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## **State support of agricultural enterprises and its effectiveness<sup>2</sup>**

**Abstract.** The problem of effective using of gated out budgetary funds in agrarian sector is discussed. An offer of development of a procedure which should consider potential productivity of each region and agricultural organization and promote a decrease of differences between enterprises and territories on a level of economic development is presented. Besides it is necessary to consider the future membership of Belarus in the World Trade Organization (WTO). Entering condition in this organization for the agrarian sector is a removal of budget assignments on financing exports and a limitation of level of the state support for agriculture.

**Key words:** effectiveness, state support, state subsidy, financial position, Belarus

### **Introduction**

The agrarian sector and agriculture takes special place in economy of any country. Its role is caused for specific production conditions and final production such as foodstuffs. By virtue of high organic constitution of capital in agriculture subjects of industrial activity receive more a low income and can not compete with producers of other branches in markets. Besides dependence of yield and incomes of agricultural producers depends from environmental conditions and leads to instability of theirs position. Considering that food stuffs is the good and has flexible supply and demand the state satisfies basic needs of population and assumes functions on regulating of relations which develops on food market.

Known American economist D. Gelbert characterizing role of a state in macroeconomic regulating proportions of developing of production has wrote: 'State interfering in interests of agriculture ... has essential significance for balanced development. If agriculture is free from state interfering development will be insufficient and possible dangerously low'.

### **Material and methods**

We research and offer to develop such a procedure which will consider potential productivity of each region and agricultural organization and promote to decrease the differences between enterprises and territories on a level of economic development.

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<sup>2</sup> This text due to many ununderstandable formulations has not been edited in full and is published for courtesy reasons.

## Results of research

Significant experience of state influence on agriculture is saved up by the countries with the developed market economy. These countries protect their agrarian sectors by various trade barriers and also support agricultural producers with financing of new technologies and conduct conforming credit, tax and budgetary policy.

World experience shows that it is necessary to consider specificity of the concrete country when regulation of economy is used by the state.

In performs period in agriculture and economy of Belarus, as well as other countries of 'socialist camp' were administratively controlled limitations. Despite of big centralized investment, tax and other privileges farms have not been interested in effectiveness of production. Subjects of management were oriented on fulfillment of natural parameters State subsidies, credit facility. Prices on means of production were lower of world level and foodstuffs of population were essentially subsidized that stimulate its high level. Therefore putting of subsidies on material and technical resources for agrarian sector in performs period was inevitable.

In 90th years the state has sharply decreased financing support of agricultural organizations that has led to reductions of incomes level of majority of agricultural commodity producers. Entrance into market against a background of falling solvent demand of population has called increase in price of discrepancy between products of industry and agriculture.

Table 1. Economic characteristics of activity of agricultural organizations in Belarus

Parameter	Year							
	1990	2000	2001	2002	2003	2004	2005	2006
Number of agricultural organizations	2552	2414	2400	2338	2230	1978	1720	1644
In that unprofitable	8	1177	1639	1519	1501	269	1	14
Proportion of unprofitable, %	0.3	48.8	68.3	65.0	67.3	13.6	0.06	0.9
Average financial loss per unprofitable enterprise, million ruble	0.1	67.6	144.9	165.9	224.7	248.2	168.0	314.3
Number of people occupied in agriculture, thousand person	915	503.1	475.2	421.7	383.8	350.7	341.3	331
Monthly average wage, thousand ruble	247	35.7	75.8	108.3	132.7	193.1	275	295
Profit (+) or loss (-), billion ruble	3.5	45	-166	-114	-167	173.2	182.1	16.5
Level of profitability (unprofitability) of realized production, %	46,4	5	-9,3	-5,0	-6,2	4,7	3,6	0,3

\*taking denomination into account.

Source: [Краткий... 2007].

Analysis of factors efficiency of functioning of agricultural organizations from 1990 year till 2003 year has shown low production efficiency, high level of debts and high

specific gravity of unprofitable enterprises (table 1). Realizing of necessity of rising of budget support of agricultural enterprises has induced to reconsideration of development line of agrarian policy. The branch has started to be actively invested.

Position of agriculture has improved in 2004 year. The level of profitableness of marketed products in analyzed year has constituted 4,7 % and quantity of unprofitable organizations has decreased up to 13, 6 % against 67, 3 % in 2003 year.

Today financing of agriculture is carried out according to the state program of rebuilt and development of countryside. According to this program it is planned to single out 69819,1 billion rubles for 2005-2010 years (Fig. 1).

