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Russia Releases Draft of Agricultural Development Program 2013-2020

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Report Highlights:

The Russian Ministry of Agriculture posted an updated draft of the State Program for Development of Agriculture and Regulation of Agricultural Commodities Markets in 2013-2020. The draft envisages the total federal budget allocations for the Program in 2013-2020 at 2.1 trillion rubles (\$70.4 billion) and a move from credit support to direct subsidizing of infrastructural and industry support projects.

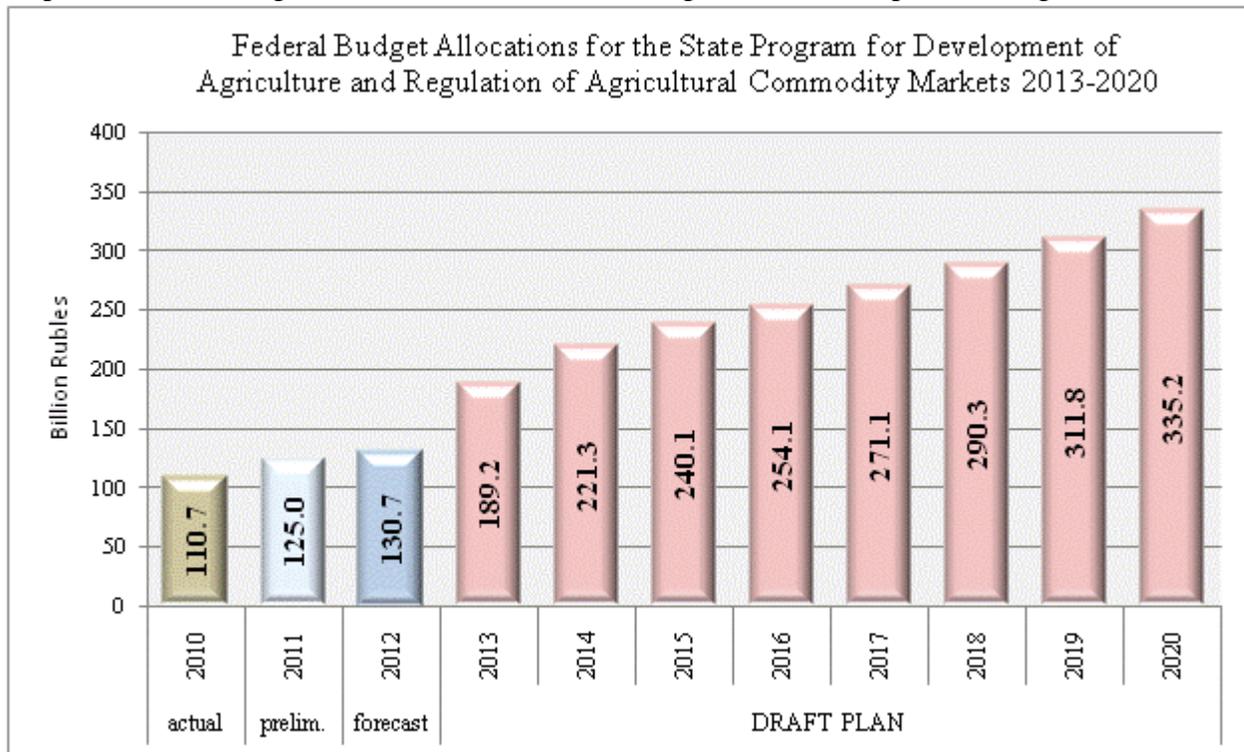
However, analysts are skeptical about the actual adoption of the draft's financial proposals by the Russian Ministry of Finance.

