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**IMPROVEMENT OF GOVERNMENT SUPPORT MECHANISMS  
FOR DEVELOPMENT OF THE REGIONAL AGRICULTURAL  
INDUSTRY**

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*Abstract*

In market conditions, government support is becoming a serious tool for development of agriculture. There are various mechanisms of government support for the agricultural sector which involve financial expenditures of the federal budget funds. The article analyzes expenditures on implementation of the government program 'Development of agriculture and regulation of the markets of agricultural products, raw materials and food in the Chechen Republic for 2014-2020' based on financing sources for 2017. Effectiveness of the use of budgetary funds in the industry is not high enough, since main indicators for individual target programs have not been achieved. To develop positive trends in the agricultural industry of the republic, the Ministry of Agriculture of the Chechen Republic needs to take effective measures to strengthen control over the expenditure of budget funds allocated within the federal programs, to stop gratuitous budgetary injections into unprofitable enterprises. The authors suggest improving the situation by privatizing agricultural enterprises of the agricultural industry of the Chechen Republic. Priority areas of government support are as follows: innovation activities in the agricultural industry, reorientation of agricultural enterprises to competitive production of agri-food products, contributing to their stable positions in domestic and international food markets; development of federal and regional lending, taxation, and leasing systems. The article analyzes shortcomings of the existing system of budget financing of agriculture and ways to improve the government support system.

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**Keywords:** Chechen Republic, agriculture, government support mechanism, improvement.



## **1. Introduction**

Food security of the country is becoming an urgent problem. A key way to solve it is to develop food supply by increasing the efficiency of food production with regard to real needs of the population. At the same time, it should be noted that agriculture is a very specific industry, dependent on weather, climatic, seasonal and other factors which are not controlled by producers, and conditions of self-repayment and self-financing are not fully operational which prevents participation in tough inter-industry competition.

The cyclic nature of reproduction in agriculture characterizes complexity of the technological process. It is static and low-profitable in comparison with industry, and investment is less profitable. Therefore, there is a need for government participation in management and regulation of agriculture, development of scientifically-based methods of government support contributing to effective and sustainable agricultural activities.

The experience of developed economies has shown that the priority is agrarian protectionism and government support for producers of agricultural products. Stable growth in the agricultural sector in these countries is due to the government support which contributes to provision of the population with agricultural products produced by domestic agricultural enterprises.

## **2. Problem Statement**

Increasing government support for regional agriculture is not accompanied by proportional improvement of the most important economic indicators of agricultural production - the share of unprofitable enterprises, profitability level, profit per enterprise, and per 1,000 hectares of farmland. Therefore, the problem can be solved by improving mechanisms of government support for development of the agricultural sector..

## **3. Research Questions**

The article analyzes rules and regulations enshrined in federal and regional acts, programs and projects of agricultural development in terms of their influence on economic and social efficiency (rules and regulations, mechanisms of government support, credit and financial security, taxation and insurance of agricultural producers, etc).

## **4. Purpose of the Study**

The aim of the article is to adapt forms, methods and volume of the government support to conditions of agricultural production in the region by improving mechanisms of government support for development of regional agriculture.

## **5. Research Methods**

The study uses traditional methods of statistical and economic analysis, including comparative, structural, index, graphic, factor, correlation, regression and other methods of economic statistics.

## 6. Findings

In the market conditions, government support is becoming a serious tool for development of agriculture, since the nature of the industry does not allow covering production costs, and restoring and preserving land as the most important factor in agricultural production. Development of agriculture involves development of the rural infrastructure, social development. The government support is a key link contributing to the growth of the agricultural sector and agricultural products market.

There are various mechanisms of government support for the agricultural sector (Israilov, 2016; Israilov, 2017; Shikhsaidov, 2009). They involve financial expenditures of federal budget funds.

Thus, the Government program ‘Development of agriculture and regulation of agricultural markets of raw materials and food in the Chechen Republic for 2014-2020’ (hereinafter - the Program 2014) is being implemented in the Chechen Republic (Government of the Chechen Republic, 2013).

In total, 23,956,625 thousand rubles were allocated for implementation of the Program 2014 in 2017. In fact, the expenses amounted to 24,001,339 thousand rubles.

The allocated funds were directed to development of branches of the agro-industrial complex, stimulating investment activity in the agro-industrial complex, etc. (MinSelHoz of ChR, 2017).

Table 1 presents data on expenditures on implementation of the Program 2014 by funding sources for 2017.

**Table 01.** Data on expenditures on implementation of the Program 2014 by funding sources for 2017, K RUB.

Name of the government program	Sources of resource provision	Cost estimate (an yearly plan)	Expenses	Real expenses to planned ones, %
Development of agriculture and regulation of markets of agricultural products, raw materials and food in the Chechen Republic for 2014-2020	Total, including:	23956625	24001339	
	Federal budget (budgetary allocations stipulated by the Law of the Chechen Republic in the republican budget)	0	0	–
	Budgetary allocations stipulated by the Law of the Chechen Republic in the republican budget, including:	4904253	4792784	
	Federal budget	4022165	4022165	100,0
	Republican budget	882089	770619	
	Municipal budget	1543	463	
	Off-budget sources, including	19050828	19208092	
	Means of extra-budgetary funds (TFOMS)	0	0	–
	Legal entities	19050828	19208092	
Individuals	0	0	–	

Effectiveness of the use of budgetary funds is not high enough, since the main indicators for individual target programs have not been achieved. To develop positive trends in the agro-industrial industry of the republic, the Ministry of Agriculture of the Chechen Republic needs to take effective measures to strengthen control over expenditures of allocated budget funds, to stop gratuitous budgetary injections into unprofitable enterprises. The situation in the industry can be improved by privatizing agricultural enterprises of the Chechen Republic.