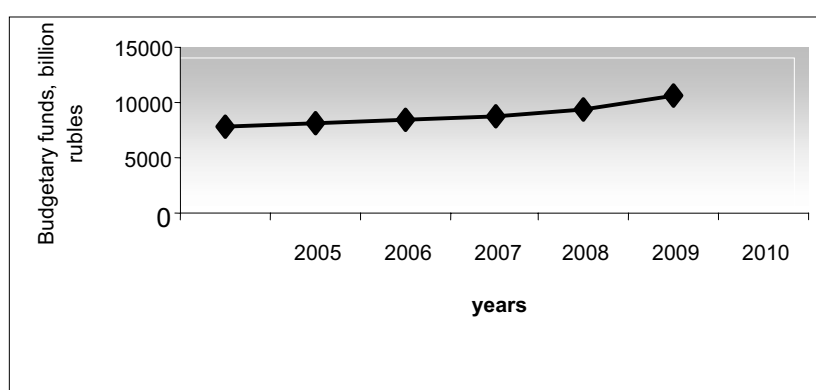


Fig. 1. Budgetary support for the Agrarian and Industrial Complex in years 2005-2010, billion ruble  
Source: [Государственная... 2005].

Table 2. Distribution of the republican fund of producer's support for the agricultural and food produce and for the agrarian science

Direction of funds disposal	Sum awarded, million ruble
Payments of interests on loan according National bank of Belarus and securities	8500.0
Grants	1399431.1
Current transfers	50000.0
Capital expenses	390002.3
Giving of budget recourses. budget loans and payments of Government as grant for cancel of credits which have been given out by Belarussian banks	58200.0
Total sum	1906133.4

Source: [Национальный... 2006].

Money funds deposit to regions and agricultural organizations taking into account production volumes and realization of products. At the same time in the EU countries since 2005 subsidies arranged by other principle than it was earlier. The size of singled out subsidies depends not from quantitative factors but from quality of made production. So, farms must not break ecological norms, rules of animals keeping and quality standards

during production of food stuffs and legislation on labor protection. In other words main condition of receiving of farming subsidies in EU became observation of high standards and ecological compatibility of production.

The greatest specific weight in budget financing borrows means of republican fund of producers' support of agricultural production, foods and agrarian science. This fund is annually distributed among regions and agricultural organizations of Belarus. In 2006 year from given fund to regions has been single out 1906133.4 million rubles.

From table 2 is seen that more than 70% in structure of allocated funds borrow subsidies. There is a mistaken notion that the level of state support of agriculture is defined by volume of means which are gated out by state and that increasing of this sum will lead to improvement of position in agrarian sector. In practice shortening or increasing of expended means does not testify to real change of position of agricultural producers. So, despite of significant annual infusing of money resources financial position of the agricultural organizations has worsened during last years.

During period from 2004 year till 2006 year there was increasing of the sum of material losses counting on 1 unprofitable enterprise and decreasing of profit squeeze and as the result lowering of profitability of realized products to 0.3 % (Table 1).

Besides, the factor of financial autonomy of the enterprise has decreased on 5.1 per cent, the factor of financial dependence has increased on the corresponding size. According to the condition from 01.07.2006, presence of own turnaround means in agriculture has negative meaning. It means that there are debts of the last years in the balance of enterprise which exceed the presence of turnaround means in the analyzed year. Thus, the majority of the agricultural organizations of republic carried out the process of manufacture exclusively due to borrowed means.

In turn support of agriculture is carried out not only by means of direct financing, but also by means of a various sort of privileges.

The sum of tax privileges on the agricultural enterprises in 2006 has made over 50% from the sum of payments under the general order. Privileges have been given by 8 kinds of taxes, the greatest sum of privileges on payment of the VAT and the tax to the basic production assets of agricultural purpose.

Alongside with it, according to the Decree of President 'About some measures on financial improvement of the agricultural organizations and attraction of investments into an agricultural production, from March 19th, 2004, agricultural enterprises which have had the debts on payment of taxes and other obligatory payments in republican and local budgets, and also on gas, electric and thermal energy by January 1<sup>st</sup>, 2004, are given a delay of its repayment till January, 1st 2009. The sum of these delayed debts makes 672.7 billion ruble.

The analysis shows, that the irrational use of budgetary funds still takes place. So, practical data testify, that the enterprises making a lot of production on ruble of a commodity output, receive less compensatory payments from the budget.

