

Anfinogentova, Anna; Kireeva, Natalya; Kosirev, Ivan

**Conference Paper**

## Supply regulation at Russian regional markets

38th Congress of the European Regional Science Association: "Europe Quo Vadis? - Regional Questions at the Turn of the Century", 28 August - 1 September 1998, Vienna, Austria

**Provided in Cooperation with:**

European Regional Science Association (ERSA)

*Suggested Citation:* Anfinogentova, Anna; Kireeva, Natalya; Kosirev, Ivan (1998) : Supply regulation at Russian regional markets, 38th Congress of the European Regional Science Association: "Europe Quo Vadis? - Regional Questions at the Turn of the Century", 28 August - 1 September 1998, Vienna, Austria, European Regional Science Association (ERSA), Louvain-la-Neuve

This Version is available at:

<https://hdl.handle.net/10419/113564>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

**Anna Anfinogentova**

**Natalia Kireyeva**

**Ivan Kosirev**

**Institute of Agrarian Problems**

**Russian Academy of Sciences**

**Moskovskaya 94**

**Saratov 410600**

**Russia**

**Tel.: (845 2) 24 24 26**

**Fax: (845 2) 24 25 38**

**E-mail: [apk@mail.saratov.ru](mailto:apk@mail.saratov.ru)**

**SUPPLY REGULATION AT RUSSIAN REGIONAL FOOD MARKETS**

The national system of regulation of the agro-industrial complex (AIC) and the food market is realized on two levels through a combination of decisions taken by the federal and regional authorities. At the present time the system is at the stage of formation: the regional authorities are beginning to play a more important role in the agrarian policy, the employed economic support mechanisms are being adjusted to the realities of the Russian economy. On the other hand the clash of objectives of the federal and regional development still remains, and the powers of the center and regions are not clearly differentiated yet.

Among the shortcomings the systems intended to support AIC on the regional level demonstrate at the present stage of development are the following:

- Mostly fulfilled through regional food funds, the distribution of budget resources has turned in many regions into local price adjustment instruments. This runs counter to the principles of a market economy and in no way facilitates the growth of production. As a result of this practice the differences in the commodity producers' financial position are becoming greater making the need of financial resources even more pressing – the reverse of what was expected.
- Direct subsidies granted to local producers are often accompanied by import restricting measures. This destroys the unity of the all-Russian market and facilitates the emergence of lowly competitive local markets.
- The amounts of allocated finance strongly depend on the current state of the regional budget. Furthermore, the intention to offer AIC a priority support often remains a mere declaration.

The regulation mechanism comprises a whole set of various instruments designed to influence the commodity producers by using which the government is attempting to stop the recession in the agricultural sector and stabilize the situation at the food market. Along with the overall decrease in the amounts of support changes are observed in the balance between the types of support (direct or indirect, revocable or irrevocable and other).

Credit relations and especially seasonal crediting are the most effective instrument to be applied to stabilize the agricultural production.

Beginning from 1992 the centralized soft agricultural credit was a necessary condition for both agricultural enterprises and independent farmers to maintain the production. This kind of credit was called «soft» because of the preferential interest

rates (28% for agricultural enterprises and 8% for individual farmers) and payment periods it offered. However, the distribution and spending of those huge credit resources were inadequately controlled, and the funds were sometimes used for non-agricultural purposes or even sold to organizations outside of the agricultural sector. Preferential interest rates were no longer subsidized starting from 1994, and since that time credits were offered at the interest rate that was equal to the current discount rate fixed by the Central Bank of Russia. In the spring of 1995 that crediting practice was replaced with commodity crediting implemented in accordance with the scheme proposed by the Russian Ministry of Finance. In fact that was a non-interest bearing kind of crediting from the federal budget revenue. However, in 1997 commodity credits became no longer available since it was found out that that practice could lead to an uncontrolled increase in budget expenditures. It should be mentioned that in reality commodity credits were not that non-interest bearing because the borrowers had to pay to the oil companies who would considerably hold up the prices for their products sold under commodity credit agreements.

