - \* availability of government support for agricultural producers based on different forms of ownership;
  - \* transparency in support planning, budget allocation, utilization, recording and monitoring;
  - \* flexibility of support, i.e. accounting and timely response to changes in the situation on the agro-food market;
  - \* taking into account regional peculiarities in the formation of a single market space of the country, as well as co-financing of targeted state programs;
  - \* transparency support mechanisms both from the point of view of movement of budgetary funds, and from the point of view of criteria of its rendering;
  - \* monitoring the timeliness, targeting and effectiveness of public support<sup>2</sup>.

The support mechanism should combine various forms of support – direct (subsidizing), indirect (preferential taxation, etc.) and indirect (directly unrelated to agricultural production) state support for agricultural producers. The harmonious combination of these forms of support adds to the mechanism's sustainability and effectiveness<sup>3</sup>.

Forms of state support for the agricultural sector of the economy should create favorable organizational and economic conditions for the functioning of domestic producers, including conditions for the effective use of allocated budget, credit and other financial resources, as the unprofitable state of many agricultural organizations does not allow them to use the funds of budget support.

State support is considered by us in three main forms: direct (direct budget payments); indirect (budget funds are stimulating); indirect (through organizational and economic measures, often not directly related to the agricultural sector of the economy).

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<sup>2</sup> Semin A. N. (2009) O sovershenstvovanii mekhanizma gosudarstvennoy podderzhki sel'skogo khozyaystva (About improvement of the mechanism of the state support of agricultural) *Ekonomika sel'skokhozyaystvennykh i pererabatyvayushchikh predpriyatiy*, 11, 5.

<sup>3</sup> Semin A. N. (2009) O sovershenstvovanii mekhanizma gosudarstvennoy podderzhki sel'skogo khozyaystva (About improvement of the mechanism of the state support of agricultural) *Ekonomika sel'skokhozyaystvennykh i pererabatyvayushchikh predpriyatiy*, 11, 7

The diversity of its forms contributed to the creation of a multi-channel system of state support for the industry. So, at the state level can be in the form of direct budget support incorporates the provision of subsidies on agricultural production and material and technical resources; subsidies for short-term and investment crediting of the enterprises and organizations of the agroindustrial complex; the provision of subsidies for compensation of part of expenses of agricultural producers on crop insurance of agricultural crops; subsidies for costs of capital nature etc.

The form of indirect support consists in the purchase of agricultural products and food for state needs, the regulation of the production market through procurement and commodity interventions, the protection of the economic interests of producers in the implementation of foreign economic activity in the agricultural sector, etc.

The form of indirect support at the government level is represented by measures to ensure favorable organizational and economic conditions for the functioning of agricultural producers. They include measures to: restructure the debt of agricultural producers on payments to the budget at all levels, state extra-budgetary funds, suppliers of energy and other material and technical resources; the creation of a special tax regime; support for agricultural science; implementation of state programs and national projects.

Forms of support are characterized by different types. It is often difficult to allocate priority areas of state support, to assess what is more effective-to allocate funds for the organization of regional Agroleasing or to pay "technical subsidies" to agricultural producers? Many business entities stand for direct state support and consider it the most important and effective. Financially healthy farms in favor of measures of organizational and economic nature (the conduct of procurement and goods intervention, regulation of prices and tariffs, the establishment of incentives and special restrictions, and the like<sup>4</sup>.

Organizational and economic mechanisms operating in the regions are constantly being improved and modernized.

In countries with a market economy in support of agriculture allocated a significant portion of the budget. In recent years, there has been a tendency to increase state support.

The experience of the European Union in support of agriculture is of great scientific and practical interest. In accordance with the new European Union agrarian system paradigm for 2014-2020 "to Cut costs, but to produce more products", countries were given the freedom to choose support tools provided that the share of direct subsidies was reduced, the EU agroecological requirements concerning food safety, environmental protection, animal welfare and the maintenance of land in good environmental and agricultural condition were fulfilled, support for young and small farmers as well as producers working in disadvantaged regions. By 2020, all EU countries will be able to move to a unified per hectare payment system.