General Information:

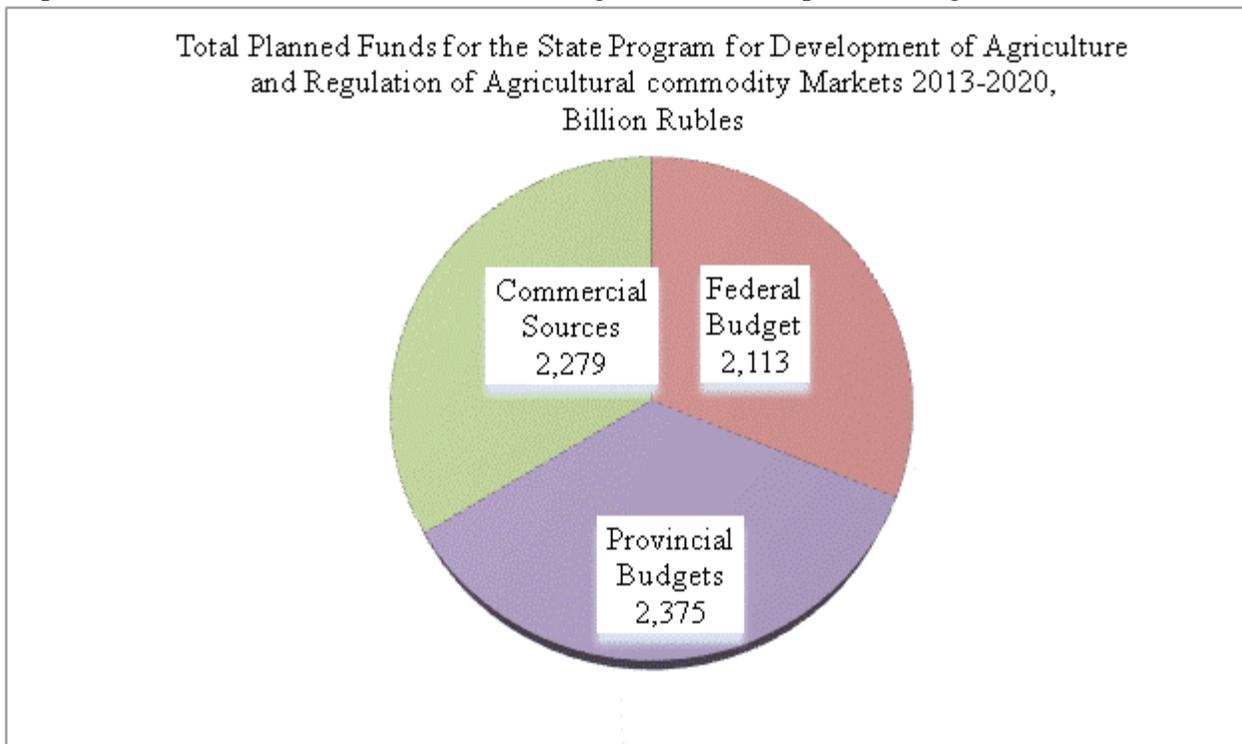
Overview of the Draft Program

On August 28, 2011 the Russian Ministry of Agriculture (MinAg) posted on its web-site a draft of the State Program for Development of Agriculture and Regulation of Agricultural Commodity Markets in 2013-2020 (State Program 2013-2020): <http://www.mcx.ru/documents/document/show/16834.342.htm>. MinAg invited agricultural unions and associations to comment on the draft program before it is submitted for Government approval in the end of 2011. The draft envisages an annual increase of the federal budget financing of the program from 189.2 billion rubles (approximately \$6.3 billion [1]) in 2013 to 335.2 billion rubles (approximately \$11.2 billion) in 2020. MinAg plans the federal budget to spend, in total, 2.1 trillion rubles (\$70.4 billion) for this program in 2013-2020, and provincial budgets will spend 2.4 trillion rubles (\$79.2 billion). The plan foresees another 2.3 trillion rubles (\$76.0 billion) will come from commercial sources in 2013-2020. The total financing of the Program in 9 years from all sources is planned at 6.8 trillion rubles (\$226 billion).

Graph 1. Federal Budget Allocations for the State Program for Development of Agriculture.



Graph 2. Total Planned Funds for the State Program for Development of Agriculture.



The largest portion (32%) of the federal budget allocations in 2013-2020 (672.9 trillion rubles or approximately \$22.4 billion) is planned for development of animal production, processing and marketing of products of animal origin. Allocations for development of crop production, processing and marketing of products of plant origin comprise 562.2 trillion rubles (\$18.7 billion), or almost 27% of the planned federal budget for the program.