Soft agricultural credit was revived this year on a principally new basis. The difference is that now the resources are strictly appropriated for seasonal, but not capital purposes. Another new feature is that the interest is flexible, constituting  $\frac{1}{2}$  of the current Central Bank discount rate, and does not vary by farm patterns. Eventually the effectiveness of crediting depends on the rate of repayment, the Agroprombank's property accountability and on the sufficiency of credit resources extended on easy terms as well. In 1997 the special credit funds were planned to amount 2,8 trillion rubles of budget resources and 9 trillion rubles of repayments on commodity credits extended in 1995-1996. However, the volume of crediting was actually lower because not all of the regions could repay, although their debts were redrafted into securities to be sold at the open market. The average credit allotted from the federal budget that year amounted 88 million rubles per agricultural enterprise operating on 4 thousand ha of arable land and 660 thousand rubles per peasant farm with 30 ha of arable land. As the authorized bank, SBS-Agro used its own method of crediting, taking into account the financial position of the borrower and preferring to support sustainable farms alone.

The imperfection of the new model soon revealed itself: the credit capacity requirements appeared to be too strict for the majority of producers. As a result, most of the producers never did succeed in obtaining the necessary funds and had to apply for over-priced commodity credits. For instance, only 60 of 260 profitable farms in the Saratov Oblast were finally granted credits on easy terms. In this situation local

authorities in many regions had to borrow from commercial banks on their own security. Thus, it is evident that the present system of distribution of soft state credits among regions and individual farms has to be revised to ensure reasonable availability of resources. In conditions of price disparity the credit capacity of a farm should mainly be judged by the rate of increase in the overall sales, not by the profitability rate.

Another difficulty is that farms do not have enough property that could serve as a pledge. In view of this special attention must be paid to the development of the securities market allowing for the circulation of warehouse receipts and grain warrants. An essential task today is also the development of mortgage lending.

The on-going decrease in the volume of irrevocable support provided from the federal budget led to a sharp reduction of the proportion of such support in the total of projected budget expenditures on agriculture. As a result, irrevocable subsidies became only sufficient to cover 30% of expenses on fuel, energy, gas and mineral fertilizers. However, like in the case with credits, the actually granted support by far failed to match with the planned level. For instance, in 1996 not a single ruble was allotted in compensation for the above expenses: by way of budget support the regions were offered grain purchased by the federal fund at overestimated price of 1,5 million rubles per ton. The situation was quite similar in 1997.

Much was said about the ineffectiveness of the current support distribution mechanism. It is generally recognized and proved by the world experience that stimulation of consumer demand and regulation of consumer's income are more effective at the intermediate stage than subsidizing food production. Nevertheless, abandonment of a number of compensation measures and direct payments to agricultural producers is impossible today. Support at other reproduction stages (subsidies to agricultural implements manufacturers or food processing companies) will not affect the profitability of agricultural production proper. In these conditions the government regulation system must be reformed gradually.

Weak coordination between the federal and local markets is often a source of regional crises (especially in the case with the regions with specialized agriculture) and instability in production and food supply. The reaction of the regions to market transformations is different.

The regions-main food producers initially oriented towards the Russian market suffered the most, the principal causes of that being, first, the lack of a real market environment and, second, the inequality among the agricultural producers – a result of the local nature of support provided by the regional authorities.

The proportion of budget subsidies in the cost of the gross agricultural produce varies from 3% to 18-21% depending on the region. At the same time regional agricultural development programs are rather aimed to slow down the process of economic stratification and preserve the present alignment of positions by means of «fair» distribution of technical and financial resources, debt charge-off, conclusion of agreements on deliveries to regional food funds and etc. Subsidies and compensations granted via local budgets are considered a means to reduce the losses and prevent further production recession and in no way encourage the effective use of the regional natural and economic potential and rational specialization.

The amounts of subsidies vary by region from 0% to 94% of the purchase price for cattle and poultry and from 0% to 78% of that for milk. The regional purchase price differences (with account of the subsidies included in the price) are even greater.