The European Union has so far neglected the support and development of small farms, and paid the most attention to medium and large farmers. So, in order to reduce the concentration of payments to the largest farms, it is planned to limit direct payments to one farmer by 20 %

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<sup>4</sup> Borhunov N.A. et al. (2008) Gosudarstvennaya podderzhka i mekhanizmy yeye realizatsii v APK (State support and mechanisms for its implementation in agricultural complex.) Moscow: Voskhod-A. pp 38-39

(for subsidies of 150-200 thousand euros per year), by 40 % (200-250 thousand euros), by 70 % (for payments of 250-300 thousand euros). The upper limit of direct subsidies is the amount of 300 thousand euros<sup>5</sup>.

In General, the current stage of the EUAS reform focuses both sections of the EU agricultural budget (direct subsidies and rural development) on the following tasks: environmental protection; support for young farmers; support for areas unfavourable to agricultural production; support for small farms and support for producer cooperation.

**Table 1: Structure of the agricultural budget in the EU<sup>6</sup>**

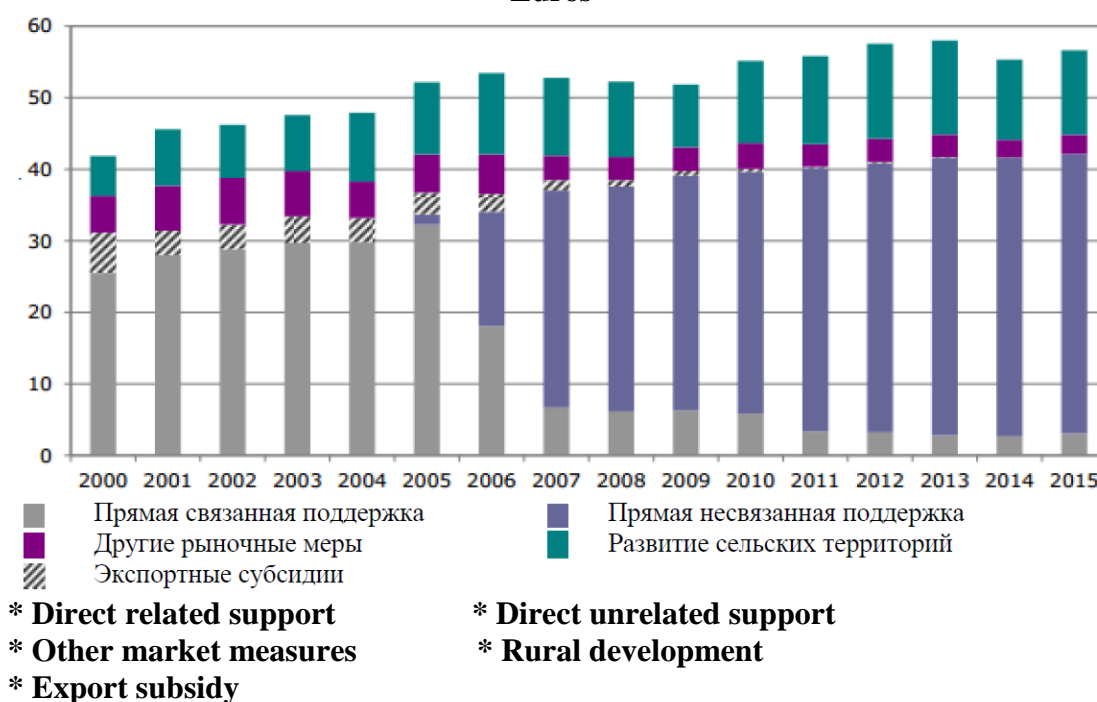
<b>Tasks (purpose)</b>	<b>I section of the EU agricultural budget</b>	<b>II of the agricultural section of the EU budget</b>
Environmental protection	"Green direct subsidies»	Measures to protect the environment in agriculture and animal welfare. Support of ecological agriculture. The Program "Natura 2000»
Support for young farmers	Additional payment	Subsidies for the opening and development of business. Higher investment subsidies.
Support of adverse for agricultural production areas	Additional payment	Per-hectare support
Support of small farms	Alternative simplified program	Subsidies for business development
Support for producer cooperation	Improved legal framework	Support for the creation of producer groups, cooperation and sales

Agricultural support, the EU is characterized by a complex approach and is interrelated with the measures of market regulation as a whole (quotas, establishment of market prices, etc.).

<sup>5</sup> Yevropeyskaya ekonomicheskaya komissiya (2017) Gosudarstvennaya podderzhka sel'skogo khozyaystva v razvitykh i razvivayushchikhsya stranakh. (State support for agriculture in developed and developing countries) p. 4.

