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R95 **Russian Economy in 2018. Trends and Outlooks. (Issue 40)** / [V. Mau at al; ed. Editors – Alexei Kudrin, doctor of sciences (economics), Alexander Radygin, doctor of sciences (economics), doctor of sciences Sergey Sinelnikov-Murylev, doctor of sciences (economics)]; Moscow: Gaidar Institute Publishers 2019. – 616 pp. – ISBN 978-5-93255-556-9

The review “Russian Economy. Trends and Outlooks” has been published by the Gaidar Institute since 1991. This is the 40th issue. This publication provides a detailed analysis of main trends in Russian economy, global trends in social and economic development. The paper contains 6 big sections that highlight different aspects of Russia's economic development, which allow to monitor all angles of ongoing events over a prolonged period: the socio-political issues and challenges; the monetary and budget spheres; financial markets and institutions; the real sector; social sphere; institutional changes. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts confirming the conclusions.

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Agriculture in 2018: decline or growth?²

4.5.1. Estimates based on initial and adjusted data

Over recent years, agriculture – if we choose to look at available data prior to their adjustment based on the results of the All-Russia Agricultural Census – has been growing at a sufficiently high rate: in 2013 – by 5.8 percent, in 2014 – by 3.5, in 2015 – by 2.6, in 2016 – by 4.8, and in 2017 – by 2.5 percent³. Overall, growth over the course of 5 years amounted to 20.7 percent. Based on Rosstat’s current statistics, managers on both the federal and regional levels describe the development pattern of the

²This section was written by E. Gataulina, RANEPА; V. Uzun, RANEPА; N. Shagaida, Gaidar Institute, RANEPА; E. Shishkina, RANEPА.

³The Federal State Statistics Service (Rosstat) altered its published data several times. At different dates, it published data that were: (1) preliminary, (2) verified, (3) based on the first adjustment made with due regard for the results of the All-Russia Agricultural Census 2016. It has been announced that the results of the second and final adjustment will be released in May 2019. Thus, data may vary throughout the text of this overview. For the sake of accuracy, it is necessary to pay attention to the date of the data release. The data cited here were released as of October 1, 2018. After the first data adjustment, as of January 31, 2019, Rosstat released another figure: 3.1 percent.

agroindustrial complex (AIC) as a breakthrough and a leap forward¹. We likewise mentioned this fact in our overviews released over several previous years². However, in 2018, there were some problems involved in the estimation of the growth rate both for 2018 and for the previous years.

Rosstat made some serious adjustments to these statistics based on the results of the All-Russia Agricultural Census 2016 (hereinafter – ARAC 2016). The previously released agricultural production data were revised and downwardly adjusted. The most dramatic alterations had to do with the data on those agricultural products that are predominantly produced by individual households: potatoes; vegetables; melons and gourds; fruits and berries; and milk. At the same time, data on cereals output remained practically the same before and after their adjustment. The gross yield value of agricultural products also shrank: from RUB 5,654 billion to RUB 5,120, or by RUB 534 billion (*Table 28*). Meanwhile, as seen from the information sources, adjustment were made only to some statistical forms. In this connection, when analyzing the changes that occurred in 2018, one may be faced with a situation where some statistical forms are characterized by positive production growth rates, while the other forms display negative growth rates.

Table 28

Data adjustment for 2017, based on the results of ARAC 2016

	Production in 2017, thousands of tons		Preliminary data adjustment	
	before adjustment*	after adjustment**	billions of rubles/thousands of tons	percent relative to adjusted data
Gross production value volume in agriculture, billions of rubles	5,654	5,120	-534	-10.4
Grain	135,393	135,539	146	0.1
Meat and meat products	10,384	10,319	-65	-0.6
Milk and dairy products	31,184	30,185	-999	-3.3
Eggs and egg products (million)	44,891	44,829	-62	-0.1
Potatoes	29,590	21,708	-7,882	-36.3
Vegetables, melons and gourds	18,089	15,427	-2,662	-17.3
Fruits and berries (including grapes)	3,480	3,262	-218	-6.7

*data prior to adjustment, as of May 31, 2018. URL: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/enterprise/economy/

**Adjusted data: for gross production – as of January 31 2019. URL: http://www.gks.ru/free_doc/new_site/business/sx/prod_sx_rf.xls data for specific products – as of December 19, 2018. URL: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/enterprise/economy/#

¹URL: https://finance.rambler.ru/economics/40999322/?utm_content=rfinance&utm_medium=read_more&utm_source=copylink. Bryansk AIC made a true breakthrough.

URL: <http://xn--32-6kc4bi9i.xn--plai/economy/agroculture/2017/11/24/bryanskij-apk-sovershil-nastoyashhij-proryv/>The agroindustrial complex of Penza Oblast achieved a colossal breakthrough.

URL: <http://pnzreg.ru/news/selskoe-khozyaystvo/56749/>. The AIC of Chelyabinsk Oblast made a big leap. URL: <http://svetich.info/publikacii/aktualnoe-intervyu/sergei-sushkov-nasha-zadacha-prodolzhit-.html>

²N. I. Shagaida, V. Ya. Uzun. Growth factors in the agriculture of Russia. Russian Economy in 2016. Trends and Outlooks. Gaidar Institute for Economic Policy. Moscow, 2017; Shagaida N. I., Gataulina E. A., Yanbykh R. G., Uzun V. Ya. The year-end results of 2017 and new developments in Russia's agrarian policy. Russian Economy in 2017. Trends and Outlooks. Gaidar Institute for Economic Policy. Moscow, 2018.

An increase could be observed not only with regard to data on individual households (horticulturists - owners of vegetable gardens and orchards, or owners of country houses ('dachas'), etc.), but also those reported by agricultural organizations (AO) and peasant (farm) holdings (PFH).

Keeping records on individual household production is a difficult task for statisticians. This category of agricultural producers is by no means easily observable. They are not required to report to statistical agencies, and their production is estimated on the basis of sample data, the resulting estimates then being spread across more than 30 million individual households. Any errors, however slight, in the methodology and organization of those sample studies could result in some significant distortions in the overall picture. It is evident that the marked shifts demonstrated by the reported data after their adjustment can be explained by exactly that reason – limitations of the existing methodology and less than perfect organization of the sample studies.

It is much more difficult to explain the overstated data for AOs and PFHs, because these entities are required to submit to Rosstat, at regular intervals, reports with information concerning all aspects of their activity. True, some of them do not report, but then the actual data in current statistical records may be underestimated, and not inflated. Besides, an overwhelming majority of AOs and PFHs report to the RF Ministry of Agriculture, when they participate in government support programs targeting agricultural producers. The RF Ministry of Agriculture, through its regional agencies, and these, in their turn, through their district administrations, receive multipage annual reports containing hundreds or thousands of indices on various parameters of agriculture from each agricultural organization. Farmers submit two annual reporting forms. These forms are made use of by the RF Ministry of Agriculture, and are also available for the statistical agencies.

So the question arises – why the routine statistical follow-up yields inflated indices?¹ It should be noted that such a situation has emerged for the second time already in the history of Russian statistics, because two All-Russia agricultural censuses have taken place, in 2006 and in 2016. However, the data adjustment after the second census in 2016 was much more substantial than in 2006 - it affected all types of agricultural producers, while in the first case the adjustment was made mostly with regard to individual households and individuals.

