

Public expenditure for agricultural sector in Russia: Does it promote growth?

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Abstract

This paper presents the findings of the agriculture public expenditure review (PER) for the Russian Federation. It reviews the policy instruments and historical trends in the volumes and composition of budget support and investigates their role in recent agricultural growth. The paper also analyzes the effect of public spending in 2006–2017 on growth in agriculture using the fixed effects model and find positive effect. Support for general services is the most efficient method of agricultural spending, but in the Russian agricultural budget the subsidies to individual producers prevail. While the prevalence of the subsidies in the budget benefits the largest and most successful producers, this was part of the strategy to create strong value chains in order to compete with imports. However, the efficiency of investment support is decreasing. The paper explores the distribution of support between national and sub-national levels of budgeting system, and finds that the regionalization of support leads to market disintegration and efficiency losses.

Keywords: agricultural policy, budget support to agriculture, general services, subsidies, regional development.

JEL classification: H71, H72, Q18.

1. Introduction

An ambitious agrifood export expansion plan requires improving the efficiency of support in order to achieve long term growth in agriculture. At the same time, the information on budget support levels and structure is limited and presented in such a way that does not allow us to analyze the trends in composition of support, its alignment with the policy goals and its effect on the sector's performance. This paper presents the findings of the agriculture public expenditure review (PER) for the Russian Federation. We review the policy instruments and historical trends

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in the volumes and composition of budget support and investigate their role in recent agricultural growth.

The objective of this study was to look at the level and structure of public expenditure for Russian agriculture and investigate if the government's claim that it was a major factor in recent growth in agriculture is supported by empirical evidence. The study reveals three main areas where the loss of efficiency of support to agriculture occurs and where the improvement of allocation of funds can be beneficial for growth in agriculture.

First, focusing on the goals to increase production and exports, most public funds are allocated to support individual producers. At the same time, the measures that benefit the sector as a whole—the general services¹—are overlooked, underfinanced and unpredictable.

Second, as a consequence of supporting agriculture mostly in the form of the subsidies, policy benefits are unequally distributed among different types of producers. Agricultural policy supports investment projects by the larger and more efficient producers, as well as compensating losses of the least successful, keeping them in business for social reasons.

Third, the source of efficiency loss is the regionalization of support. While the general services support is financed at the federal level, support to producers individually is financed from the sub-national (regional) budgets, which affects market integration and promotes unfair competition. We look into the differences between national and sub-national spending and the impact of power distribution between the levels of budgeting system on the efficiency of public spending.

2. Level of support to agriculture

All official expenditure reports by the Government only refer to a short time period (3–4 years) and report expenditures in nominal values, claiming an unprecedented growth of the level of support in recent years. However, when we look at a longer time period (since 2006) and at the data in real values, it turns out that the level of support actually decreased compared to the 2006–2008 time period: the value of support decreased by 3% in constant prices, the share of agricultural spending in total budget expenditure decreased by 24%, and the ratio of support to agriculture to GDP decreased by 18% (Fig. 1).

Support for agriculture in Russia is high compared to other countries; it holds 5th place among the countries for which OECD measures the level of support.² At the same time, the distance in support levels between Russia and its competitors is wide and support per person and per agricultural land area is much lower in Russia: \$5,300 per square km of agricultural land in Russia vs. \$23,000 in US and \$58,000 in EU; \$310 per rural inhabitant in Russia, vs. \$851 in EU and \$1604 in US. At the same time, the level of support as a share of GDP, which demonstrates

¹ The support to general services includes the programs which bring benefits to agricultural sector as a whole and not to individual producers, such as research and development, education, inspection services, infrastructure development programs, marketing and promotion and other support programs increasing the potential of the whole sector.

² OECD monitors the level of support to agriculture in member countries as well as other countries around the world using a number of indicators of support. The Total Support Estimate (TSE) measures support to agricultural producers, to general services, and budget transfers to consumers.

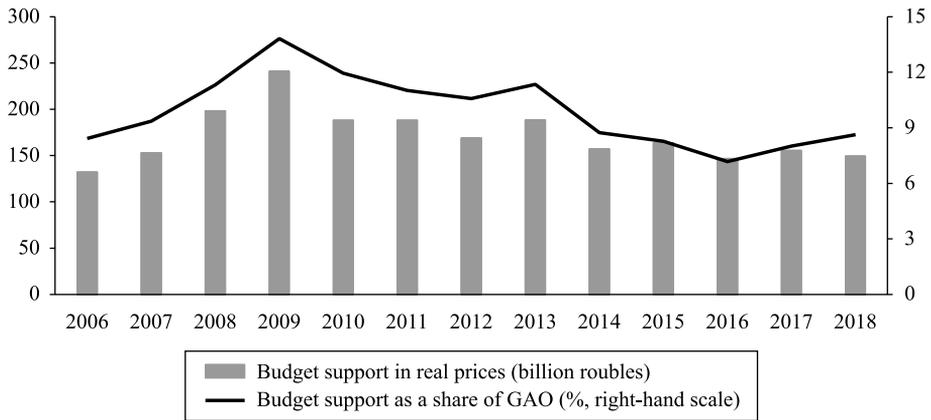


Fig. 1. Level of budget support to agriculture in Russia, 2006–2018.