The amounts of subsidies for meat and dairy products are the biggest in the regions with specialized agriculture (Kalmikia, Tatarstan, Bashkortostan, the Orenburg Oblast) in which the production costs and, accordingly, the purchase prices are lower and also in the regions producing insignificant quantities of food by using costly methods. Thus, the meat production cost is relatively low in Kalmikia, Tatarstan and Bashkortostan (80.6%, 73.6% and 73.2% of the average Russian cost, respectively) and is the highest in Karelia, Komi and the Khabarovsk District (294%, 295% and 392%, respectively). This consequence of the different budget policies implemented by the local authorities can hardly be economically justified.

In the regions with the highest rate of agricultural specialization the volume of subsidizing is not always sufficient (Kalmikia, Bashkortostan and the Omsk Oblast are the exceptions).

The strongest price support is extended in the republics enjoying privileges in terms of independence of their budgets, while the regions in which the supported branches are the branches of agricultural specialization provide the least of support. Price support from the national and regional budgets is strictly controlled in EU where the national price levels are being gradually converged. It seems reasonable that the groundless purchase price differences in Russia be eliminated by means of guaranteed prices formally introduced in 1995 but never financed due to budget shortages.

The amounts allotted in support of AIC from the regional budgets much depend on the budget provision. In a significant part of agricultural regions (like the Krasnodar District, the Tambov, Volgograd, Astrakhan, Saratov and other Oblasts) the budget provision is poor. At the same time the contribution of these regions to the federal

budget is often incomparably more substantial than the amounts they receive back from the center. This brings about the necessity to improve the inter-budget relations the current function of which is to equalize but not to stimulate. The application of the differentiated approach to the distribution of budget funds sometimes leads to the situation when the average per capita income in the regions receiving transfers from the federal budget turns out to be higher than the average Russian per capita budget income and even higher than that in the regions receiving no transfers. The share of federal support a region can expect to be granted is currently determined based on the average per capita budget income in this region. This practice encourages the regions to remain dependent on the center and gives no incentives for them to increase the local budget revenues. Moreover, the uniform approach to the formation of the federal budget revenues not allowing for the weak tax potential of agricultural regions leads to the emergence of considerable reciprocal financial flows at the stage of allocation of support to regional AICs. For instance, in 1997 the Saratov Oblast was provided with 300 billion rubles in support of the sowing campaign. However, the term of actual receipt of the funds occurred to be longer than the period of sowing. The resulting temporal lag in the movement of resources from the region to the federal budget and then back gives the banking system a good opportunity to advantageously use the budget resources as credit funds.

We believe agricultural regions should be given the right to use some of the tax sources currently exploited by the federal center. First and foremost this regards the value-added tax received from the sales of the agricultural goods produced on the territory of the region. The resulting finance should be used to form a territorial agricultural producers support reserve that in turn should have a direct relation to the agricultural specialization of the region.

On the one hand, switching to regional support systems enables to take a more detailed account of the local demand and supply peculiarities but, on the other hand, it produces a certain negative effect by hampering the development of the common all-Russian food market. Dependent on the budget resources and specific features of a particular region, the rates of subsidies and compensations are a cause of many difficulties in the inter-regional economic relations. The analysis shows that such rates to a large extent depend on the factors that have nothing in common with agricultural production proper. The amounts actually paid out from the local budgets vary greatly by region.

To our opinion, availability of government support should depend on the production effectiveness demonstrated by the claimant. This principle is currently used in the Saratov Oblast AIC regulation concept: the volume of support is determined by employing a standard index that is based on the production level. The above index compares the actually achieved results with the potential rate of production.

A very important aspect is the effective utilization by the agricultural producers of the subsidies and compensations. The subsidies for the products of cattle breeding paid out from the local budgets are usually distributed based on the principle of equality or the priority is given to the most needy for the time being, irrespective of the results of the farms. However, in a number of regions cattle breeders have to work hard to obtain a substantial subsidy even now. For instance, farmers in the Perm Oblast are granted no subsidies at all if they produce less than 2300 liters of milk per cow. In case this rate of production is achieved or passed, the amounts of subsidies vary depending on the actual such rate. On the federal level the agricultural producers have been classified into 3 groups according to their financial position.