¹As early as 2006, while analyzing the data obtained during the first agricultural census, Rosstat found that the current production volume statistics were higher than the same indices obtained during the census. The gross production index for 2007 was found to be higher by RUB 168 billion (8.7 percent). But then the error nearly entirely (to the value of RUB 167 billion, or 19.5 percent relative to the pre-census level) could be accounted for by the data on individual households. The adjustments for AOs and PFHs were negligible. The adjusted gross value added index for agriculture, hunting, and forestry demonstrated an even greater deviation: in 2007, before adjustment, it amounted to RUB 1,350 billion (Statistics Yearbook 2009), and after adjustment – to RUB 1,195 billion (Statistics Yearbook 2010), which represents a drop by 13 percent. The relative share of agriculture in GDP shrank from 4.1 percent to 3.5 percent. Russia's total GDP, when adjusted, remained practically unchanged.

Alterations in statistics based on the results of agricultural censuses give rise to many methodological problems whenever it is necessary to assess the rate of growth in agriculture in general, or by type of agricultural product.

A) *The methodological problems associated with the growth rate estimates for the past years.* For example, according to the initial data released by the Unified Interdepartmental Information and Statistics System (EMISS), the gross production index in agriculture in 2016 amounted to RUB 5,506 billion in current prices (or RUB 5,516 billion in comparable prices for 2017). In 2017, production growth in agriculture amounted to 2.5 percent. After the data for 2017 had been adjusted, the production volume in the new statistics for 2017 (RUB 5,120 billion) turned out to be far below that in 2016. The solution for that problem was already found after the first census: then, Rosstat downsized the production volume index in agriculture not only for 2007, but also for the previous 11 years (from 1996 through 2006). The adjusted production volumes were much lower than their previous level. By way of example, *Table 29* shows the relevant data before and after adjustment resulting from the first agricultural census.

Table 29

Agricultural production: data before and after adjustment, based on the results of the Agricultural Census 2006

	Gross agricultural production in current prices, billions of rubles			Gross yield of potatoes, millions of tons		
	Before adjustment*	After adjustment	percent relative to adjusted data	Before adjustment*	After adjustment	percent relative to adjusted data
1995	203.9	203.9	0.0	39.9	39.9	0.0
1996	286.9	283.4	1.2	38.7	37.6	2.9
1997	309.2	303.2	2.0	37.0	35.1	5.3
1998	307.6	298.4	3.1	31.4	29.0	8.5
1999	607.1	586	3.6	31.3	28.0	11.8
2000	774.1	742.4	4.3	34.0	29.5	15.4
2001	960.6	918.2	4.6	35.0	29.5	18.6
2002	1,028.3	968.2	6.2	32.9	26.9	22.2
2003	1,154.9	1,076.4	7.3	36.7	29.4	25.0
2004	1,345.2	1,253.2	7.3	35.9	27.9	28.8
2005	1,494.6	1,380.9	8.2	37.3	28.1	32.6
2006	1,711.3	1,570.6	9.0	38.6	28.3	36.6
2007	2,099.6	1,931.6	8.7	36.8	27.2	35.3

*Data from Statistics Yearbooks for 2009 and the previous years.

After the first adjustment (or assessment, as Rosstat has called it), a second adjustment (assessment) will be done, and it will result in alterations in the corresponding indices for several previous years, from 2007 onwards. Although Rosstat has downsized the value volume of gross production in agriculture for 2017 from RUB 5,654 billion to RUB 5,119.9 billion, the growth rate of that index demonstrated not only complete absence of any shrinkage, but even a certain increase relative to 2016 (from 102.4¹ to 103.1 percent²). This means that the value volume of gross production in agriculture for 2016 was downsized even more than that for 2017.

¹ As of May 31, 2018.

² As of January 31, 2019.

B) The methodological problems involved in estimating the rate of growth in the first year after the adjustment. In 2008, the procedure was accomplished painlessly, because that year was good for agriculture, and so there was a surge in production compared with the adjusted data (by 10.8 percent), accompanied by a relatively modest albeit real increase compared with the initial data (by 2.1 percent). The situation in 2018 proved to be much more complicated. After the record-high result of 2017, the main types of crop production in 2018 demonstrated a marked decline. This situation is, in fact, quite typical: ‘record-high’ years are very frequently followed by a year of unfavorable conditions. Russian weather conditions in 2018 were also conducive to a decline in crop yields. ‘At the end of July, Head of the Ministry of Agriculture Dmitry Patrushev said that, due to the unfavorable weather conditions, a state of emergency had already been introduced in 17 regions across the country’¹.

But for the data adjustment after the census, the answer to the question as to whether, in 2018, a production decline really took place in agriculture, would have been unequivocal – there was indeed a decline, and it was significant. This is confirmed by the indices shown in *Table 30*. The main types of crop production, except sunflower seed, demonstrated a very significant decline in 2018 relative to 2017. The production index for 2018 in animal husbandry (with the exception of milk output), demonstrated growth, albeit at a low rate. Since the rate of decline in crop production is much higher than the rate of growth in animal husbandry, and the crop production component still prevails in the value volume index of total gross production in agriculture, the overall decline in agriculture has become quite obvious (by 9.4 percent).

Table 30

Production in agriculture (millions of tons)

	2017 (before adjustment, as of May 31, 2018)	2018 (preliminary data as of January 31, 2019)	2018/2017, percent
Gross production in agriculture, billions of rubles, in actual prices	5,654	5,119.8	90.6
Output of threshed primary grains and legumes (including corn)	135.4	112.9	83.4
Sugar beet	51.9	41.2	79.3
Sunflower seed	10.5	12.6	120.2
Potatoes	29.6	22.4	75.8
Vegetables, protected and open-field cultivation	16.4	13.6	83.0
Total meat production (live weight at slaughter)	14.6	14.9	101.7
Milk	31.1	30.6	98.5
Eggs, billions	44.8	44.9	100.2

Source: for crop production data, see http://www.gks.ru/free_doc/new_site/business/sx/val_1.xls; for gross production in agriculture and animal husbandry production, see http://www.gks.ru/bgd/regl/b18_02/IssWWW.exe/Stg/d010/1-04.doc

However, as seen from *Table 28*, the production volume indices for 2017 were adjusted after ARAC-2016. Evidently, by applying the adjusted data, the RF Ministry of Agriculture reported that it expected the gross production index in agriculture to

¹ URL: <https://rg.ru/2018/08/08/kak-anomalnaia-pogoda-povliiaet-na-urozhaj-v-rossii-i-v-mire.html>

increase by 1 percent in 2018¹. But this growth is to result not from increased production, but from the downsized production indices for the previous year²: for milk – by 1 million *t*; for potatoes – by 7.8 million *t*; for vegetables, melons and gourds – by 2.7 million *t*; and for fruits and berries – by 0.3 million *t*. A more detailed analysis of these data will become possible after the release, in 2019, of the final adjusted gross production data by product type.

So, how can the rate of development in Russia's agriculture be estimated in view of the existing adjustment system? Which data should be relied upon? If the growth rates are compared on the basis of the initial data, the result will be overestimated. If the adjusted data are applied in calculating the growth rate in the agricultural sector, the result will also be erroneous, because a high rate will persist due to the downsized indices for the previous years. Below, we discuss some alternative methodological approaches to estimating the rate of growth in agriculture:

1. To select for the comparison a period the data for which are not doubtful and are not subject to any adjustment. Such a period in the post-reform era could be either the year 1990, or the five-year period 1986–1990 (*Fig. 27*).