<sup>6</sup> Yevropeyskaya ekonomicheskaya komissiya (2017) Gosudarstvennaya podderzhka sel'skogo khozyaystva v razvitykh i razvivayushchikhsya stranakh. (State support for agriculture in developed and developing countries) pp. 4-5.

### Expenses for support of agriculture in the EU in current prices in 2000-2015, billion Euros<sup>7</sup>



About a third of the European budget is spent on agriculture – an average of about 50 billion euros; if national co-financing is added, the total amount of support is about 100 billion euros. For 2014-2020, the EU budget to support agriculture is planned in the amount of about 373 billion euros.

The direct transfer of payments to farmers is carried out through authorized national and regional bodies through two funds: the European agricultural guarantee Fund<sup>8</sup> (direct subsidies, market regulation), the European agricultural Fund for rural development<sup>9</sup>.

According to the notification submitted to the WTO for the 2013/2014 financial year, total support amounted to 78.4 billion euros, including 68.7 billion euros for the "green box" measures, 2.7 billion euros for the "blue box" measures, 7.0 billion euros for the "yellow box" measures, including de minimis (the current aggregate aggregate support measure) - 6.0 billion euros, or 8.2% of the limit obligations and 7.6% of the total support, while the volume of product - non – specific support did not exceed the de minimis level.

According to the information of the Department of agriculture and rural development of the European Commission in 2016, the total amount of support amounted to 62.8 billion euros.

<sup>7</sup>European Agricultural Guarantee Fund

<sup>8</sup>European Agricultural Guarantee Fund

<sup>9</sup>European Agricultural Fund for Rural Development

**Table 2: EU financial support measures<sup>10</sup>**

<b>Support measure</b>	<b>2016, million euros</b>	<b>Support structure, %</b>
Direct support, including	40984,1	65,3
<i>"Unrelated" support</i>	<i>35204,1</i>	<i>56,1</i>
<i>Other direct support</i>	<i>5384,7</i>	<i>5,6</i>
<i>Additional support</i>	<i>6</i>	<i>0,01</i>
<i>Compensation in connection with certain restrictions</i>	<i>395,4</i>	<i>0,6</i>
Market support measures, including	3154,3	5,0
<i>Food programme</i>	<i>1</i>	<i>0,0</i>
<i>Sugar</i>	<i>4</i>	<i>0,01</i>
<i>Olive oil</i>	<i>46,2</i>	<i>0,07</i>
<i>Flax and hemp fibers</i>	<i>6,1</i>	<i>0,01</i>
<i>Fruits and vegetables</i>	<i>1172,7</i>	<i>1,9</i>
<i>Wine</i>	<i>1027,1</i>	<i>1,6</i>
<i>Promotion</i>	<i>81,1</i>	<i>0,1</i>
<i>Other measures in crop production</i>	<i>242,0</i>	<i>0,4</i>
<i>Milk and dairy products</i>	<i>406,6</i>	<i>0,7</i>
<i>Beef</i>	<i>30,2</i>	<i>0,1</i>
<i>Lamb and goat meat</i>	<i>1,8</i>	<i>0,0</i>
<i>Pork, poultry, eggs, etc.</i>	<i>140,6</i>	<i>0,2</i>
<i>The restructuring Fund of the sugar industry</i>	<i>0</i>	<i>0,0</i>
Rural development	18649,6	29,7
<b>In Total (Totally)</b>	<b>62788,0</b>	<b>100,0</b>

The amount of direct subsidies that distort trade, for the individual member countries is limited to 8 % of the level of direct support or 13% if the current level exceeds 5% of the amount of direct support. The European Commission may increase these limits if justified. There is also the possibility of an additional 2 per cent increase in direct trade-distorting subsidies for protein crops.

In accordance with the new rules, EU countries can choose to reallocate up to 10% of the allocated amount of EU direct subsidies in favour of rural development and Vice versa. If the size of direct subsidies of a member state is less than 90% of the EU average, it has the right to increase the volume of direct subsidies to 5% of its rural development funds by reducing the EU funds allocated for rural development up to 25 %. Previously, direct payments were based on historical data, either at the individual farm level (historical model) or at the regional level (regional model), or on a combination (mixed model).

EU member States with the size of direct subsidies per hectare below 90% of the average level of the Union should cover 1/3 of the difference between the current level and current level. Overall, by 2020, the gap between the lowest and the highest per capita will be reduced by one third, with a corresponding 7% reduction in aid for the most affluent countries.

