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Agricultural State Expenditures in Ukraine: Shift- ing Towards Growth-Enhancing Measures

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State support to agricultural sector is characterized by a significant gap between planned and executed expenditures. There is also a tendency of state support shifting towards growth-enhancing measures, which should stimulate development of competitive agricultural sector. However, both effectiveness and efficiency of these expenditures is yet to be improved.

In 2012, state expenditures in the agricultural sector amounted to around 9.8 bln UAH which is slightly lower than in 2011. In fact, planned agricultural outlays were much higher and only 73.4% of the planned budget was executed which is the lowest indicator for the last 6 years. This means that agricultural producers counting for government support are constantly underfinanced which undermines trust in government and, thus, hampers investment climate in the sector. After significant drop of executed state support measures to the agriculture sector in 2009 a slight increase is observed since then. State budget outlays planned for agricultural sector in 2013 are rather modest, just 4% higher than executed expenditures in 2012. The key question is what share of this budget will be finally executed.

Figure 1 illustrates state support measures differentiated as production subsidies (or the so-called "growth-hampering" measures) and "growth-enhancing" measures, following WTO approach for classification of outlays into "amber box" and "green box" measures.

The first category (amber box) covers market price support and direct subsidies related to production levels, which distort production and trade. The use of "amber box" measures is limited by Aggregate Measure of Support set for Ukraine at the level of around 3 bln UAH. On the one hand, this requirement is easily achieved by Ukraine; actual agricultural outlays have not exceeded this limit since 2008 (see Figure 1.). On the other hand, poor execution of "amber box" measures has become a common practice that affects business planning of agricultural enterprises.

In Ukraine, production subsidies are mainly directed towards financial support of horticulture, livestock and crop production, and price support measures through Agrarian Fund amounting in

total to 0.8 bln UAH in 2012 (1.3 bln UAH are envisioned for 2013). Notably, in the last two years, production subsidies were significantly underfinanced. In particular, only 41% in 2011 and 29% in 2012 of direct support to producers planned in the budget was actually allocated. Many agricultural producers complain about such inconsistent policy and non-transparent procedures of funds allocation. Thus, production subsidies is not only economically inefficient support measure but its practical implementations is also questioned.

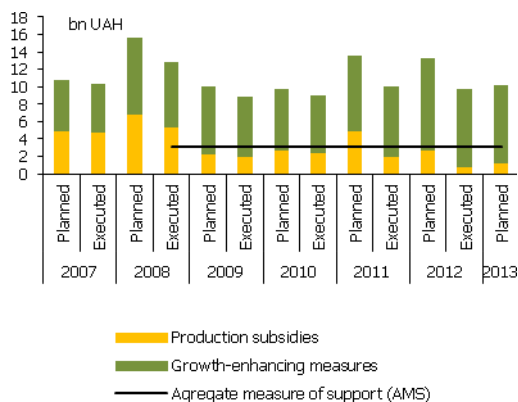
The second group includes measures that do not distort trade or cause minimal distortion, e.g. state-funded agricultural research and training, environmental protection and regional development programs. Government programs not targeted at any particular products and direct income support for farmers decoupled from production levels or prices are also included. "Green box" support measures are allowed without any limitations as they support free trade policies and stimulate "healthy" development of the sector in the long term.

Last year the largest shares of growth-enhancing or "green box" measures were directed to cover administrative costs of the Ministry of Agricultural Policy and other government bodies relevant for the sector, education and land market development programs (34%, 32% and 10%, respectively). Notably, administrative costs increased about two times in the last 6 years which evokes concerns regarding effectiveness of such expenditures. Execution rate of "green box" measures is generally higher than for the "amber box", 92% and 84% for 2011 and 2012, respectively.

Overall, a general trend is observed that state support is moving away from production subsidies towards "growth-enhancing" measures. Figure 1 clearly illustrates that the share of production subsidies in the total executed agricultural outlays has dropped significantly, from 46% in 2007 to 8% in 2012. At the same time, total amount of "green box" measures increased considerably both in relative and absolute terms. This move away from inefficient and trade distorting state support measures should release funds for investments in agricultural education, training and extension services and is expected to bring long-term benefits to the sector. The EU member states stepped on

this path back in 80's reducing market price support (MPS) expenditures from 91% (of producer support estimate) during 1986-88 to 61% in 2000-02 and 22% in 2010.

Figure 1. State support to agricultural sector of Ukraine



Source: own estimation based on State Treasury Reports on State Budget Execution (2008, 2009, 2010, 2011, 2012)

In conclusion, Government's capacity to support agricultural producers with direct payments should be estimated more carefully not to give commitments which could not be implemented. Poor and often populist planning of production subsidies should be avoided. Redirection of the state support towards more growth-enhancing measures can be regarded as a positive tendency. However, allocation procedures and effectiveness of support measures are yet to be improved.