Sources: Federal Treasury; Russian Federal State Statistics Service (Rosstat).

the burden to the economy as a whole arising from support to agriculture, in Russia (0.8%) is higher than in the US and the EU (0.5% and 0.6%³).

3. Public expenditure and production growth

Agricultural production growth has been the main goal of Russian agricultural policy since 2006,⁴ and this was the main indicator of the policy efficiency in the internal policy monitoring system conducted by the Ministry of Agriculture. The growth in agriculture was more pronounced than that of the rest of the economy (Fig. 2), however more evidence is required to confirm the relationship between this growth and budget expenditure on agriculture.

Recent research confirms that there is a positive causal relationship between the size of budget support to agriculture and the outcomes in terms of production growth. Thus, Gardner (2005) discovered a positive relationship between budget support and value added per worker in agriculture. López and Galinato (2007) used panel data for Latin American and Caribbean countries and found that the elasticity of the agricultural output of public expenditure was 0.18–0.2.

At the same time research suggests that it is not the level but the composition of support that matters for economic growth in the sector. Support for individual producers is often found inefficient, the efficiency of such measures tends to decrease with time and, in some cases, these have a negative effect on performance in agriculture. Individual producers' subsidies tend to crowd out investment in public goods, which is more efficient for agricultural growth (World Bank, 2009).

Research based on the Russian data also suggests that in general, public support for agriculture has a positive effect on production and profits; however, it is not the most important factor in economic growth.⁵

³ Average in 2015–2017, www.oecd.stat.

⁴ Setting the production expansion as the main policy goal does not take into account its potential negative effect on the farmers' incomes in the absence of adequate demand; it also promotes expansion of input use without consideration of the environmental impact.

⁵ The additional profitability due to subsidies in 2010–2012 compared to 2007–2009 was 12%, in the absence of the subsidies agriculture would have been loss-making in 36 regions (Uzun et al., 2014).

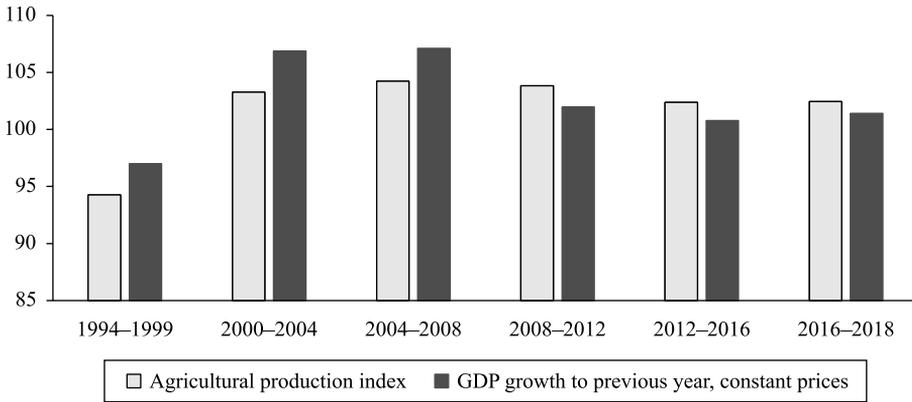


Fig. 2. Production growth in agriculture and in the Russian economy, 1994–2018.

Source: Rosstat.

Svetlov et al. (2019) analyzed an effect of public support for agricultural producers' income in 14 regions of Russia using the two-stage regression model and found a positive impact in the majority of regions; however, in three regions its effect was negative. The researchers conclude that while, in general, subsidies lead to increased incomes and the promotion of growth, that the differences in the level of support do not explain all the varied outcomes measured by financial indicators or production growth.

In this study we analyzed the effect of public support on economic growth using the fixed effect model based on panel data for 77 regions of Russia for the time period between 2006 and 2017. The fixed effect model was used, which allows to control for all the regional characteristics that do not change over time, such as climate, quality of governance and institutions, etc. Therefore, we can conclude that the differences in outcome measured as the growth of per capita agricultural output appears due to the changes in the variables in question, i.e. the public support from federal and regional budgets.