<sup>10</sup> Yevropeyskaya ekonomicheskaya komissiya (2017) Gosudarstvennaya podderzhka sel'skogo khozyaystva v razvitykh i razvivayushchikhsya stranakh. (State support for agriculture in developed and developing countries) pp. 6-7



Principles of success of EUAS can be called:

- \* financing of the common agricultural budget;
- \* the unity of the market of agricultural products through the establishment of common rules for unhindered and closed circulation of products.
- \* significant support.

Decisions on support are made at the supranational level. Thus, in case of force majeure, such as an outbreak of disease, the Commission may take emergency measures to support the pork and poultry market.

The reforms did not have a significant impact on the size of the EU agricultural support, which remains high-16% of the value of agricultural production in 2016.

State support for agriculture is currently carried out in the following main forms::

- \* budgetary subsidies for agricultural production and material and technical resources;
- \* preferential lending to agricultural enterprises;
- \* leasing of agricultural machinery and breeding animals using budgetary funds;
- \* public procurement of agricultural products and foodstuffs;
- \* support for crop insurance;
- \* tax benefits;
- \* restructuring of agricultural enterprises ' debt to the budget;
- \* financing of investment activities;
- \* support for agricultural science<sup>11</sup>

**Table 3: The main directions of improvement of the mechanism of the state financial support of agriculture<sup>12</sup>**

The direction of financial support	Recommendations on improving the mechanism of state financial support
Subsidization	Differentiated approach to setting the volume of budget support for different territories (regions). In particular, it is advisable to allocate agricultural areas and agricultural producers working in unfavourable conditions for agriculture. For such regions, it is advisable to provide special measures (or even programs) in order to bring the economy of the agroindustrial complex in them on the development trajectory. Differentiation of state support for farms with different levels of profitability. At the same time, agricultural producers should be divided into three groups: competitive farms operating in normal soil-climatic and economic conditions; farms that are in unfavourable socio-economic conditions; farms that have temporarily lost competitiveness. Introduction of untied support for livestock. Providing subsidies not only to producers of agricultural machinery, but also to agricultural producers to reimburse the cost of purchasing machinery and equipment
Lending (credit financing)	Preferential lending to agricultural producers. It is advisable to reduce the market interest rate to 2-3% per annum.

<sup>11</sup> Borhunov N.A. et al. (2008) Gosudarstvennaya podderzhka i mekhanizmy yeye realizatsii v APK (State support and mechanisms for its implementation in agricultural complex.) Moscow: Voskhod-A.pp.86-87.

<sup>12</sup> Semenova N. N. (2015) Uvelicheniye gosudarstvennoy finansovoy podderzhki sel'skogo khozyaystva - real'naya neobkhodimost'. (Increasing state financial support for agriculture is a real necessity) Natsional'nyye interesy: priority i bezopasnost, 17, 8-9

	<p>The use of the guarantee loan scheme.</p> <p>Development of mortgage lending.</p> <p>Wider use of the potential of agricultural credit cooperation.</p> <p>Development of leasing through the creation of a leasing Fund, the funds of which should be distributed on a competitive basis in the form of targeted loans</p>
Insurance	<p>Creation of an insurance reserve Fund to ensure full compensation of damage to the farms of the regions most affected by natural disasters and more complete mobilization of financial resources allocated for insurance.</p> <p>Modification of the current practice of the state subsidy of insurance of risks in agriculture, providing for: a) the use of a differentiated approach to the establishment of insurance tariffs in the context of agricultural producers using high-intensity technologies; b) determining the insurance value and rates for calculating subsidies based on their average yield (productivity) of the same time period; C) implementation of separate subsidy of expenses on conducting insurance business and expenses on compensation of losses of agricultural producers as a result of natural disasters</p>
Price regulation (price control)	<p>The application of the system of minimum guaranteed prices for producers of agricultural products in the framework for secured lending.</p> <p>Changing the ratio of prices for agricultural and industrial products by freezing prices for agriculture and tariffs of natural monopolies controlled by the state</p>
Taxation (taxing)	<p>The extension of the period of benefit of exemption from VAT the importation into the customs territory of the tribal products.</p> <p>Stimulation of investment activity in agriculture by means of: a) application of tax deduction at forming of tax base on the income tax in the amount of 30% of expenses of the organization for investments; b) providing tax holidays on the land tax and the property tax to newly created innovative firms in agriculture; C) increase of terms of providing the investment tax credit till 10-15 years</p>

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