Based on the initial data, it has already been concluded that the gross production index in agriculture in 2017 matched its level of 1990. No such conclusion can be derived from the adjusted data;

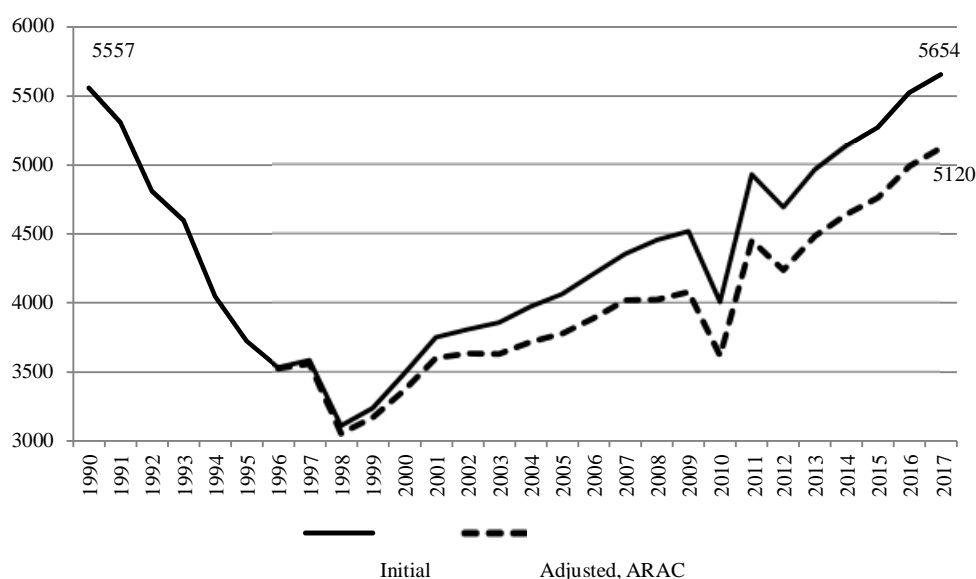
2. To compare the agriculture indices with those for the entire economy. In this connection, it is assumed that the growth rate of national GDP has been determined correctly (as demonstrated earlier, GDP is revised only slightly). On the basis of changes in the relative share in GDP of gross value added (GVA) in agriculture, the growth rate in agriculture can be calculated;

3. To compare the movement patterns of the by-product output growth rates and GVA in Russia's agriculture with the corresponding world indices. By doing so, it will be possible to more accurately estimate the national records and breakthroughs, setting them against the similar results achieved in other countries. For example, in the National Report on the Implementation of the Government Program of Agriculture Development in 2017 it is stated that the record of gross yield of grain, set in 1978, has been broken. However, if the grain record is to be viewed against the backdrop of world development, quite a different picture will emerge. In 1978, Russia produced 127 million *t* of grain, and in 2017 – 135 million *t*.

¹ 'However, as I have already pointed out, we will see an increase of 1 percent for the whole year. It will not be like last year's, but there will still be growth', said RF Minister of Agriculture Dmitry Patrushev at the meeting with the RF President on December 3, 2018. See <http://svetich.info/news/federalnyenovosti/genby.html>, December 3, 2018.

² In view of the announced 'breakthrough policy', this 'calculation trick' will probably become widespread: if no real breakthrough growth can be achieved, the required growth rate index will be produced by downsizing the base indices.

³ It should be noted in this connection that the conclusion, arrived at by many researchers on the basis of non-adjusted data, that the relative share of agriculture in GDP was increasing proved to be unsubstantiated after the relevant data were adjusted.



Note. The adjusted data for 2008–2017 were calculated by downsizing the initial data: data for 2017 – by 10.6 percent, and data for each previous year – by 1.06 percentage points.

Fig. 27. The movement of the gross production index in agriculture based on initial and adjusted data, billions of rubles

Source: Rosstat’s initial data, see http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/publications/catalog/doc_1135087342078; http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/publications/catalog/doc_1140096652250. For adjusted data, see http://www.gks.ru/free_doc/new_site/business/sx/tab-sell.htm

Over the period under consideration, Russia’s gross yield of grain gained 6 percent, and the corresponding world index gained 112 percent (increasing from 1,341 million *t* in 1978 to 2,849 million *t* in 2016). Russia’s share in world grain production over these years shrank from 9.5 to 4.7 percent. If Russia’s grain yield had been increased at the same rate as the world index, her gross yield would have increased to 255 million *t*. Evidently, it is feasible to use this index as a benchmark while estimating the achievements of Russia’s agriculture.

So, it should be said that, for 2018, it is difficult to estimate the changes in output and production growth rates due to the comprehensive data revision, both in retrospect – from the year of the All-Russia Agricultural Census 2016 – and thereafter, for the year 2017. However, if we apply more complex methodologies, we will see that there was indeed some growth, but it was definitely not spectacular. The same can be done with Rosstat’s adjusted data: the growth observed in 2018 is produced by the significantly downsized indices – both those for 2017 and those for the previous 10 years.

¹ The World Bank’s database. See <https://data.worldbank.org/indicator/AG.PRD.CREL.MT>

4.5.2. Prices and consumption

The shortfall in the yield of grain crops in 2018 had no negative consequences. Considering the accumulated grain reserves, Russia's grain resources in 2018 remained at a high level (*Fig. 28*).

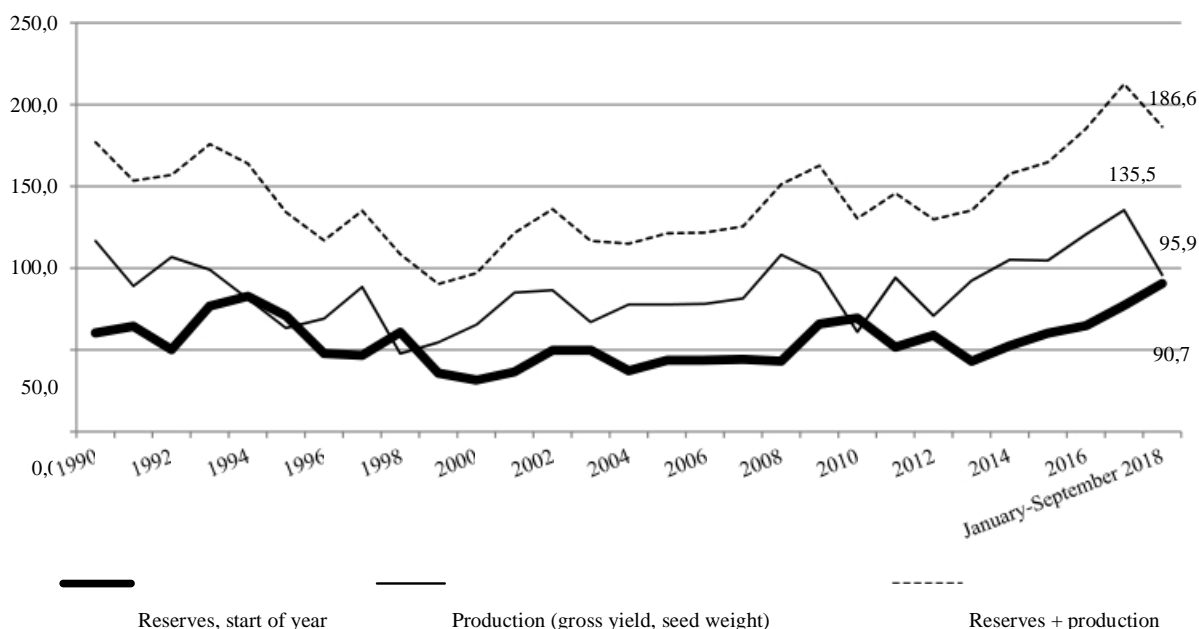


Fig. 28. Grain production and grain reserves in Russia (balance)

Source: Rosstat .