Following the methodology described in López & Galinato, 2007 we estimate the following model:

$$\text{Ln}g_{it} = \beta_1 E L(E_{it}) + \beta_2 L(F_{it}) + \beta_3 L(T_{it}) + \beta_4 L(Y_{it}) + \beta_5 z_{it} + \beta_6 k_{it} + \beta_q q_{it} + \mu_i + \varepsilon_{it}$$

where: $\text{Ln}g_{it}$ —log of agricultural production growth (million rubles at constant 2006 prices) per agricultural worker; E_{it} —budget support to agriculture per worker (thousand rubles at constant 2006 prices, log); F_{it} —percent share of the federal intra-budget transfer in budget support; T_{it} —trade openness index (export plus imports divided by the gross regional product—GRP, %); Y_{it} —non-agricultural GRP per capita (thousand rubles at constant 2006 prices, log); L —lag operator, z_{it} —agricultural land area (000 ha per person, log); k_{it} —capital (fixed assets in agriculture; thousand rubles at constant 2006 prices, log); q_{it} —agricultural price index, %, μ_i —regional fixed or random effects, ε_{it} —error term.

The study confirmed that there is a positive relationship between the budget support for agriculture and economic growth in agriculture (Table 1). We demon-

Table 1
The impact of public expenditure on agricultural growth in Russia.

Variables	log of agricultural production growth (million rubles at constant 2006 prices) per agricultural worker	
	Fixed effect	Random effect
Land	0.8947*** (0.0968)	0.5425*** (0.0854)
Capital	0.0687* (0.0621)	0.2306*** (0.0688)
Non-agricultural GRP	0.1499* (0.0734)	0.0808* (0.0565)
Budget support	0.1091*** (0.0340)	0.1227*** (0.0384)
Federal transfer's share in support	0.1475*** (0.0516)	0.2055*** (0.0482)
Trade openness	-0.0012* (0.0005)	-0.0005 (0.0005)
Price indices	-0.0816 (0.0542)	-0.0151 (0.0626)
Constant		1.6039*** (0.3494)
R^2	0.7145	0.6500
N of observations	847	847
Hausman test (p -value)	0.00	

Note: Clustered standard errors in parenthesis; * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$.

Source: Author's calculations.

strate that in order to achieve a 1% increase in output, the budget support has to be increased by 10%. We also found that federal intra-budget transfers are more efficient than regional spending: the production is growing faster with the larger share of federal funds in agricultural budgets.

Therefore, we conclude that the budget support has a positive influence on agricultural production growth, but it is not the only factor and the instruments used for support matter. Most likely, the impact of different types of subsidies will vary, and the data to investigate this would be beneficial for finding the most efficient support instruments.

4. Support is shifting from the general services to subsidies to producers

From 2012 until 2019, the main policy goal in the State Program was to increase the volume of production (for import substitution), and therefore the majority of the support programs were directed to increasing production. About 40-50% of the funds were allocated to the programs aiming at production expansion. Rural development support received 4.7% of funds and support directed at small farmers was 4% of agricultural budget.

The structure of support was relatively stable since 2006, with 15–30% of the funds allocated to investment support through mid- and long-term credit support programs. Other subsidies to producers, especially purchased input subsidies (feed, seeds, fertilizers, diesel fuel) were always among the main policy instruments.

The export expansion became the main goal of agricultural policy in 2019, but until then only 0.24% of the budget went to export enhancement. The share of the key services for exporters, such as phytosanitary and veterinary services financing in the budget declined from 8.4% of all general services in 2006 to 3.3% in 2017. Research and development expenditure was declining until 2018, and education's share in the budget was stable at 10% and mainly went to financing recurrent administrative costs of agricultural colleges.

The structure of support and the choice of policy instruments is much more important for achieving the growth in agriculture than the level of budget expenditure. Recent research has demonstrated that general services support contributes most to the long-term competitiveness and growth in agriculture. The results show that a shift of 10 percentage points of the agricultural budget from individual producers' support to general services, maintaining total spending constant, leads to approximately a 5% increase in agricultural value added per capita (Anríquez et al., 2016).

Fig. 3 demonstrates how the budget expenditure shifted from the general services towards support to producers individually in the past 12 years. In the Russian budget, the share of support to general services in the agricultural budget decreased from 48% in 2006 to 29% in 2017.

This issue is not specific for Russia; the World Bank noted that this is a common issue for most countries included in their PER studies (World Bank, 2011). However, some countries have a larger share of their budget allocated to general services' support: in Canada, Chile and Australia more than half of the agricultural budget goes to general services, and in Costa Rica and New Zealand—85% and 94% respectively (Fig. 4). Among main Russian trade partners, only China increased the general services support considerably, and most importantly, this increase happened almost entirely in support of research, development and innovations.