The most effective measure of government support is financial support which currently plays a huge role for the development of this sector. Identification of priority areas of government support is also important.

Let us identify priority directions of government support for the development of regional agriculture.

The first direction is development of an innovation strategy for renewal of the agricultural reproduction process and its effective implementation which would contribute to competitiveness of agri-food products and development of the infrastructure of the agricultural sector. It requires a government approach to revival of the agricultural sector and efficient use of the methods of strategic planning with regard to positive foreign experience.

The second direction is the targeted support for agricultural enterprises, reorientation of these businesses towards competitive production of agri-food products in order to win stable positions in national and international food markets.

Third, it is necessary to develop a system of federal and regional lending, taxation, leasing for the effective use of production equipment.

Systematic measures aimed to develop agriculture with regard to the nature of the regions can be an effective mechanism and a starting point for agricultural development.

The system of forms and methods of the government support for agriculture should consist of the following basic elements:

- development, implementation and improvement of legislative acts, creation of a unified system of legal acts;
- government loan guarantee, development of the leasing system;
- preferential loans and taxation;
- financial support for researches on development of the agricultural industry;
- preferential system of investment in researches on sustainability of reproduction.

It should be noted that one of the important elements of the government support for agriculture is innovation and investment measures. Innovative development in the agrarian sector is in its infancy. Except for declarative statements, there is no progress. Therefore, in order to create conditions for active innovation development of agriculture, it is necessary to develop and introduce a mechanism for development of science and innovation activity, including elaboration of new laws and adaptation of existing laws regulating science and innovation activities to the agricultural sector.

The following activities can improve efficiency of the research and innovation system of regional agricultural production:

- The Ministry of Agriculture and regional researchers have to develop a strategy for scientific support of agricultural development;

- Elaboration and adaptation of laws stimulating innovation and investment activities;
- Implementation of federal innovative projects;
- Incentives: some mechanisms and federal targeted programs aimed at developing agriculture are used effectively by regional authorities, while others are ignored by them.

One more strategic priority is creation and development of vertically integrated economic structures.

At this stage of development of regional economies, integration processes are a very effective tool, since all resources are united on a contract basis. You can cooperate with research organizations, employ professional managers and marketers.

For the government, it is beneficial to create conditions for development of integration processes in agriculture, since the multiplier investment effect for integrated structures will be higher.

As for the effect of financial investment, existing areas of support for rural producers are ineffective. It is advisable to develop and implement measures to improve the efficiency of the mechanism of government support for agricultural producers. In order to increase efficiency of government support for agriculture, approaches analyzed by D.Kh. Shikhsaidova (Shikhsaidov, 2009), Kh.E. Taymaskhanova (Taymaskhanov, 2011), M.V. Israilova (2017) should be taken into account.

At the same time, “government support should account for economic, social and environmental components. Otherwise, it can reduce production volumes, decrease efficiency of agricultural production” (Siraev & Volkov, 2014).

It is necessary to develop a targeted procedure for providing financial support, development of the social infrastructure of the village.

Taking into account peculiarities of Russia, priority directions should be identified for each region. It is necessary to account for potential development of each activity. It is necessary to prevent allocation of budgetary funds for non-profitable enterprises.

One of the drawbacks of the existing agriculture financing system is a lack of interconnection with targets for development of the industry.

Revision of government support methods dictates the need to create a new pricing system for agricultural products which should include target, guaranteed, collateral, and oriented prices. Special attention should be paid to guaranteed prices. They must have a threshold of lower and upper limits. The lower level of guaranteed prices should ensure reimbursement of standard costs and a minimum profit, the upper level should guarantee the optimal price for agri-food products for the regional population taking into account minimum wages.

The mechanism of guaranteed prices should be implemented by by direct fixation of prices for certain products, and by price allowances per product sold determined as a difference between protective and actual selling prices (provided that the actual price is lower than the protective one)” (Shikhsaid , 2009). As for effectiveness of these methods, the second one is the most acceptable since it does not increase prices in the consumer market and requires less budget expenditures on ensuring profitability of production.

Improvement of agriculture pricing requires development of a federal target program accounting for the price parity of agricultural and industrial products. The program should include stages of restoring price parity; a list of products with regulated prices” (Shikhsaidov, 2009); a developed mechanism and methods

for equivalent exchange between agricultural producers and food processing industries; production and technical maintenance and material support.

One of the significant ways of government support for the agricultural sector is creation of conditions for intensification of integration processes, which will reduce disparity in prices for agricultural products.

An important element of the public procurement regulation system is wholesale food markets. It is necessary to improve the financial and credit system by creating a fund for collateral loaning.

Development of market relations in agriculture requires development of the insurance system.

An important area is financial and credit mechanisms, improvement of the banking and credit system.

Measures to support leasing activities in agriculture are to be implemented. They should create conditions for development of regional leasing funds providing regional tax benefits for enterprises involved in leasing activities. Partial budget financing of equipment leasing can be used.

To ensure availability of investment for agricultural producers, it is necessary to increase responsibility of regional and municipal governments, regulate and control economic processes in rural areas, heighten their interest in final results.

## 7. Conclusion

To conclude, government support for agriculture at all government levels needs improvement.

Improvement of the financial and credit mechanism of government support for agricultural production requires a detailed comprehensive study of the entire system. Only in this case, efficiency of the agricultural industry will improve and an additional incentive for development of the agricultural sector will appear. .

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