Two good harvest years in a row (2016 and 2017) resulted in a sharp decline of grain prices. At the onset of harvest in 2018, the prices were below their level of 2015–2017 both in ruble and US dollar terms. In June, they rose above the 2017 level, and demonstrated stable growth until December 2018 in ruble and US dollar terms (*Fig. 29*). At the same time, there was no grain shortage, and grain prices remained stubbornly high due to favorable export opportunities.

The shrinkage of sugar beet yield had no negative consequences, either, because over the previous two years the yield index was at the level of 51–52 million *t*, which in terms of annual average was 1.3 times higher than in 2015 (and 2–3 times higher than over the period 1995–2010). The good yields obtained in the previous years and competition with cane sugar suppliers on the international market pushed down domestic prices for beet sugar, while the export volume of sugar from Russia was very small (*Fig. 30*).

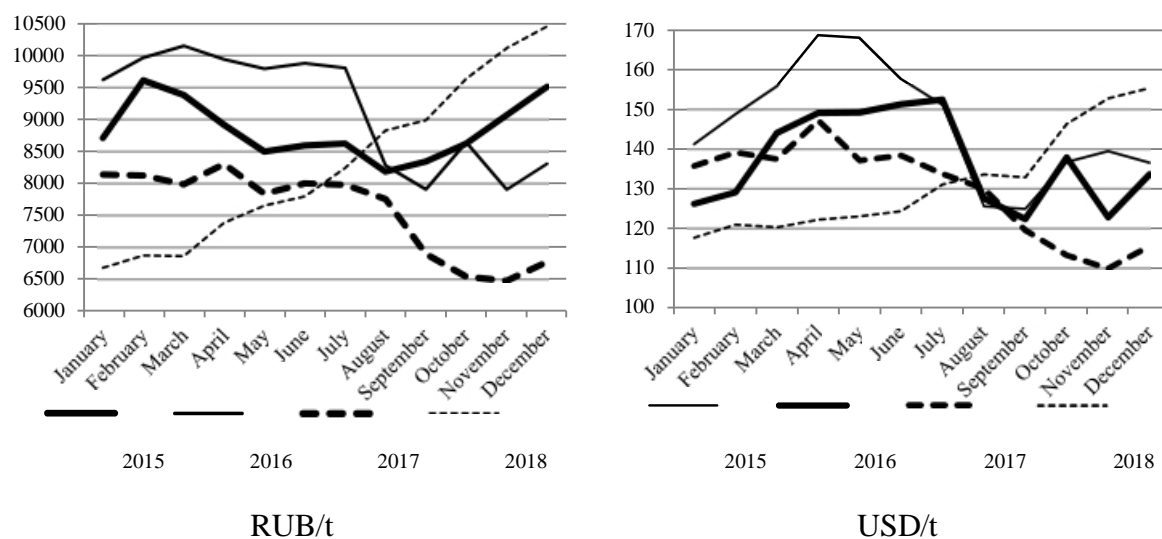


Fig. 29. Selling prices of wheat set by agricultural producers

Source: Rosstat.

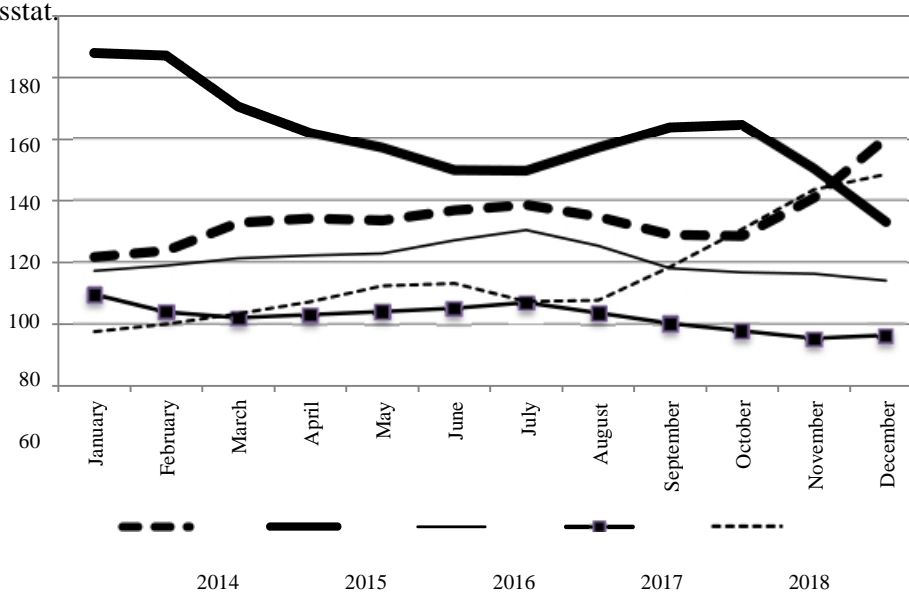


Fig. 30. Retail price index for sugar, as percentage relative to the corresponding month of previous year

Source: EMISS.

The food consumption index, calculated on the basis of retail sales of foodstuffs (household consumption data for 2018 will be released only in late October 2019), began to slowly regain its previous level in June 2017. Fig. 31 demonstrates the movement patterns of retail sales of foodstuffs in constant prices relative to each corresponding month of 2012. However, in December 2018, the volume of retail sales of foodstuffs was below that of 2015, 2014 and 2013. When set against its 2012 level, the retail sales index in December 2018 lost 10 percent.

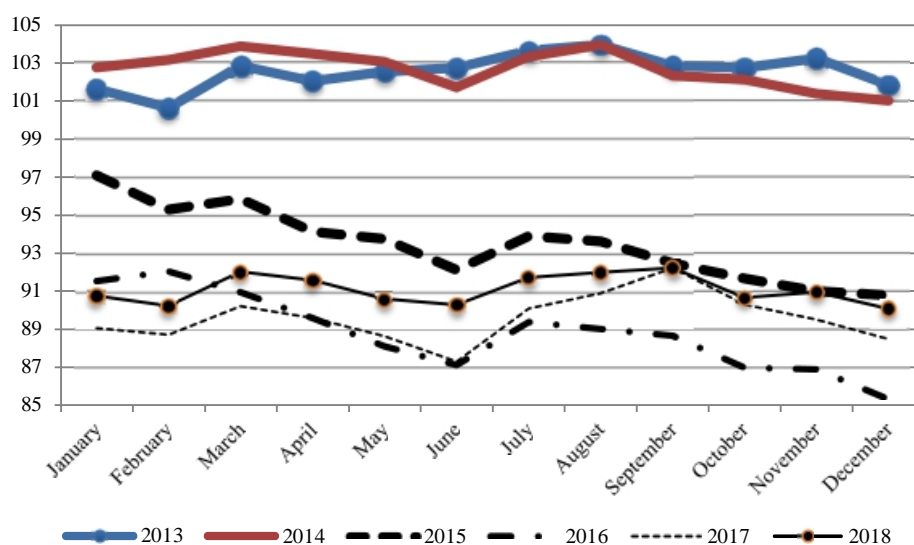


Fig. 31. Retail foodstuffs purchases in constant prices, current month relative to the corresponding month of 2012, percent

Source: Rosstat .