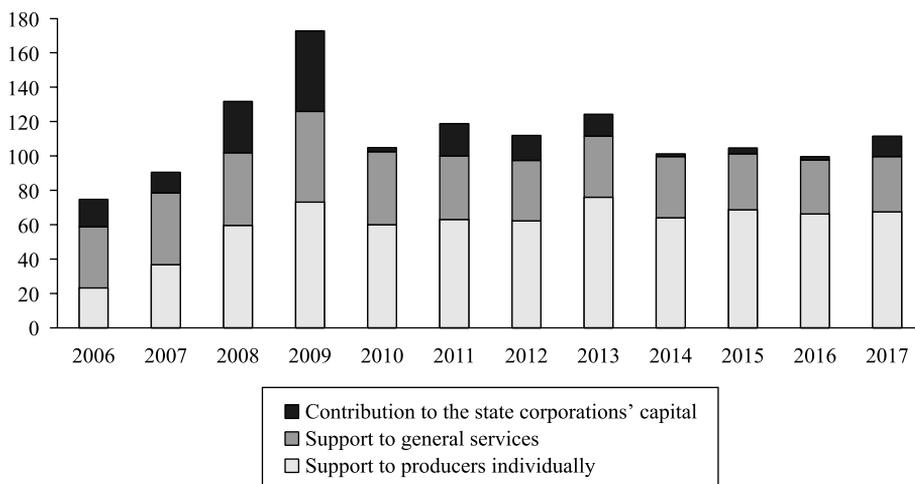


Fig. 3. The structure of budget support to agriculture in Russia: support to producers and general services, 2006–2017 (federal expenditure, billion rubles at constant 2006 prices).

Source: Author's calculations based on the Federal Treasury data.

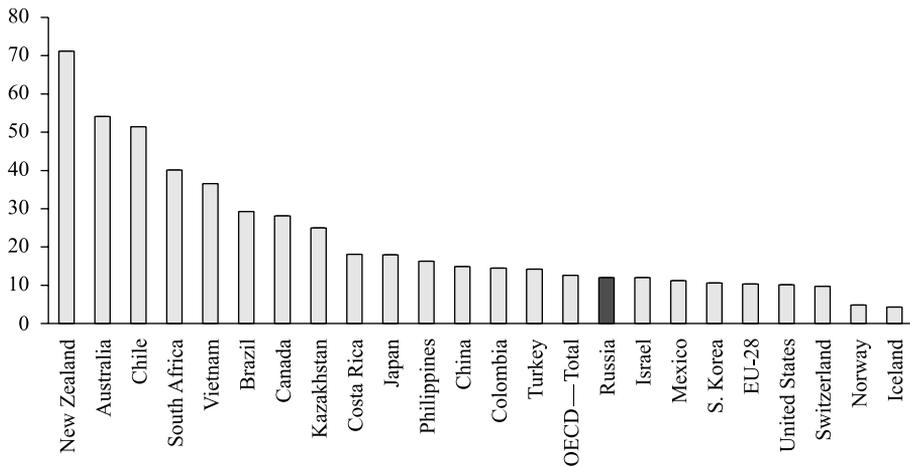


Fig. 4. Average share of support to general services in total support to agriculture, 2015–2017 (%).

Source: Author's calculations based on the Federal Treasury and OECD.stat data.

Among different general services support programs, research and development brings the highest rates of returns. The average rate of return to public investments in research and development was at 43% (Alston et al 2000), which is much higher than common rates of return in private investment projects (see also Mogues et al., 2012). At the same time, in Russia only 3.1% of the agricultural budget goes to the R&D financing, which corresponds to 11–14% of the general services support. The US spends 22% of general services support on R&D, Israel 43%, and Brazil 77%. In Russia, support for R&D has been declining in constant prices during the past 8 years, and in 2017 was only half of the 2009 level, while support through subsidies to production and inputs was increasing. A recent shift in the stated policy objectives from the growth of production to export expansion requires redirecting the funds to research, development and innovations in order to increase the international competitiveness of Russian agriculture.

5. Direct support to the largest and most successful producers is part of the growth promotion and export expansion strategy

The focus on subsidies to producers as a main policy instrument is reflected in distribution of support among the types of agricultural producers as they tend to benefit larger producers disproportionately.

Despite the special quotes allocated in the subsidy programs for the small farmers, they receive nearly no budget support. Only about 4% of the federal budget funds is allocated to the programs for the small farmers. In 2016, only 2.1% of the small farmers used budget support, and this share further decreased to 1.6% in 2017.

