Dimensions of Agricultural Issues and Challenges in Tamilnadu

Dr.S. Thangaraju

BONFRING®
Intellectual Integrity

The Economic impact of the socialism in Agricultural Strategies and State Support for Agriculture with special references Belarus and India

Dr.M. Palanivel Rajan, Assistant Professor, Department of Management Studies, Madurai Kamarajar University.

I. Introduction

IN the former Soviet Union (FSU), Belarus was the third largest agricultural producer among the republics of the USSR, providing six percent of overall Soviet gross agricultural output (GAO) in 1990. In the distribution of labour among republics, it specialized in dairy and meat, potatoes and flax fibre production. Belarus had relatively low shares of agriculture in gross domestic product (GDP) and of rural in total population modest arable land per capita and intensive drainage systems. During the transition from centrally planned to market-oriented agriculture, the industrial structure of the economy and the existence of vast State-owned irrigation systems caused a deeper drop in production in the early stages of reform than would otherwise have been the case.

II. Agriculture in Belarus

Owing to its soil and climate conditions, Belarus was categorized in the non-black soil area - considered the least favourable area for agricultural development - and therefore received substantial subsidies in the last decades of the Soviet period. It used this support fairly efficiently for rural development and modernization of the processing industry, and productivity in the Belarus agriculture and food industry was higher than the Soviet average. Between 1985 and 1990, agriculture labour productivity (per worker and per working hour) grew by about 33 percent, compared with the FSU average of 17 to 20 percent: this was the greatest increase among the 15 republics. The production costs of milk, meat and potatoes were among the lowest in the FSU, while indicators of crop and livestock productivity were among the highest.

After the break up of the Soviet Union, Belarus started on the same type of agricultural reforms as most other transition economies, but these were later discontinued, leaving key tools of the centrally planned economy in place. For the most part, agricultural lands remained State property, and all types of transaction were banned. Individual (family) farmers could have land plots as so-called "life-long inheritable possessions" (*pozhiznennoye nasledstvennoye vladenie*), but citizens were granted landownership rights for only subsistence farming and home construction. Belarus has the smallest share of individual agriculture of any country in the Commonwealth of the Independent States (CIS) , and this is decreasing, while in other CIS countries it has grown - or at least remained stable - for the past decade The role of individual farms in Belarus' agriculture has been declining particularly quickly since 2006, even though a five-year programme to support household agricultural production was adopted in that year, with a budget allocation of almost 400 billion.Rbl.

Large-scale agricultural enterprises are privatized to a minor degree, but most of these enterprises have remained State-owned.

The State owns the largest enterprises, and its share in the overall equity of agricultural enterprises is about one-third, rising to a half when the equity held by cooperatives is included.6 Cooperatives are the largest category of companies in Belarus' agriculture, but their share in overall equity is relatively small. State enterprises account for 27 percent of large-scale farms, and their equity share is also small. Open joint stock companies account for the largest share in overall agricultural equity, with more than 75 percent, although almost 40 percent of this belongs to the State, which exercises a certain degree of control over these businesses. Agricultural limited companies are similar to cooperatives, with company employees and pensioners acting as shareholders. The majority of large-scale companies are therefore controlled by the State, and this is probably creating a barrier to external private investment in the sector. However, it is worth noting that the Government's privatization programme for 2008 to 2010 envisages the privatization of about 40 production companies, including poultry factories, fish farms and other large-scale enterprises.

III. AGRICULTURE IN INDIA

As per the land use statistics 2010-11, the total geographical area of the country is 328.7 million hectares, of which 141.6 million hectares is the net sown area. The gross cropped area is 198.9 million hectares with a cropping intensity of 140.5%. The net irrigated area is 63.6 million hectares. the agriculture and allied sectors contributed approximately 13.9% of India's GDP (at constant 2004-05 prices) during 2013-14. Gross Domestic Product (GDP) of agriculture and allied sectors. The Land Ceiling act, Disbursement of Government land to small farmes is the import impact of the mixed economy of India.

IV. ECONOMIC IMPACT OF THE SOCIALISM IN AGRICULTURAL STRATEGIES

In Belarus, as long as agricultural production enterprises remain predominantly State-owned. Both two countries are taking the tools of the centrally planned economy - such as State production targets, State procurement and inputs supply, and State lending and investment. In addition, the Government regulates various prices along the value chain - input, farm gate, wholesale and retail - as well as other economic indicators such as wage rates on farms. Price regulation is implemented to establish a balance between the contradictory purposes of providing sound Incentives for agricultural producers and maintaining the living standards of the population.