Demand revival resulted in growth of imports relative to the previous year (Fig. 32).

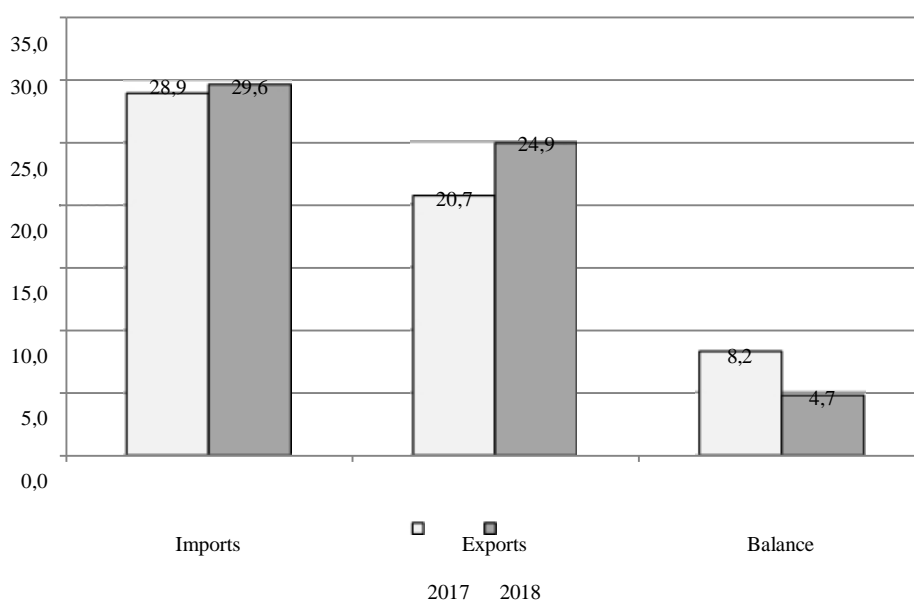


Fig. 32. Export and import of foodstuffs and agricultural raw materials (FEACN 1-24, billions of USD)

Source: RF Customs Service.

While both imports and exports were on the rise, the balance of imports and exports hit its record low of USD 4.7 billion.

4.5.3. Changes in agricultural policy

In 2017, the first phase (program-based, planned for the period 2013–2017) of the implementation of the Government Program of Agriculture Development and Regulation of Markets for Agricultural Products, Raw Materials and Foodstuffs for 2013–2020 was completed.

From 2018 onwards, the project-based phase was started, to last until December 31, 2020¹. It is expected that the Government Program should be prolonged until 2025², and so its period will extend to 12 years. The first Government Program was planned for 5 years (2008–2012), the second one (in its current version) – for 8 years (2013–2020). The initially established 5-year period was adopted as the most feasible one, to ensure a sustainable agricultural policy. The program developers believed that the directions, priorities, measures and rules of government support in a medium-term perspective should not undergo any dramatic alterations, and the agricultural business community thus would be certain that all activities, investment including, could be planned with confidence. When that five-year period was over, the priorities, mechanisms and scope of funding were to be analyzed and revised, whenever necessary. During the program implementation period, no changes in its main parameters (its structure, directions, set of measures, etc.) were planned, except in case of an emergency situation, to avoid any negative effects on businesses.

However, in actual practice the Government Program became a short-term planning tool, as over the course of the year 2018 alone, the RF Government issued 4 decrees whereby it was altered in one or other way, and since its launch in 2013, a total of 12 decrees has been issued by the Government. The alterations had to do with the priorities, goals, structure, mechanisms, presentation forms, and other core components of the Government Program. At the same time, the planned prolongation of the Government Program moves it over to the category of long-term planning tools, and eliminates the procedure for analyzing the results of the medium-term period. This fact points to a lack of proper understanding, on the part of its developers, of the Government Program's meaning and goals specifically as a medium-term planning tool, the latter being legally consolidated in Article 8 of the Federal Law 'On Agriculture Development'.

Some significant changes in the structure of the Government Program were introduced by RF Government Decree No 1544 dated December 13, 2017 (the subsequent amendments being of a more detailed and targeted nature). The program developers had to be guided by the said Decree's provisions while elaborating the Government Program's new version. The Decree introduced strict 'Rules for the development, implementation and performance assessment in the course of

¹ Decree of the RF Government No 717 dated July 14, 2012 (as amended on September 6, 2018) 'On the Government Program of Agriculture Development and Regulation of Markets for Agricultural Products, Raw Materials and Foodstuffs for 2013–2020'.

² E. Fastova spoke of the government support of the AIC at the conference 'Russia's Agroholdings – 2018'. See <http://mcx.ru/press-service/news/elena-fastova-rasskazala-o-gospodderzhke-apk-na-konferentsii-agroholdingi-rossii-2018/>

implementation of some government programs of the Russian Federation' (hereinafter – the Rules). In particular, the Rules established the requirements to the structure, content and goals of the Government Program. Besides, they impose a ban on '*the inclusion of supplementary and substantiating materials into the set of materials to be approved by an act of the Government of the Russian Federation*'¹. As a result, in order to comply with the Rules, the Government Program became a document of form, and not of content: it does comply with the established format, but its content offers no clues as to the reasons for elaborating one or other direction of government support, and no specific support mechanisms.

Thus, at present the Government Program documentation² consists of a generalized Certificate (with a brief outline of its funding scope, deadlines, goals, and directions of development) and 16 disjointed annexes with no references to any specific details, or even to the goals and directions put forth in the program certificate (the Government Program contains no explanatory notes because these are forbidden by the Rules (see above), and so it is difficult to find any substantiation for the composition and content of the Annexes. Besides, one of them was abolished. One annex contains a short list of participants in the Government Program (government departments) in addition to the RF Ministry of Agriculture. Seven annexes outline the 'development directions' that have to do with sustainable development of agricultural lands and land improvement, and these, in spite of their importance, are not the key areas of government support for agricultural producers. Another two annexes set the criteria for territories to be earmarked for accelerated development, including the Far-Eastern Federal District and the Arctic zone, which can hardly be regarded as the main regions where the goals set by the Government Program are to be achieved because of their tough climatic conditions. That annex, as well as those regions, were included in the program in order to comply with paragraph 13 of the Rules, approved by Decree of the RF Government No 1242 dated October 12, 2017 (as amended on February 23, 2018), which consolidated the list of regions earmarked for accelerated development. Probably the program developers thought that those regions were to become leaders in all spheres and sectors, agriculture including. This goal can probably be achieved – abundant budget funding can make corn grow inside the Arctic Circle³, and that region may well get ahead of Krasnodar Krai in terms of its gross value added growth rate in agriculture.

And finally, the four remaining annexes set the rules for allocating federal budget subsidies to the budgets of RF subjects in accordance with the four key support mechanisms – the single regional subsidy, untargeted support of crop production, the subsidy per kilogram of sold milk, and compensation of interest on investment loans

¹ As a government program should be approved by a decree of the RF Government, it is subject to this requirement.

² The latest version, as approved by RF Government Decree No 1063 dated September 6, 2018.