Referencing MinAg officials, mainstream media is reporting that the draft program envisages the share of credit subsidies (interest rate subsidies) will decrease from 34.8% of the federal budget allocations in 2013 to 27.9% by 2020, but in absolute figures the allocations for these purposes will increase from 65.9 billion rubles (\$2.2 billion) in 2013 to 93.5 billion rubles (\$3.1 billion) in 2020. In 2011 this share is estimated at 70 percent of the federal budget for agriculture, or over 80 billion rubles (\$2.7 billion). The major tool of support of Russian agriculture will be direct federal investments in development of infrastructure, irrigation, soil reclamation, restoration of land resources, science, innovations, and improvement of management.

Table 1. Federal Budget Allocations for the State Program for Development of Agriculture and Regulation of Agricultural Commodity Markets, by Sub-Programs, in Billion Rubles: Draft Proposals for 2013-2020 by Years, Actual Allocations in 2010, and Forecasts for 2011 and 2012

| | 2010 (actual) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|--|------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| State Program for Development of Agriculture and regulation of Agricultural Commodity Markets | 110.7 | 125.0 | 130.7 | 189.2 | 221.3 | 240.1 | 254.1 | 271.1 | 290.3 | 311.8 | 335.2 |
| --- Development of Crops Production, Processing and Marketing of Products of Plant Origin | 33.1 | 40.9 | 40.3 | 49.3 | 51.6 | 61.0 | 65.2 | 71.2 | 78.5 | 87.3 | 97.1 |
| --- Development of Animal Production, Processing and Marketing of Products of Animal Origin | 47.7 | 58.2 | 47.4 | 69.9 | 73.6 | 77.5 | 81.5 | 85.7 | 90.1 | 94.8 | 99.8 |
| --- Support of Small Business | 6.1 | 6.4 | 11.2 | 12.7 | 13.1 | 12.4 | 12.8 | 13.5 | 14.2 | 14.9 | 15.7 |
| --- Technical and Technological Modernization and Innovative Development | 10.0 | 10.2 | 10.8 | 12.3 | 13.3 | 14.0 | 14.8 | 15.5 | 16.3 | 17.2 | 18.1 |
| --- Creation of State Automotive System of Management in Agro-Industrial Complex | 0.3 | 0.4 | 0.9 | 0.2 | 0.2 | 0.6 | 0.3 | 0.2 | 0.1 | 0.2 | 0.2 |
| --- Scientific Basis for Implementation of the State Program | 0.0 | 0.0 | 0.0 | 8.9 | 9.2 | 9.5 | 9.8 | 10.1 | 10.4 | 10.8 | 11.1 |
| --- Management of Implementation of the State Program | 0.0 | 0.0 | 12.3 | 21.8 | 22.3 | 23.4 | 24.6 | 25.8 | 27.1 | 28.4 | 29.8 |

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|--|-----|-----|-----|-----|------|------|------|------|------|------|------|
| --- Federal Program "Rural Development until 2013" | 7.7 | 7.7 | 7.7 | 7.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| --- Federal program "Sustainable Development of Rural Territories in 2014 - 2017 and Until 2020" | 0.0 | 0.0 | 0.0 | 0.0 | 31.3 | 34.7 | 37.9 | 41.4 | 45.3 | 49.6 | 54.4 |
| --- Federal program "Development of Land Reclamation and Irrigation by 2020" | 0.0 | 0.0 | 0.0 | 6.3 | 6.6 | 7.1 | 7.4 | 7.8 | 8.2 | 8.6 | 9.0 |

Source: www.mcx.ru

History of the Development of the Draft Program

In November 2010, the Russian Government ordered MinAg to begin drafting the State Program 2013 - 2020 (GOR Order #1950-p of November 11, 2010). The currently operating State Program for Development of Agriculture and Agricultural Commodity/Food Markets started in 2008 and will end in 2012. In the end of 2010, MinAg authorized different economic research institutes in the Academy of Agricultural Sciences to develop a draft. The draft was prepared by spring 2011, and envisaged that in order to restore Russian agricultural potential in 2013 the federal budget shall allocate for this program 358.3 billion rubles (\$11.9 billion), and increase these allocations to 642.3 billion rubles (\$21.4 billion) in 2020. The total federal budget allocations for this period were planned at 4.1 trillion rubles (\$137.3 billion). However, according to mass media (Kommersant, March 24, 2011), the Government Commission on Agribusiness sent the draft program for revision. Media also noted that the decision on the possible financial scope of this program will be made only after the Presidential elections in 2012.