Linkages between domestic and international agro food markets

Linkages between domestic and international agro food markets are strongly mediated by government regulation. Price transmission from world markets is therefore very low, and world trends affect the domestic economy after a considerable delay. As in other countries in transition, Belarus supports mainly agricultural input use (including subsidized credits and cross-subsidizing of inputs) rather than output. As in other countries, the Republic applies tax concessions for agriculture as a support tool. Belarus has three major sources for the State financing of agriculture: the national budget, from both the expenditures and the revenues sides; the out-of-budget fund to support agriculture, financed from a duty of one percent of revenues on all non-agricultural entities; and cross-subsidizing, which is at the expense of agriculture's counterparts. Spending from the national budget is distributed among republic and regional budgets, with a degree of autonomy for regional authorities to allocate their budgets. Finances for the fund to support agriculture are allocated to producers, with half being distributed in proportion to the land and half in proportion to output. Cross-subsidizing is implemented though the mechanism of State-fixed prices: as in the Soviet era, terms of trade for agriculture are fixed at preferential levels, and input-output price ratios, as well as margins in processing industries and mark-ups in retail, are below market levels. This means that the downstream and upstream sectors finance agriculture at their own expense.

The budget process is not very transparent for producers. The main document stating the key objectives of the Government agro food policy is the five-year strategy, which describes the budget allocations among various programmes, but not the detailed mechanisms for allocating and distributing finances. More detailed mechanisms are defined in government regulations, which are normally adopted at the beginning of the agricultural season, but are subject to numerous changes, amendments and cancellations during the year. This does not provide a stable policy framework for producers. In addition, not all the mechanisms provide producers with sound information on the kind of support for which they are eligible. In response to the current economic crisis, the Government has adopted the Anti-Crisis Plan of Action, but has not made it public.

This type of agricultural policy is quite expensive for the country. Although overall support for agriculture in Belarus lags behind that in major Organisation for Economic Co-operation and Development (OECD) countries (in terms of overall sum and sums per capita and per hectare), the share of agricultural spending in the national budget is extremely high Under the tightening budget constraints associated with the global economic crisis, such a policy is becoming unaffordable for the country, and evidence of this has recently become visible. In 2009, the Government had to decrease State procurement prices for agricultural products while increasing the base fat content for raw milk and cutting marginal programmes in the State strategy (beekeeping, fishery and land improvement programmes were each cut

Price regulation

Agricultural prices in Belarus are subject to deep State regulation as established by the Law on Price Regulation, which stipulates the role of the State in regulating prices and describes the coexistence of free and regulated prices. Prices are generally set at a level that allows agricultural enterprises to generate normal profits, taking State subsidies and compensation into consideration, and are largely considered as performing a social function. State prices are set for goods provided by monopolies and for socially important goods and services. Prices can be regulated by both the national government and regional authorities. The major tools for price regulation are fixed prices, price ceilings, capping margins (absolute terms or rates), and fixed price formula and price declaration. Companies violating State price regulations are subject to confiscation of revenues in excess of the correct prices.

Farm gate prices

The Government of Belarus determines procurement prices for almost all agricultural products at the beginning of each agricultural season. The legal basis for the regulation of farm gate prices is the Government's Instruction for Defining the Procurement Prices for Agricultural Products.12 In accordance with this instruction, the State fixes prices for the products sold to the State through State procurement, which still accounts for a considerable share of total sales. For all other sales, the Government sets recommended prices. While these are not mandatory, prices should be established on the basis of the normative cost of production (norms of input use) set by the Government and must be agreed between producers and buyers. Price formulas and price agreements should be reported to and agreed by the local committee of agriculture. Quality differences (for example milk fat content) justify price differentiation, and State enterprises receive additional State financial support (through input provision), based on the quality of their outputs. One special feature of the dairy subsector is that milk delivered by households is paid as "class 1", milk regardless of its actual quality.

Consumer prices

The Law on Price Regulation of 1999 established the list of socially important products whose prices are regulated by the State. This list is still valid today, and includes bread and bread products; flour and cereal preparations; pasta; milk and dairy products; ice cream; fats and oils such as butter, margarine, mayonnaise and vegetable oils; cheese; meat and meat products; eggs; fish and fish products (excluding delicacies); baby food; salt; and sugar and sweeteners. Until 2001, the prices for listed socially important products were fixed by the State. Since then, the Government has started to set ceiling prices, which it reconsiders from time to time. These prices are mandatory for all retail outlets in the territory of the Republic. Wholesale prices are regulated by means of fixed margins.

Input prices

The system of input supply is still based on State purchase and distribution of key inputs to farms. These State purchases are made at regulated prices. In 2006, suppliers of agricultural machinery and equipment were released from import duties and value-added tax (VAT) if they reduced prices to agricultural producers by 12 to 18 percent (depending on the type of machinery). Fuel is sold to agriculture at preferential prices. In this Connection both Central and State government of India intervenes and fix the price for certain agro products.