³ The gross grain and legume yield target for all categories of agricultural producers operating in those subjects of the Russian Federation where some territories are situated inside the Arctic zone set in the Government Program (Annex 15) is 2,332.400 t in 2018.

issued to the AIC. No funding targets are set for these measures, and there are no instructions as to which goals and directions they should correspond to. Besides, the Annexes do not fully outline the entire spectrum of government support measures designed to help the achievement of the goals set in the Government Program, and thus somewhat distort its ideas. Thus, in particular, there is no description of the mechanism employed in funding the principal support measure – preferential loans for agricultural producers, which in 2018 accounted for one-fifth of total federal expenditure allocated to the Government Program (the old interest compensation mechanism applies only to the loans taken before January 1, 2017).

The goals set by the Federal Law ‘On Agriculture Development’ differ from those set in the Government Program, which was adopted on the basis of that Law. At present, the Government Program declares other goals that correspond to the Rules introduced by Decree No 1242 of the RF Government. The Government Program states as follows:

Goal 1 – to ensure food security in the Russian Federation, with due regard for the economic and territorial accessibility of products of the AIC (the agricultural production index for all categories of producers (in comparable prices) in 2020 will amount to 108.6–110.8 percent relative to 2015);

Goal 2 – to produce value added in agriculture in the amount of RUB 3,890–4,050 billion in 2020;

Goal 3 – the growth rate of exports of products supplied by the AIC in 2020 should amount to 132–133.3 percent relative to 2015;

Goal 4 – the physical volume of investment in fixed assets in agriculture in 2020 should amount to 111.3–113.1 percent relative to 2015;

Goal 5 – the disposable resources of households (per household member per month) in rural areas in 2020 should amount to RUB 17,900–18,300.

Essentially, these are indicators, and not goals. However, such an approach was outlined by the authors of the Rules, which require that ‘*the goals of a pilot government program should be formalized as numerical targets (indicators)*’. This means that already at the level of mandatory official instructions, goals have been replaced by more narrow indicators. As a result of too faithfully obeying the letter of the law, the developers of the rules have inadvertently disobeyed its spirit. Thus, for example, the goal of ‘securing sustainable development of agricultural territories, employment of rural population, improving their living standards’ proclaimed in the Federal Law ‘On Agriculture Development’ in the end was reduced to ‘achieving the target for the volume of disposable resources of households’.

The goals set in the Government Program need to be properly adjusted. Because the agriculture development goals are presented in the form of ‘narrow’ indicators (one for each goal), the entire structure, which must be organized so as to properly ensure their achievement (program directions – measures), thus becomes questionable from the point of view of its reasonability and performance.

The Government Program in its current version, in addition to the five goals (their number also being established in accordance with the Rules), also encompasses

10 program directions (subprograms), which correspond to 4 projects and 6 subprogram in its process-related part. The introduction of the process-related and project-related parts was the main innovation introduced in 2018 – presumably in order to significantly improve the management quality in the agricultural sector.

A ‘project’ is defined as ‘a complex of interrelated measures designed to achieve unique results in conditions of limited timelines and resources’¹. While a ‘process’ cannot be put in the ‘project’ category for a number of reasons – for example, a process is extended over time, it is support-oriented, and it is difficult to precisely describe specific measures because a ‘process’ occurs, as a rule, in the framework of functional activities of a government department. But the structure described here is something completely different. Processes involve ‘measures’, while ‘projects’ have only goals, and no measures. And nowhere in the Government Program it is stipulated which measures are designed to support a project, or the specific amount of funding to be allocated to it (only the total amount of funding to cover all the projects is determined in the ‘certificate’ part). But, the ‘process’ *Agricultural Land Improvement in Russia* is supplied with a very detailed list of capital construction sites (Annex 3), from which one can learn that, for instance, a total of RUB 12,000,000 will be spent on ‘Reconstruction of the drainage network in the land improvement system *Suvorosh*’ in Viazniki district (Vladimir Oblast) 2018, and RUB 1,700,000 – on the related planning and survey activities. The relative significance of components included in the current version of the Government Program is clearly blown up out of proportion. However, the Rules introduced by Decree No 1242 demand that ‘*a list of capital construction sites, measures (enlarged investment projects), property entities included (or to be included) in the federal targeted investment program*’ should be provided, and so the relevant government department complied with the Rules by augmenting the Government Program’s structure by Annex 3.

Some questions arise in relation to the placement of some of the specific program directions either in the process-related or project-related part. Thus, for example, it is not clear why ‘Technological Modernization of the AIC’ is defined as a project – that is, it is supposed to be finite and so, following the logic applied by its authors, it will be successfully over once its goals are achieved – namely, the renewal coefficient established for the tractor, forage and grain harvester fleet (for some reason, applied only to agricultural organizations); while at the same time ‘Development of the Raw Materials Base for Supplying Light Industry with Quality Agricultural Raw Materials’ is a process, although it envisages the implementation of some specific support measures in specific sectors.

On the whole, it seems that the goals set in the Government Program, once achieved, might be unsustainable. The process of technological modernization of the AIC in the Government Program is presented as a finite project, and besides it is reduced to

¹ Decree of the RF Government No 1050 dated October 15, 2016 ‘On the organization of project-related activities of the Government of the Russian Federation’ (see assistance system Consultant Plus (electronic database)).

achieving the set targets of renewal of tractors and some types of harvesters owned by agricultural organizations. Obviously, as soon as such a ‘project’ is completed, it will be necessary to launch a new one because (1) machinery is constantly aging, but it is not being constantly replaced, so the renewal level is not going to last; (2) the project targets only two items (tractors and harvesters), overlooking the diversity of all existing machinery and technologies.

Since the Government Program lacks proper logic and is structured disproportionately, it is not surprising that the small-scale targeted measure ‘Compensation of the Costs Incurred by Hippodromes in Their Tests of Purebred Horses’ is included in the process-related part – the program direction ‘General Conditions for the Functioning of the AIC’s Sectors’. Also, as noted earlier, in Annexes 15 and 16 one can find detailed descriptions of the targets to be achieved, the allocation of funding by source, by year, by project and by process among the regions earmarked for ‘accelerated development’, while no such information is provided with regard to those regions that account for the bulk of current agricultural production.

In its present form, the Government Program fully complies with the ‘Rules for the development, implementation and performance assessment in the course of implementation of some government programs of the Russian Federation’ approved by Decree of the RF Government No 1242 dated October 12, 2017 (as amended on February 23, 2018). Meanwhile, its usefulness for the potential recipients – agricultural producers, rural residents, regional and municipal administrations of the AIC – is still questionable.

Funding and principal measures. The text of the Government Program¹ provides only information on general funding. Thus, in 2018 the total amount of allocations under the Government Program was RUB 298.3 billion, including federal budget allocation of RUB 241.99 billion (81.1 percent of total), consolidated budget allocations of RF subjects in the amount of RUB 44.97 billion (15.1 percent), and funding from off-budget sources in the amount of RUB 11.37 billion (3.8 percent). Thus, the bulk of support of the AIC is shouldered by the federal budget. The project-related part takes up 68 percent of total funding (RUB 202.9 billion), of which RUB 170.98 billion (84.3 percent) is allocated from the federal budget, and the rest (RUB 31.9 billion (15.7 percent)) – from the budgets of RF subjects. One can get the idea of the structure of and federal funding allocated to each of the measures outlined in the Government Program from the Federal Law ‘On the Federal Budget for 2018 and the Planning Period 2019–2020’ (*Table 31*).