The first draft was not published by MinAg, and although MinAg's specialists continued working on its improvement, the original version was obviously distributed among the agricultural circles (i.e. it was posted on the site of Kuban's AKKOR (Association of Peasants' and Farmers' Enterprises of Krasnodar kray): <http://kubanakkor.ru/news/attach/104/Consepcia%202013-2020.doc>).

Media reported that MinAg proposed two variants of the State Program 2013 - 2020: inertial and innovative. The inertial development envisaged budget financing in 2013 - 2020 at 130-150 billion rubles (\$4.3 billion - \$5.0 billion) a year, while the innovative development of agriculture envisaged an increase of federal budget financing to 250 billion rubles (\$8.3 billion) a year, "will allow the closest approach to the objectives of the Food Security Doctrine," and will allow a 250% increase of all agricultural production, including a 40% increase in grain production, by 2020. Some goals (no figures) of the program were listed in the National Report on the Implementation of Program 2008-2012 in Calendar Year 2010. The Russian Agricultural Minister also mentioned the State Program 2013 - 2020 several times, describing Russia's agricultural prosperity by 2020: an increase in grain exports to 40

MMT a year and an increase in meat exports (poultry – to a minimum of 170,000 MT a year, and pork – to a minimum of 200,000 MT a year). Later on, Minister Skrynnik also reported the targets of the State Program 2013 - 2020 will increase availability of grain storage and elevators by 55-81 percent depending on the type of elevator (on-farm, local, regional, export terminals), increase self-sufficiency in planting seeds, and increase vegetable production.

The recent draft, which was posted on MinAg’s web-site in the very end of August 2011, seems to be close to the “innovative” scheme of development of agriculture, since the average annual budget allocations planned for 2013-2020 amount to 264.1 billion rubles (\$8.8 billion).

Media Comments on MinAg’s Updated Draft:

Shortly after publication of the draft State Program 2013 – 2020 on MinAg’s web-site, media reported that neither the Ministry of Economic Development nor the Ministry of Finance of the Russian Federation have yet commented. Moreover, the media reported that one official from the Ministry of Finance stated that the draft is solely MinAg’s vision, that MinAg did not coordinate the financing proposals of the program with the Ministry of Finance, and in any case that the allocations for agriculture must be coordinated with the federal budget. Industry analysts report that since the federal budget for the next three years is planned to be in deficit, it is unlikely that the Ministry of Finance will increase the agricultural budget. Furthermore, credit support programs (as opposed to direct subsidies) guarantee at least some pay-offs to the federal budget, and the effective use of State direct subsidies for some agricultural programs is difficult to control. As a result, analysts expect the Ministry of Finance to most likely cut subsidies in the new State Program 2013 - 2020.

^[1] For all calculations the exchange rate is 30 rubles per \$1.

Annex 1. Passport of the State Program for Development of Agriculture and Regulation of Agricultural Commodity Markets

(Unofficial translation)

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| Executive bodies in charge of implementation of the State Program | Ministry of Agriculture of the Russian Federation |
| Associate contractors of the State Program | Federal Service for Veterinary and Phytosanitary Surveillance – VPSS (Rosselkhoz nadzor), Russian Academy of Agricultural Sciences |
| Objectives of the State Program | to guarantee food independence within the parameters defined by the Food Security Doctrine of the Russian Federation; to increase the competitiveness of Russian agricultural products in domestic and foreign markets based on innovative development of agriculture, optimization of its institutional structure, creation of a favorable environment for business development, improvement of investment attractiveness of the industry; |