Inequality of distribution of support between various economic agents is always criticized by policy analysts (Shagaida et al., 2017; World Bank, 2006). The government responded by introducing the limits for maximum available subsidized credit per firm and by cancelling some of the federal subsidies in the regions where production is highly profitable. As a result, in 2017 the distribution of sup-

port by profitability level was fairly equal. Regardless of the profitability levels, the share of support in revenues was about 5% for all participants. At the same time, the largest share of budget funds (28%) was allocated to the companies with the lowest positive profitability. However, 15% of the subsidies went to the loss-making companies, and despite this considerable support, those 2300 producers were still loss-making. The distribution of subsidies among agricultural producers by profitability groups reflects the dual goals of the policy, which is aimed, on one hand, at supporting the loss-making farms for mostly social reasons, and on the other hand, supporting investment in the most successful areas with the goal of import substitution and export expansion.

Unequal distribution of support benefitting the largest and most successful producers is not exclusive to Russia. Thus, in the EU, 20% of the farms with the highest income receive up to 80% of subsidies; in the US in 1995–2006 10% of the farms received 74% of the subsidies. In the highest income group, the farms received on average \$36 thousand per farm, and in the bottom income group it was only \$700 per year (World Bank, 2011).

The situation in Russia, however, is different because support for the largest and most successful farms is part of the strategy of increasing investments in agriculture with the aim of creating value chains for export expansion. At the same time, there is no convincing evidence that budget support played a key role in this process.

Unlike the subsidies, support to the general services creates benefits to producers equally without benefitting the most successful producers. At the same time, the subsidies play a less and less important role in stimulating investment in agriculture, the trade policy being a major factor. This is another argument in favor of shifting the funds towards the general services support.

6. Regionalization of budget support to agriculture and its impact on the efficiency of public expenditure

The level of sub-national budget support to agriculture varies significantly across the regions. Thus, in 2017 the share of agriculture in regional budgets varied from 0.7% in Kemerovo region to 15% in Bryansk Region. Fifty percent of subnational support to agriculture was provided in Central and Volga Federal Districts. However, the Far Eastern District received the highest support per ha and per rural inhabitant (Fig. 5).

Regional budget expenditure, both support to producers and to rural development, is highly concentrated. In 2018, forty percent of all credit subsidies were provided in 5 regions (Belgorod Region, Bryansk Region, Voronezh Region, Kursk Region and Republic of Tatarstan). Thirty percent of the rural development program funds were provided to 5 regions: Rostov Region, Republic of Bashkortostan, Republic of Daghestan, Republic of Tatarstan and Republic of Sakha (Yakutia). There is no correlation between the regional budget support and agricultural output, the highest share of budget support to gross agricultural output was in Chukotka Autonomous Area (over 100%) and the lowest in Krasnodar Territory (less than 2%). While many regions allocate greater share of budget funds to the general services programs than the federal budget does, on average, only less than 10% of the regional budgets go to general services support.

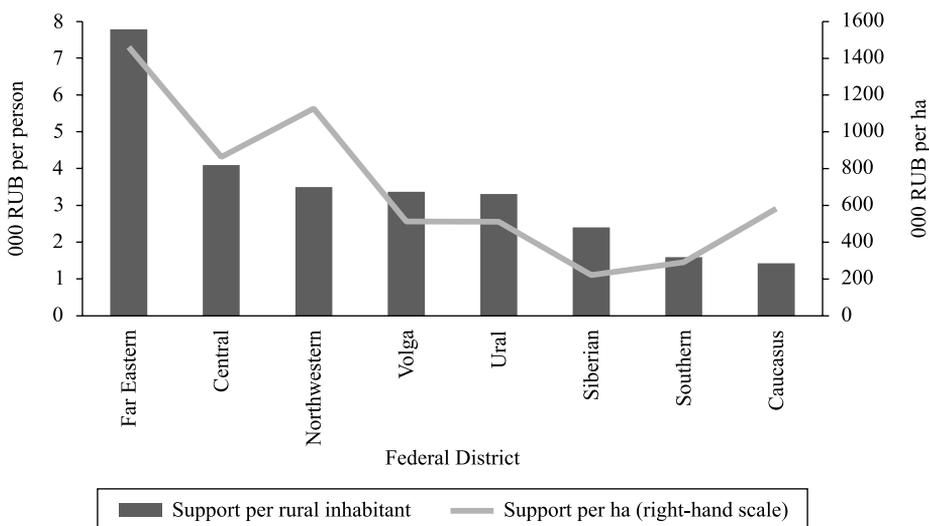


Fig. 5. The level of support by the Federal District and general services support in Russia's regional budgets, average 2015–2017.

Source: Author's calculations based on the Federal Treasury and RF Ministry of Agriculture data.