As seen from *Table 31*, the principal form of federal support in the agricultural sector is support for investment loans, accomplished in two ways. The first way is the compensation of interest paid on loans taken before January 1, 2017. The second way is the compensation of credit institutions for their loss of income as a result of issuance of

¹ Decree of the RF Government No 717 dated July 14, 2012 (as amended on November 30, 2018) ‘On the Government Program of Agriculture Development and Regulation of Markets for Agricultural Products, Raw Materials and Foodstuffs for 2013–2020’.

loans at reduced interest rates to agricultural producers and processors of agricultural products before January 1, 2017.

Table 31

The amount of federal budget funding allocated to the Government Program of Agriculture Development and Regulation of Markets for Agricultural Products, Raw Materials and Foodstuffs for 2013–2020 in 2018, billions of rubles

Program directions of the Government Program	Billions of rubles	percentage of total
Government Program, total	241.99	100.00
Departmental project <i>Development of AIC Sectors Ensuring Accelerated Import Substitution of Main Types of Agricultural Products, Raw Materials and Foodstuffs</i> , including:	58.31	24.10
Measure <i>Non-targeted Support of Agricultural Producers in Their Crop Production</i>	11.34	4.69
Measure <i>Increasing Productivity in Dairy Farming</i>	7.96	3.29
Measure <i>Aid in Achieving Regional Program Development Targets in AIC</i>	39.00	16.12
Departmental project <i>Promotion of Investment Activity in Agroindustrial Complex</i> , including:	102.00	42.15
Measure <i>Support of Investment Lending to AIC</i> – subsidies to compensate for interest payment on investment loans issued to AIC	52.22	21.58
Measure <i>Support of Preferential Lending to AIC Organizations</i> – subsidies to credit institutions designed to compensate them for their lost incomes on loans issued at reduced interest rate to agricultural producers, organizations and individual entrepreneurs involved in production, industrial processing and sale of agricultural products	49.68	20.53
Departmental project <i>Technological Modernization of the AIC</i>	10.00	4.13
Subprogram <i>Management of Government Program Implementation</i>	28.34	11.71
Subprogram <i>Ensuring General Conditions for Functioning of AIC Sectors</i>	13.86	5.73
Subprogram <i>Development and Improvement of Agricultural Lands in Russia</i>	11.43	4.72
Subprogram <i>Scientific and Technological Backing for Development of Sectors of Agroindustrial Complex</i>	1.15	0.48
Priority Project <i>Export-oriented AIC Production</i>	0.66	0.27
Subprogram <i>Sustainable Development of Agricultural Lands</i>	16.23	6.71

Source: Federal Law dated December 5, 2017 No 362-FZ (as amended on July 3, 2018 No 193-FZ).

So, as the obligations are gradually fulfilled, the relative share of interest compensation in the total lending structure will be shrinking. The main normative document whereby the compensation of credit institution for income loss is regulated has been Decree No 1528 of the RF Government dated December 29, 2016 (as amended on October 16, 2018). In 2018, the Rules were amended to make them more specific (by Decree No 1230 of the RF Government dated October 16, 2018). Among the main new provisions was the one whereby the compensation to authorized banks for their loan agreements concluded in 2019 and thereafter was reduced from 100 to 90 percent of the RF Central Bank's key rate. Besides, it now became possible to rely on loans in settlements with suppliers under letters of credit.

Another measure envisaged in the departmental project *Promotion of Investment Activity in the Agroindustrial Complex* was 'compensation of direct costs incurred during the construction and modernization of agroindustrial complex entities'. It has advantages over the mechanism of preferential investment loans in that it does not entail long-term government obligations. However, the actual amount of funding thus allocated is very small – RUB 100 million (2018), and it can be earmarked for a rather broad range of AIC entities under Decree of the RF Government No 1413 dated November 24, 2018. The list of entities to be funded is revised every year, which destabilizes the business community.

In terms of funding scope, second comes the departmental project Development of AIC Sectors Ensuring Accelerated Import Substitution of Main Types of Agricultural Products, Raw Materials and Foodstuffs, which mainly channels the current by-sector support.

Untargeted support mainly goes to the crop production sector. The payments are earmarked for the compensation of some of the costs of agricultural technologies applied in the cultivation of cereals and legumes, forage production, as well as vegetables, and calculated per hectare in accordance with the list approved by the RF Ministry of Agriculture. In fact, the allocation of support to specific types of crops makes it targeted, thus raising questions as to whether one or other type of crops indeed belongs to the WTO Green Box category. In 2018, a total of RUB 11.3 billion from the federal budget, with an additional RUB 5 billion from the Reserve Fund, was allocated to the purchases of diesel fuel in the amount of not less than 90,000 tonnes, to power the use of agricultural technologies during that year¹. In 2018, untargeted support was provided to the total value of RUB 20.88 billion, including RUB 16.34 billion from source at the federal level, and RUB 4.5 billion from regional budgets.

The subsidies earmarked for boosting productivity in dairy farming were spent by way of compensating part of the per kilogram cost (less VAT) of cow and (or) goat milk that was sold and (or) delivered to on-site processing facilities. The name of this subsidy points to the task of promoting higher productivity in the dairy farming sector. That task is reduced in the main to applying an upward coefficient to the federal subsidies earmarked for those RF subjects where the average annual dairy cow productivity reported by farms at the end of a reporting year amounts to 5,000 kg or higher. The RF subjects likewise allocate their subsidies to agricultural producers ‘on a differential basis, depending on the dairy cow productivity index for the reporting financial year relative to the corresponding index for the previous reporting financial year’². At the same time, in accordance with Item 7 of the Rules that regulates the allocation and distribution of that subsidy, ‘the funding is granted to agricultural producers on the basis of the following criteria:

- a) the agricultural producers should actually own a herd of cows and (or) goats as of the first day of the month during which they apply to the empowered body for funding;
- b) the agricultural producers should safeguard their cow herd against decline in the reporting financial year relative to the previous year’.

In other words, the purpose of subsidizing is not so much to increase productivity, as to safeguard the existing herd and keep output at the existing level. No innovations were introduced to these rules in 2018, with the exception of a more specific provision, which applied to all types of compensatory subsidies, that ‘the costs are compensated less the amount of VAT’ (Decree of the RF Government No 1443 dated November 30, 2018).

¹ Instruction of the RF Government No 1620-r dated August 4, 2018.

² Item 5 of Annex 8 ‘Rules for allocation and distribution of subsidies from the federal budget to the budgets of subjects of the Russian Federation aimed at increasing productivity in dairy farming’. Decree of the RF Government No 717 dated July 14, 2012 (as amended on November 30, 2018).

The funding allocated under that subsidy in 2018 amounted to RUB 10.72 billion, including RUB 2.75 billion from regional budgets. Thus, the bulk of the burden of untargeted support in the crop production and dairy farming sectors has been shouldered by the federal budget.

One of the most substantial channels of funding has been federal support allocated to the measure titled *Aid in Achieving Regional Program Development Targets in AIC*, which recently pooled several different subsidies that used to be allocated by way of targeted funding from the federal budget. These are the support of purebred animal breeding, insurance in the agricultural sector, cooperation, elite seed growing, perennial crop plantations, small-scale farming, short-term loans at reduced interest rates, etc. In order to maintain the targeted support structure across consolidated government support measures, the RF Ministry of Agriculture clearly formulated the corresponding program directions¹ and linked the allocation of support to RF subjects with their ability to meet the set targets². As a result, the effect of allocated budget expenditure under this subsidy is assessed on the basis of 24 targets and multiple reporting forms.

