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**Government Spending in Agricultural Sector of Ukraine:
High on Promise but Low on Delivery**

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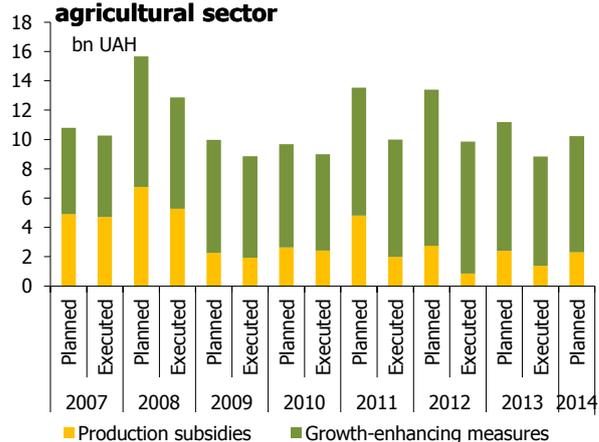
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Although the gap between planned and executed expenditures in agricultural sector was shortened in 2013, it is still relatively large to provide enough confidence for investments. Experience of the previous years suggests that agricultural outlays planned for 2014 are also not likely to be fully allocated. Improved planning and efficiency of Government spending in agriculture is needed to make the most from limited resources in the budget.

The largest amount of fiscal support (about UAH 13 bn) was provided to agricultural sector in 2008. In subsequent years the amount of state aid dropped considerably fluctuating from around UAH 9 to UAH 10 bn due to difficult economic situation and legislative changes. Last year central fiscal expenditures in agricultural sector amounted to around UAH 8.8 bn, which is lower by 10% than in 2012. As in 2012 planned agricultural outlays were much higher (about 20%) than actually allocated.

Following the approach adopted in previous years (see AFPR 01/12, AFPR 01/13), Figure 1. illustrates planned and executed outlays, or government support by measures for production subsidies (or so-called "growth-hampering" measures) and "growth-enhancing" measures (similar to WTO classification of outlays for "amber box" and "green box", respectively¹).

Figure 1. Government expenditures in agricultural sector



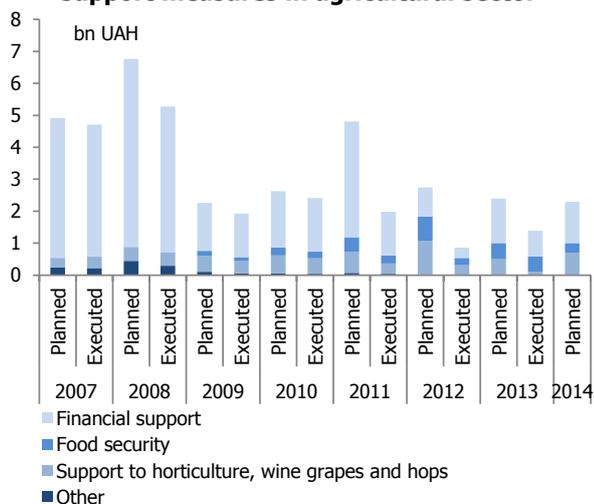
Source: own estimates based on reports of the Treasury of Ukraine, Law of Ukraine on the State Budget of Ukraine for 2014

Figure 1. shows that the highest execution of agricultural budget was observed in 2007 (about 95%). Since then actual allocation of resources was considerably lower than planned. Moreover, execution rate of production subsidies is generally much lower than the execution rate of "green box" measures. In particular, only 60% of envisioned production subsidies were finally allocated to producers in 2013 while only 31% of planned expenditures were executed in 2012. This discrepancy hampers investment climate in the sector as agricultural producers could not be sure that planned government support would be actually provided.

Figure 2. shows that total amount of production subsidies decreased by about 70% for the last 7 years to UAH 1.4 bn in 2013. However, distribution of resources across different categories varies considerably. Financial support for animal and crop production decreased by 80% while expenditures on food security (largely price control measures) boosted by more than 40 times and reached about UAH 497 m in 2013.

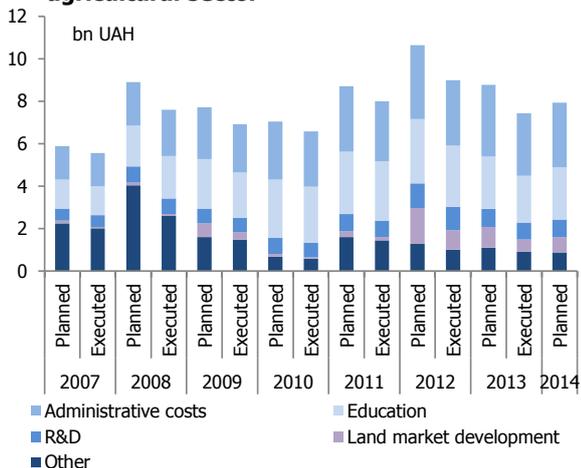
¹ "Amber box" covers direct production subsidies and market price support measures, which distort production and trade. The use of "amber box" measures by the WTO members is limited by the Aggregate Measure of Support set for Ukraine at the level of around UAH 3 bn. "Green box" includes measures that do not distort trade or cause minimal distortion (e.g., agricultural research and training, environmental protection and regional development programs and also support for farmers decoupled from production levels or prices). Use of the "green box" measures is not limited as they support free trade policies and stimulate "healthy" development of the sector in the long term.