And on the contrary, at the low volumes of realization, enterprises receive more, counting upon unit of a commodity output, from the budget. Thus farms making a lot of production also have higher level of profitability. It shows the expediency of intensity escalating of conducting an agricultural production, including due to budgetary funds.

The state supports in the equal sizes the manufacturers making agricultural production on the high-fertile soil (with estimation of 40 points and above), as well as those, who work on the worst lands (with an estimation of 23-25 points). However, according to the results

of 2005, the tendency of increase in the size of compensatory payments on unit of the area with growth of cadastral estimation agricultural lands is noted. In analyzed year the agricultural organizations with the best grounds (40 points and above) received 2 times more than compensatory payments on the unit of area, than an agricultural production with the worst grounds. It speaks about some changes in distribution of budgetary funds to the side of efficiency increases of their investments.

For last two years the state has accepted a number of measures to improve the agricultural organizations such as reorganization of many of them and transformation or sale of their property to the safe organizations and physical persons. Naturally, unprofitable agricultural enterprises require essential financial grants which can give them from the incomes highly profitable factories, combines, building and other organizations. This help in many cases happens rather essential and duly.

The research of distribution of the state support to the agriculture shows, that financing is carried out on a set of directions that leads to the dispersion of means and easing of the control over their use. Besides, the assistance given to rural commodity producers in many directions causes the necessity to develop numerous techniques for its distribution. The main thing that is put in a basis of a similar development is substantiation, to what groups of commodity producers and on manufacture of what production means should be allocated from the state budget.

## **Conclusion**

Thus, carried out researches allow drawing following conclusions:

1. Functioning of a modern agriculture in foreign countries in many respects is defined by conditions of state financing (price and budgetary) of the given branch. The market elements can't keep a condition of existence of agriculture without carrying out of a purposeful state policy on redistribution of a significant part of the national income on maintenance and development of agriculture. In a return case the decline of manufacture and chaos in the food market, loss of food safety are possible.
2. For last years deterioration of a financial condition of the agricultural enterprises was outlined. The majority of the agricultural organizations of republic carry out process of manufacture exclusively due to the borrowed means.
3. The state supports mainly commodity producers of agricultural production and this help for last years has not decreased. However now there are no precise techniques of its distribution between the basic producers that reduces efficiency of the means spent for support.
4. The analysis of the means use of the centralized financial support shows, that irrational use of budgetary funds still takes place. The enterprises which make a lot of production on ruble of a commodity output, receive less than compensatory payments from the budget. And on the contrary, at the low volumes of realization, enterprises receive more counting upon a unit of a commodity output from the budget. Thus the facilities making a lot of production also have a higher level of profitability. It shows, that it is expedient to escalate the intensity of conducting of an agricultural production, even with the help of the budgetary funds.
5. The state financial support of agro industrial manufacture should encourage the most effective forms and kinds of manufacture, provide necessary incomes for steady

economic activities and the expanded reproduction to the agricultural commodity producers. It is required, that the order of the centralized financing of agrarian and industrial complex does not undergo so significant changes as it occurs now.

6. It is expedient to reduce channels (kinds) of an expenditure of the state support.

Besides it is necessary to consider the future membership of Belarus in the World Trade Organization (WTO). The main condition of occurrence in this organization for agrarian sphere is the refusal of budgetary appropriations on subsidizing of export and restriction of a level of the state support of agriculture. Therefore today rational use of the budgetary appropriations allocated to agriculture is actual. Increase of feedback from them causes necessity for development of the effective mechanism of the state support of branch which realization should be carried out on a legislative basis and extend on all the agricultural organizations which are having the right of reception.

Existing system of the state support of agriculture is not so effective and does not create stimulants for management of profitable production. In practice is preavailable compensational approach and cost-is-no-object approach to distribution of means. Farms which use recourses less effectively and receive big grants and does not promote commodity producers in increasing of production and reduction in costs. Financing without accounting conditions of managing inevitably spends budgetary funds, reduces their effectiveness. At the same time concentration of means of state support to economically strong agricultural organizations contradicts to aim of reconstruction of paying capacity of basic mass of farms. It is necessary to consider, that economically strong farms as a rule in the pre reform period had powerful financially - technical and social base and have saved qualified stuffs. They are faster than others adapted to market and have internal funds for development. Thus, the differentiation of resources should provide payback of additional costs on production in bad natural and economic conditions of managing on the one hand and stimulate development of agriculture in regions where is possible to receive products with the least costs on the other hand.

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