Thus, the Ministry has accomplished a nearly impossible task – it fulfilled the order that the measures should be pooled, while at the same time maintaining their successive order. However, the governance procedures actually became more cumbersome, and thus less efficient. The targets and the amount of funding allocated to each specific measure are still being controlled by the government bodies, and besides, an additional new ‘superstructure’ now binds together all those measures. Overall, in 2018, the funding allocated to the single subsidy was to amount to RUB 48 billion, of which RUB 39 billion came from the federal budget, and RUB 9 billion – from the regional budget. Thus, the lion’s share is once again covered by the funding from the federal level.

Among the innovations introduced in 2018 into the rules regulating the allocation of this subsidy, there was the discontinuation of financial aid to individuals cultivating their individual household land plots, that aid previously being earmarked for the payment of insurance premiums on crop production or animal husbandry insurance agreements; the addition of three more items onto the list used for allocating the single subsidy to the regions (now it consists of 19 items); the introduction of alterations to the allocation formula – now it is adjusted by the relative share and total planned area of new vineyards planted during the year of subsidy allocation in the i -th RF subject in the total planned area of new vineyards, and the relative share of planned insured cropped (sown) area (in arbitrary units) and insured livestock (in arbitrary units) during the year of subsidy allocation in the i -th RF subject in the total insured cropped (sown) area (in arbitrary units) and insured livestock (in arbitrary units)³.

¹ Order of the RF Ministry of Agriculture No 373 dated July 27, 2017.

² Items 4, 9, 30 of Annex 9 ‘Rules for allocation and distribution of subsidies from the federal budget to the budgets of subjects of the Russian Federation aimed at promoting the achievement of targets set in the regional AIC development programs’. Decree of the RF Government No 717 dated July 14, 2012 (as amended on November 30, 2018).

³ As amended by Decree of the RF Government No 1443 dated November 30, 2018.

Agricultural insurance covered by government support is not popular among the beneficiaries – agricultural producers. The insured cropped area is negligible. In 2016, the agricultural cropped area and perennial crop plantations covered by insurance agreements amounted to only 5 percent of the total sown area, and in 2017 – to 1.7 percent.¹ Among the reasons for such a situation, the Ministry points to ‘the low level of compensation coverage, low probability of realizing insurance claims in accordance with the law, and total absence in some regions of insurance organizations which provide government-backed insurance’². Evidently, these are objective reasons, and they prevent agricultural insurance from becoming more widespread. The Ministry must deal with these issues, and not simply punish the regions, and thus indirectly penalize the agricultural producers by cutting the funding for the other program directions covered by the single subsidy that are more in demand. Here, we can witness the tendency towards goal substitution – the Ministry is becoming more concerned about achieving the targets that it must report, rather than about the sector’s development in the interest of agricultural producers.

One of the most important program directions supervised by the RF Ministry of Agriculture is sustainable development of agricultural territories³. It was previously included in the Government Program for 2013–2020 as a FTP (federal target program). The same status was granted to the program direction *Development and Improvement of Agricultural Lands in Russia*. By the Government’s Decree No 1243 dated October 12, 2017, from January 1, 2018 the implementation of these FTP was discontinued before their deadlines had been reached, and now, after their status has been changed to a lower one, they both operate in the framework of the current Government Program (as amended by Decree No 1443 on November 30, 2018) as DTP (departmental target program). By the RF President’s Assignment, the status of program directions for sustainable development of agricultural territories was upgraded – by June 1, 2019, a new Government Program must be approved, which would ensure the effective implementation of ‘a comprehensive approach to the development of agricultural territories’⁴. Over the year 2019, the funding procedures based on program directions and the same DTP-based targets will remain unchanged.

4.5.4. Conclusions

1. The existing statistical follow-up methods make it impossible to objectively assess the ongoing processes in agriculture. Statistical methods need to be improved, and the

¹ National Report ‘On the progress and results of implementation, in 2017, of the Government Program of Agriculture Development and Regulation of Markets for Agricultural Products, Raw Materials and Foodstuffs for 2013–2020’. – P. 45.

² Ibid.

³ Decree of the RF Government No 450 dated June 12, 2008. Provision on the RF Ministry of Agriculture (as amended on August 16, 2018).

⁴ Dmitry Patrushev delivered a report at the meeting of the RF Federation Council, addressing the issues of sustainable development of agricultural territories. See <http://mcx.ru/press-service/news/dmitriy-patrushev-vystupil-s-dokladom-na-sovete-zakonodateley-rf-po-voprosam-ustoychivogo-razvitiya/>

old institution of agricultural statisticians (municipal statistics) must be reestablished; the methodology applied in statistical observations and estimations based on sample studies should be altered, and Rosstat should become a self-sufficient independent organization, no longer subordinated to the RF Ministry of Economic Development. Until this is accomplished, estimates of growth rates in agriculture should be taken with a pinch of salt, and a skeptical view of official statistics should invariably be held.

2. The production indices for 2018, in spite of the lower yields of grain and sugar beet, are not fraught with risks for consumers or agricultural producers. Gross grain yield coupled with the accumulated reserves makes it possible to boost exports without any threat to the domestic market, while the rising prices in the domestic market are compensating the producers for their losses of the past years caused by low prices. The shrinking yield of some crops like millet has already produced a surge of their prices, but given the very low consumption volume (about 1 kg of millet per person per year) and low price, no significant effect on household expenditures can be expected.

3. The slow growth of demand for foodstuffs from July 2017 onwards (after a decline from August 2014 through June 2017) continued throughout 2018. However, the demand index only rose as high as its 2016 level. It still hovers significantly below its levels of 2015, 2014 or 2013. In such a situation, the introduction of additional payments, which will affect food prices, is fraught with a high risk of shrinkage in the demand for food. So the issue of food aid still retains its importance. The estimated minimum aid would require the transfer of about RUB 89 billion to the needy families. This measure will result in a 40 percent increase in the food expenditures by the poorest households, which seems to be substantial in relative terms, but is very little in absolute terms (RUB 1,000 per family member per month). In order to identify the group of needy families, new selection criteria will need to be applied, which will take into account their living conditions. When elaborating the food aid mechanism it will be feasible not to rely exclusively on domestically produced foodstuffs, because by no means all of them – even the cheapest ones – can really compete with their low-price foreign counterparts.

4. An analysis of improvements in government management procedures based on the experience of implementing the Government Program of Agriculture Development and Regulation of Markets for Agricultural Products, Raw Materials and Foodstuffs for 2013–2020 demonstrates that instead of essentially improved management (when priority is given to the goals of beneficiaries – agricultural businesses, and agricultural development), only some purely formal and superficial alterations have been reluctantly made (willy-nilly the officials have to comply with the established rules, carry out official assignments, etc.). This trend is rather dangerous, it undermines the system performance, and it raises even more concerns because this phenomenon can be observed by no means only in agriculture.

The Government Program of Agriculture Development and Regulation of Markets for Agricultural Products, Raw Materials and Foodstuffs for 2013–2020 must once again be revised in accordance with the requirements stipulated in the Federal Law ‘On Agriculture Development’, where it is defined as ‘the core document setting the goals

and main directions of agriculture development over the medium-term period, the financial provision thereof, and the mechanisms to be employed in implementing the envisaged measures'. At the same time, in its form and content alike, the Government Program must be strongly oriented to the beneficiaries, who must receive from this core document clear informative signals for the medium-term development prospects of agricultural businesses and territories'.