In 2004, the powers were redistributed between the federal and regional levels of the budget system, providing regions the rights to introduce and implement agricultural policy programs. There is evidence that this stimulates market disintegration and leads to sub-optimal efficiency of budget spending. Support to agricultural producers from the regional budgets provides advantages to producers in richer regions and creates unfair competition.

The intra-budget agricultural policy consists of two components, one with the focus on support to the most efficient and financially viable projects, as was discussed in the previous section. Those projects are usually located in the most climatically favorable areas for agricultural production, and therefore those regions received a higher share of support in the period of study. At the same time, there is the second policy direction: achievement of each region's self-sufficiency⁶ in agrifood products. This strategy is supplemented by the export development strategy aiming at participation of each region in the export value chains, and support to agricultural producers in regions with the least developed agricultural sector which often have climatically least favorable conditions for agricultural production and therefore do not have any potential to become competitive.

Decentralization of support slightly decreased since 2010; the regional budget's share of total support was 28% in 2018 (Fig. 6). However, the majority of federal funds end up in the regional budgets in the form of intra-budget transfers and as a result the federal government controls only 37% of the agricultural budget. The share of federal intra-budgetary transfers for agricultural support programs varies across the regions. There is no correlation between the level of federal transfers for agricultural support and total level of support to agriculture

⁶ According to the Meeting of the Government of the Russian Federation on support to agrifood complex on February 7, 2018 (<https://www.vestifinance.ru/articles/97421>).

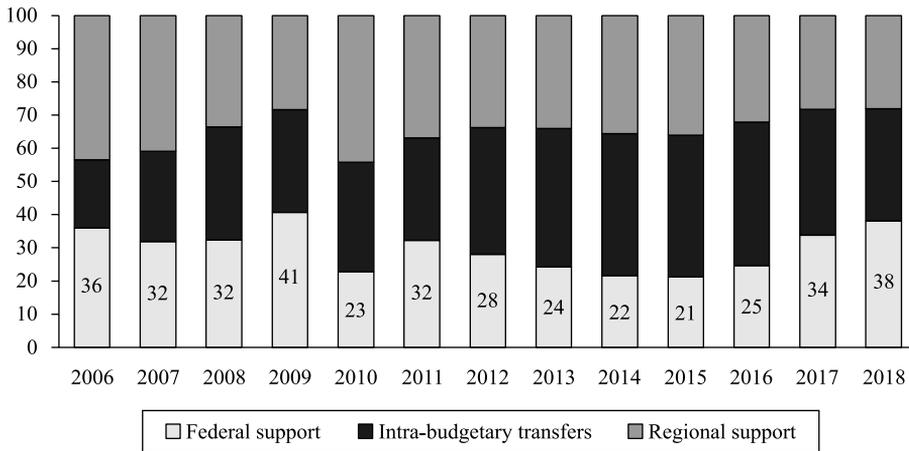


Fig. 6. Budget support from the Russia’s budgets at different levels, 2006–2018 (%)

Source: Author’s calculations based on the Federal Treasury and RF Ministry of Agriculture data.

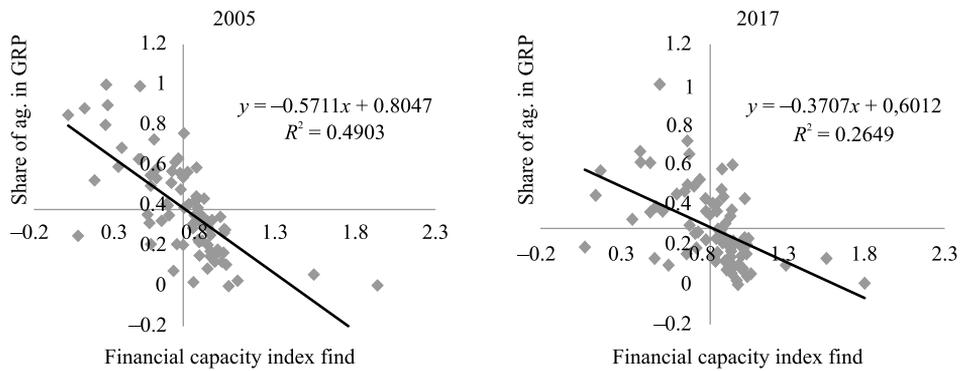


Fig. 7. The role of agriculture and financial capacity of the Russian regions.

Note: GRP—gross regional product; financial capacity index: $F_{ind} = EXP_{ind} + (1 - D_{ind})$, where EXP_{ind} —consolidated regional budget expenditure; D_{ind} —share of the federal budget equalization transfer in each region compared to average; normalized.

Source: Author’s calculations based on the Federal Treasury and Rosstat data.

in the region. In the poorer regions the share of federal support is higher, due to the limited ability to implement and finance regional programs.