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| | <p>to ensure the financial stability of agricultural producers;</p> <p>to ensure reproduction and more efficient use of agricultural land and other natural resources, make production more environmentally friendly;</p> <p>to ensure sustainable rural development</p> |
| Tasks of the State Program | <p>to create conditions for preservation and restoration of soil fertility, development of melioration of agricultural land;</p> <p>to increase employment, and upgrade quality of life of rural population;</p> <p>stimulate the growth of the main types of agricultural products;</p> <p>to implement the anti-epizootic measures for quarantine and especially dangerous animal diseases;</p> <p>to support the development of processing industries of agro-industrial complex and agro-food market infrastructure;</p> <p>to stimulate investments and innovative development of agriculture, to promote budget investments into capital construction projects;</p> <p>to increase effectiveness of regulation of domestic and external markets for agricultural products, raw materials and food;</p> <p>to support small forms of business;</p> <p>to increase the financial sustainability of agricultural producers;</p> <p>to promote efficient use of agricultural lands;</p> <p>to guarantee management functions in the field of agriculture;</p> <p>to provide for scientific support of measures aimed at agricultural development and regulation of agricultural commodity markets;</p> <p>to improve information management systems in agribusiness</p> |
| Indicators of the State Program | <ol style="list-style-type: none"> 1. Index of agricultural production in farms of all categories (in comparable prices) 2. Index of crop production (in comparable prices) 3. Index of livestock production (in comparable prices) 4. Index of food, beverages and tobacco production (in comparable prices) 5. Index of physical volume of capital investments in agriculture 6. Index of labor productivity in farms of all categories 7. Profitability (rentabelnost) of agricultural enterprises 8. Average monthly nominal wages in agriculture |
| Time periods and stages of implementation of the State Program | <p>The time period of the program: 2013-2020. In the federal sub-program "Sustainable Development of Rural Areas for 2014-2017 and for the period till 2020 " there are two phases: 2014-2017 and 2018-2020</p> |
| Budget allocations for the State Program | <p>Budget allocation for the implementation of the State Program from the federal budget is (current prices), including Russian Ministry of Agriculture - 2,047,004 937.62 thousand rubles. Russian Academy of Agricultural Sciences – 66,068,000.00 thousand rubles.</p> <p>The volume of financial support from the federal budget for the implementation of the subprogram "Development of sub-sectors of crop production, processing and marketing of plant products" is subprogram "Development of livestock sub-sector, processing and marketing of livestock products" – 672,897,893.09 thousand rubles; subprogram "Support of small business" – 109,241,301.34 thousand rubles; subprogram "Technical and technological upgrading, innovation development" – 121,567,195.08 thousand rubles; subprogram "Building of the State Automated Management System in APC (APC Gus)" – 1,837,210.83 thousand rubles; subprogram "Scientific support of implementation of the State Program" - 79,768,652. 64 thousand rubles; subprogram "Providing management functions of the State Program" – 203,233,818.10 thousand rubles; Federal program "Social development of rural territories until 2013"¹ – 7,720, 000.00 thousand rubles; Federal Program "Sustainable development of rural territories in 2014-2017 years and the period until 2020" – 294,540,000.00 thousand rubles; Federal Program "Development of Reclamation of agricultural land in Russia until 2020" – 61,069,841.44 thousand rubles.</p> <p>The volume of resource support for the implementation of the state programs from the</p> |

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|---------------------------------------|---|
| | <p>federal budget by year is: 2013 - 189,229,107.51 thousand rubles 2014 - 221,257,793.30 thousand rubles 2015 - 240,069,518.21 thousand rubles 2016 - 254,148,824.58 thousand rubles 2017 - 271,121,839.50 thousand rubles 2018 - 290,294,199.07 thousand rubles 2019 - 311,778,479.25 thousand rubles 2020 - 335,173,176.20 thousand rubles</p> <p>The forecasted budget allocations from the consolidated budgets of subjects of the Russian Federation is 2,375,149 585.03 thousand rubles. From the non-budget sources - 2,279,092,257.54 thousand rubles.</p> |
| Expected results of the State Program | <p>Increasing the share of domestic food products in total resources of these products by 2020 to: grain - 99.8%, sugar - 91.2%, vegetable oil - 82.8%, potatoes - 99.7%, meat – 88.9%, milk and dairy products -85.3%;</p> <p>Increasing agricultural production in farms of all categories (in comparable prices) in 2020 compared with 2010 – by 39%, food production, including beverages and tobacco - 60%;</p> <p>Providing an annual average growth rate of investments in fixed capital assets in agriculture of 8.8%;</p> <p>Modernization, reconstruction and commissioning of new irrigated and drained lands – on 10.3 million hectares;</p> <p>Growth of productivity in 2020 relative to its level in 2009 by 70%;</p> <p>Increase the profitability of the agricultural organizations of up to 20%;</p> <p>Bring the wages in agriculture to 95% of the country's average.</p> |