The regional agricultural policy of the federal authorities should not imply all the problems to be shifted to the regions. Without government support, direct and indirect subsidies the agricultural sectors of many Russian regions have no future.

A burning task of today is the revision of the taxation system which should not only be used as a fiscal instrument, but should also be applied for the purposes of stimulation and re-distribution. Currently the agricultural commodity producers are obliged to pay 12 different taxes, not including the local ones. For the food processing companies the number of taxes payable is 40. Until the Tax Code is adopted, the tax legislation comprises more than 900 instruments. The difficulty in the exercise of the right for the privileges the above legislation offers is another problem. The practice shows that both the independent farmers and the agricultural companies are often unaware of the existence of such privileges or have for this or that reason no opportunity to enjoy them. Meanwhile the tax privileges given to the agricultural commodity producers are impressive: the latter are exempted from the profit tax and the property tax, they enjoy lower rates of deductions to non-budget funds and a value-added tax rate that is two times lower for a number of prodooffers is another problem. The practice shows that both the independent farmers and the agricultural companies are often unaware of the existence of such privileges or have for this or that reason no opportunity to enjoy them. Meanwhile the tax privileges given to the agricultural commodity producers are impressive: the latter are exempted from the profit tax and the

property tax, they enjoy lower rates of deductions to non-budget funds and a value-added tax rate that is two times lower for a number of products is another problem. The practice shows that both the independent farmers and the agricultural companies are often unaware of the existence of such privileges or have for this or that reason no opportunity to enjoy them. Meanwhile the tax privileges given to the agricultural commodity producers are impressive: the latter are exempted from the profit tax and the property tax, they enjoy lower rates of deductions to non-budget funds and a value-added tax rate material. As a result, the described strategy becomes not so advantageous, since the small-scale processing is usually connected with significant costs. Consequently, this cannot be considered an appropriate way to improve the agricultural producers' financial position. As the government support to the agricultural sector is insufficient, the farmers must be given legal opportunities to increase the production and relief from the tax burden.

Not the agriculture alone is in need of government support. Many other branches of the agricultural and industrial complex, such as the branches producing the means of agricultural production and the branches that complete the production cycle, are in the position that is no better. If the regional authorities understand the situation then it may lead to the adoption of a privileged taxation system and the exemption from the local taxes of the industrial companies of AIC that deliver their products to farmers to the account of the oblast order. Such practice is applied in the Altai District, and the advantages of privileged taxation are being discussed in Saratov. Privileged taxation is also applied to wholesale food markets in many Russian regions.

The aim of the improvement of the taxation system is not limited to the reduction of the tax burden the agricultural commodity producers have to shoulder but is also the revision of the whole such system. For instance, the financial basis of the local self-government system in the Belgorod Oblast is a uniform food tax which is a substitute for the usual local taxes and which is payable by everyone who has arable land and who is engaged in agricultural production. The average oblast food tax rate is 288 kg of grain or the equivalent amount of any other product. The Oblast Food Corporation then turns the food resources collected in this manner into money the full amount of which is retained by the Oblast. The survey by questionnaire shows that many agricultural producers approve this kind of taxation practice. However, the positive experience of the Belgorod Oblast can only be spread to where there is an objective Land Cadastre. Only in this case the introduction of the food tax can be

justified and fair since the food tax is calculated based on the fertility of the soil as the principal means of agricultural production.

The obvious insufficiency of government support on all levels is gradually getting off-set by the development of the processes of integration among the agricultural producers and their cooperation with the representatives of the allied AIC branches. Farmers' cooperatives and associations of various kinds and vertical financial and industrial groups and corporations are now emerging in many Russian regions. The steps in this direction should also be supported by the government and are to a certain extent supported already by the Enactment of the Government of the Russian Federation «On the Economic Conditions of the Functioning of the Agro-Industrial Complex of the Russian Federation in 1997».

The analysis shows that at the present stage the national AIC regulation system is characterized by greater economic independence of the regions in dealing with the problems related to the agricultural and industrial complex. 70% of the total budget resources allotted to AIC are granted from the regional budgets. However, the consequences of this handing over of the responsibilities from the federal level to the regional one can hardly be predicted now.