In most cases, the most financially stable regions are the regions with the less developed agriculture as they are located in the areas climatically less favorable for agricultural production. In the past 12 years this imbalance somewhat decreased, with the increased financial stability in agricultural regions. However, this is still the case, as demonstrated by Fig. 7: the richer the region, the lower the role of agriculture in its economy.

The increased role of the regional governments in implementing the agricultural support programs provides benefits to the richest regions and therefore stimulates the shift of production towards the least climatically favorable areas, potentially creating efficiency losses. The richest regions have more financial capacity to support investment projects in agriculture from regional funds, also, regional lobbying forces work to attract a larger budget share from the federal

funds. We looked at all those forces at play to see how this affects the development of agriculture.

In order to study the consequences of the regionalization of support, we looked at the redistribution of the agricultural production between the groups of regions according to their location in Fig. 7. We identified four groups as follows. Group 1: regions with high financial capacity and less developed agriculture;⁷ group 2: high financial capacity and well-developed agriculture; group 3: low financial capacity and well-developed agriculture; and group 4: poor, non-agricultural regions.

We expected to see the production shifted to the regions in group 1, as the current policy promotes higher subsidies in the richer regions, but the data does not support this. In spite of the policy stimulus, the greatest development occurred in agriculture in groups 2 and 3, regions where agriculture was a major part of the economy at the beginning of the time period in question. Agricultural production grew about 30% in 12 years in the two groups combined. However, if we look not only at production, but also at the income distribution, we see that the profits from livestock production were higher in the regions with the largest budgets (Table 2). This is an effect of the policy aimed at support for the most successful projects.

More and more programs are structured in the way that benefits the regions with the larger budgets, i.e. the consolidation of the various subsidies in the “Joint Subsidy” in 2017, new rules of the subsidized credit support since 2018. Therefore, we are likely to see more redistribution effect in the next few years.

Both budget support and production growth were the highest in the groups of regions where the share of agriculture in GRP was higher at the beginning of the period of study, regardless of the regions’ budget size, reflecting the government’s strategy to promote investment in the high-potential areas. At the same time, support and output increase in group 4, poor non-agricultural regions, reflects the second regional development strategy, the one aimed at self-sufficiency in agricultural products for each region, and promoting investment in the least developed regions with poor agro-climatic conditions.

Table 2

Trends in Russia’s regional support and agricultural productions by group, from 2005 till 2017 (%).

	Group 1. High financial capacity / no developed agriculture	Group 2. High financial capacity / developed agriculture	Group 3. Low financial capacity / developed agriculture	Group 4. Low financial capacity / no developed agriculture
Support to agriculture, average growth rate	0	0.02	0.02	0.01
Agricultural output growth 2017/2005	8	28	32	19
Group’s share in profit from crop production	–40	0.6	39	–62
Group’s share in profit from livestock production	–35	90	25	– ^{a)}

^{a)} Group 4 generated net loss, therefore it’s share in total profit cannot be calculated.

Source: Author’s calculations based on the Federal Treasury and Rosstat data.

⁷ The regions were allocated to one of the 4 groups according to their financial capacity index and share of agriculture in GRP compared to an average value for the Russian Federation.

Table 3

Effect of lobbying capacity, financial capacity and agro-climatic conditions on average growth of support and production in Russia, 2006–2017.

Regions' characteristics	Average budget support growth rate	Average agricultural output growth rate
High lobbying index ^{a)}	0.77	1.11
Low lobbying index	1.47	1.13
Difference (standard error in brackets)	-0.7 (1.22)	-0.02 (0.67)
High financial capacity ^{b)}	0.27	0.46
Low financial capacity	1.98	1.91
Difference (standard error in brackets)	-1.70 (1.18)	-1.44 (0.64)*
Favorable agro-climatic conditions ^{c)}	2.36	3.24
Unfavorable agro-climatic conditions	0.45	0.15
Difference (standard error in brackets)	1.91 (1.27)	3.09 (0.62)***

a) Regional leader's lobbying capacity index as published in *Nezavisimaya Gazeta* (various years).

b) Financial capacity index: $F_{ind} = EXP_{ind} + (1 - D_{ind})$, where EXP_{ind} —consolidated regional budget expenditure; D_{ind} —share of the federal budget equalization transfer in each region compared to average.

c) Favorable agro-climatic conditions as defined in Romanenko and Evdokimova (2014).

* $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$.

Source: Author's calculations based on the Federal Treasury and Rosstat data.