Figure 2. Production subsidies and price support measures in agricultural sector



Source: own estimates based on reports of the Treasury of Ukraine, Law of Ukraine on the State Budget of Ukraine for 2014

Figure 3. "Growth-enhancing" measures in agricultural sector



Source: own estimates based on reports of the Treasury of Ukraine, Law of Ukraine on the State Budget of Ukraine for 2014

Figure 3. illustrates that Government funding of so called "growth-enhancing" measures grew from UAH 5.6 bn in 2007 to UAH 7.4 bn in 2013. Expenditures on research and development (R&D), and education in agricultural sector has increased by 45% and 62%, respectively. Support of land market development also increased considerably as land reform was intensified in recent years. At the same time, administrative expenditures of government bodies in agricultural sector increased by about two times, while their share in total agricultural budget increased from 28% to 40%.

On 16th of January, 2014, the Law №719-VII on the State Budget of Ukraine for 2014 was approved in the Parliament and signed by the President the next day. About UAH 10.2 bn is envi-

sioned in the budget to be spent in agricultural sector, which equals to 2% of the total central fiscal expenditures. Approximately 83% of planned outlays will be provided to the Ministry of Agrarian Policy and Food and the rest will be allocated to other relevant institutions (the National Academy of Agrarian Sciences of Ukraine, JSC "Ukragroleasing", etc.). Overall, fiscal outlays planned for 2014 are by 9% lower than were planned in 2013 but 16% higher than were finally allocated in 2013.

In the 2014, budget funding for a number of "amber box" measures is increased comparing to support provided in the last year. Production subsidies (if allocated fully) will amount to about UAH 2.3 bn, which is 62% higher than in 2013. Fiscal support to animal production sector is to be increased by about 25% (up to UAH 900 m) and funding for purchase of agrimachinery by JSC "Ukragroleasing" is to be raised more than two times (up to UAH 192 m). Funding of hop growing is envisioned at of UAH 700 m. In 2013, UAH 500 m² was planned for this program but only UAH 94 m was finally allocated.

Government support for the development of wholesale markets for agricultural products could facilitate access to markets for medium and small scale producers and contribute to improvement of food quality and safety of agricultural produce. UAH 200 m are planned to be spent for this programme in 2014. The same amount of support was envisioned in 2012 but only 21% was provided. Overall, about UAH 280 m were spent on this program for the period from 2010 to 2012. Compensation of expenditures of Agrarian Fund on transportation, processing and export of government price regulation objects is planned at UAH 300 m, which is 40% lower than in the previous year.

Figure 3. shows that funding of key groups of "green box" measures is planned to be increased to UAH 8 bn (7% higher comparing to 2013). However, spending on rural development, agricultural exhibitions, international collaboration, sanitary and phytosanitary measures is reduced.

² This figure includes all amendments of the state budget by the end of 2013 according to the report of the State Treasury of Ukraine on the execution of state budget for 2013.

Overall, a general tendency is observed that fiscal expenditures in agricultural sector are heavily under-executed. Considering that state budget for 2014 is based on optimistic macroeconomic indicators³ target spending in agricultural sector is not likely to be met this year as well. Considering difficult economic and political situation in Ukraine and pressing need for fiscal consolidation, expenditures in agricultural sector are not likely to be increased in the near future. The situation is aggravated by the fact reported by the Accounting Chamber of Ukraine⁴ that state programs are often ineffective as desired targets are not achieved. Hence, spending of limited financial resources should be properly targeted and used in an efficient way. In light of this a further prioritization of supported measures might be desired in order to keep limited budget focused, aiming to reach fewer targets, but in an efficient manner. Moreover, Government policies and measures to improve investment climate in the sector - such as simplified administrative procedures, guaranteed protection of property rights and predictable policy framework - is likely to bring more benefits to the sector than production subsidies, especially, because planning and allocation of this support is frequently intransparent and ineffective.

As in the previous years, planned government support to agriculture is not likely to be fully allocated in 2014. In light of a limited budget resources, the Government of Ukraine should focus its fiscal policy in agricultural sector on priority areas, for example, improvement of efficiency of small enterprises, adaptation to the EU standards or sustainable development of agricultural sector, oriented on environmental protection. In addition, all stakeholders should be involved in discussion of state support plans. Thus, farmers will be able to trust the Government and develop their business accord-

³ Real GDP growth is estimated at 3% while consensus forecast of independent experts is around 1%. Source: Monthly Economic Monitoring of Ukraine, 2/14, Institute for Economic Research and Policy Consulting, available at: http://www.ier.com.ua/ua/publications/regular_products/monthly_economic_monitoring/?pid=4352

⁴ See e.g., reports of the Accounting Chamber of Ukraine http://www.ac-rada.gov.ua/doccatalog/document/16741939/Selo_2015.pdf http://www.ac-rada.gov.ua/doccatalog/document/16742074/Zvit_2012.pdf

ing to proclaimed state support programmes.