We looked at other factors potentially affecting inter-regional distribution of budget support and agricultural production among the regions: budget size, lobbying capacity of the local authorities and agroclimatic conditions, and found that favorable agro-climatic conditions were the only significant factor of agricultural production growth. Average values of support and production and the difference in means between groups of regions are presented in Table 3. Both production and subsidies grew faster in the regions with the most favorable agro-climatic conditions for agriculture, irrespective of the GRP level, budget size and lobbying index. On average, in the favorable climate group, agricultural production growth was 3 percentage points faster, and budget support per capita growth was 1.9 percentage points faster than in the rest of the country. Despite regional government's efforts to support agriculture in the richest regions, the production is shifting to the regions where it is the most efficient economically (the same trend was described in Uzun and Lerman, 2017).

We also investigated the differences in production and support growth rates among the regions in the most favorable agro-climatic group of regions, and found large differences in the growth rates (Fig. 8). Thus, Republic of Tatarstan demonstrated 26% growth in agricultural output in 12 years, while in Republic of Bashkortostan it declined by 14%. Voronezh and Kursk Regions demonstrated the growth rates which were very different from other regions with similar conditions (average budget support growth rate of 0.11% and 0.13%, while average for the same climatic group was only 0.02%; agricultural output growth of 6.8% and 6.3%, compared to an average of 3.2%).

Therefore, we can conclude that, in general, the distribution of budget support among Russian regions was not a major factor in the production decisions, which were defined by market forces. At the same time, we see that the profits grew much faster in the richer regions, and among the regions with similar climatic conditions we see considerable inequality in the production and budget support allocations.

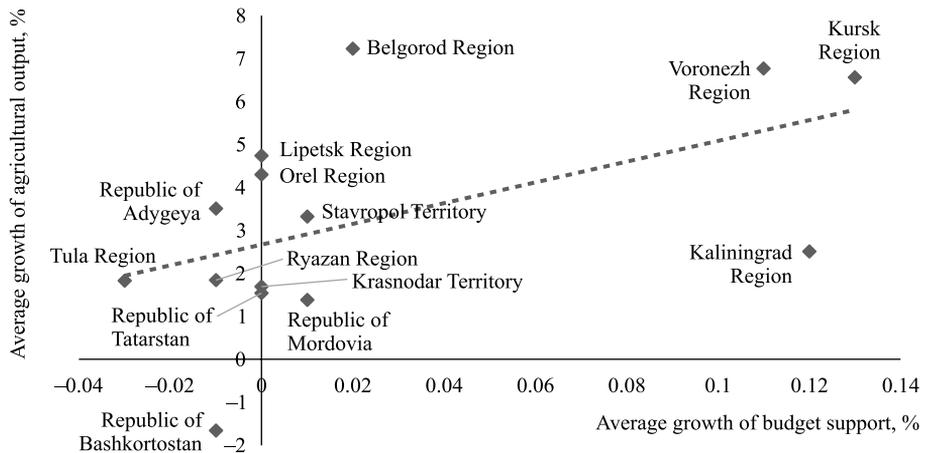


Fig. 8. Differences in agricultural output and budget support growth in 2006–2017 in the Russian regions with the most favorable agro-climatic conditions.

Source: Author's calculations based on the Federal Treasury and Rosstat data.

7. Conclusion

This agricultural public expenditure review demonstrated that although agricultural budget support had a positive effect on agricultural growth, it is not the only factor contributing to the growth in agriculture and the structure of support and distribution of support between different types of producers and between the levels of the budget system matter. During the period of study, budget funds were shifted from support to general services to support to producers individually. The share of support to general services in agricultural budget decreased from 48% in 2006 to 29% in 2017. The instruments of support that are most efficient for promoting growth in agriculture, such as research, development and innovation support, are underfinanced (3.1% of the budget funds in 2017).

Shifting the support from subsidizing individual producers to providing the general services would contribute to redistribution of the benefits from policy away from the larger and most successful producers. During the period of study, supporting the most successful producers was part of the import substitution and export expansion strategy and it played its role in ensuring competitiveness of those producers at the world markets, while the productivity of the rest of Russian agriculture remains low. Support for general services benefits all producers equally and will promote innovative development required to ensure long-term international competitiveness.

The distribution of support between the federal and regional budgets leads to market disintegration and reduces the efficiency of budget spending. The policy encourages the shift of production to the regions with the least developed agriculture and larger budgets. However, other factors appeared to be stronger than the regionalization of support, and the production shifted to the regions with the best agro-climatic conditions. At the same time, presently the regions receive more and more capacity to support producers directly, and the inefficiency of this strategy will inevitably lead to sub-optimal spatial distribution of production. Besides, the regions within the group with the most favorable climate receive

very different levels of subsidies and therefore the competition between them is unfair. It is recommended to legally restrict the application of trade distorting policy measures at the regional level to ensure market integration, which is important for long-term growth in agriculture.

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