Foreign trade regulation

Although Belarus' agriculture sector benefits from some tariff protection, this protection does not seem to be particularly strong. However, it should be noted that more effective protection of the domestic market is created through a combination of State-set, low domestic prices compensated (for domestic producers) by direct State support. Agro food exports from Belarus can only be undertaken through – and are hence controlled by – the Belarus Universal Commodity Exchange, which was founded by the State and four State-owned enterprises. Moreover, almost all agro food products are subject to temporary export restrictions or complete export bans, when deemed necessary to prevent a deficit on the domestic market. Necessary steps is taken to export the the products of agro based industries and agricultural commodities in India.

Investment support

Every year, the Government adopts a plan of direct State investments based on grants to government-selected enterprises. These investments are funded from the national budget and the Agricultural Producer Support Fund and guided by the Government's State programme for rural development described below. Alongside this regular investment programme, the Government also undertakes special investment projects, such as a dairy farm expansion project that set out to construct 118 new dairy farms. In addition to these direct investments, the State provides loans financed from the budget, and budget-financed guarantees for bank loans, to agricultural enterprises; funds occasional debt write-offs; provides interest rate subsidies; and provides additional support through direct regulation of banks. Selection of the enterprises that are to receive such support appears Agricultural Policy Framework and State Support for Agriculture in the Republic of Belarus to contain a considerable element of discretion for government authorities. The six largest banks lending to the agro food sector account for about 85 percent of all lending to agriculture. As these banks belong to the State, the State can (and does) provide preferential financial services to agricultural enterprises by directly regulating the terms of lending of these State owned banks. In addition, the National Bank of Belarus (NBB) is under government-control, so the Government can (and does) direct the NBB to provide commercial banks with financial resources to be on-lent to the agriculture sector at preferential conditions. Under the Government's leasing programme, banks are obliged to provide credit at zero interest. The costs incurred are compensated from the Agricultural Producer Support Fund at three percentage points above the refinancing rate. In India a separate bank for Agriculture "National Bank for Agricultural and rural Development (NABARD)" is established as apex bank for funding to Agriculture and Interest waiver and Credit Waiver Polices also implement by ruling authority for a particular period.

State supply of inputs other than credit

In financial terms, input supply programmes are the largest part of State support to agriculture, and are described in more detail below. These programmes include government coverage of mineral fertilizer and pesticide costs, machinery and its maintenance and repair costs, energy costs, the costs of seeds and livestock breeding material, livestock feed costs, and the costs of land amelioration. Other transition economies have similar programmes, but they tend to function differently; in most cases, producers are compensated for input purchases that they have made according to their own managerial choices. In Belarus, however, the State selects and procures the inputs and provides them at preferential prices to producers, reducing farmers' managerial autonomy.

The machinery leasing programme implemented by *Belagroservice* accounts for the largest share of input support from the Government and is the major form of credit support provided to agricultural producers, accounting for about half of all the debts they accumulate. The programme has been very effective in modernizing the machinery park of agricultural enterprises. Over the programme's lifetime, about 60 percent of grain harvesters, 40 percent of fodder harvesters and up to 30 percent of other machinery has been replaced. Annually, about 40 to 50 percent (and an even larger share for grain harvesters and some other items) of total deliveries of machinery to farms are made under the leasing programme. This is much more than in other CIS countries that implement State leasing programmes (Kazakhstan, the Russian Federation and Ukraine). Although the technical results of the programme have been impressive, its dominance by the State has constrained the emergence of a private, competitive leasing services market, and the Government's distribution of the machinery likely causes inefficiencies in its use. In India sate government and Central Government are very initiating to supply of raw material at low and concessional prices through farmers cooperatives.

Tax concessions for agriculture

In 2000, Belarus introduced the unified agricultural tax. For agricultural producers who opt for this tax scheme, it replaces all other taxes except VAT and payments to the Social Protection Fund and the Innovation Fund with a uniform tax of two percent. VAT and payments to the two funds are reduced. The unified tax scheme is not obligatory for producers, but most (97 percent) in Belarus opt to use it.16 The remaining three percent pay regular taxes, including corporate profit tax, income tax, assets tax, land tax and road tax. They are, however, still eligible for certain tax concessions. The VAT rate in Belarus is 18 percent, but major agricultural products are subject to a 10 percent rate. Agricultural Policy Framework and State Support for Agriculture in the Republic of Belarus exceeds the cost of their sold output by more than eight percent, this gap in VAT for farm inputs and outputs can be another source of budget transfers for agriculture. Reduced VAT for agro food products is commonly used in FSU countries to help ensure that the domestic demand for food is met. Mandatory and subsidized insurance

Since 2008, insurance for crops and livestock has been mandatory for agricultural producers (as it was in the Soviet time) and is provided by *Belgosstrakh*, a State agency. Most (95 percent) of the insurance premium is covered by the Government Agricultural Producer Support Fund. The Government also defines the terms of insurance contracts, such as what share of the losses are to be covered by the insurer and the margin that the insurer can charge (six percent). Support to household farming In 2006, the Special Programme of Development and Support of Household Subsistence Farms in 2006 to 2010 was adopted. At 2006 prices, this programme was estimated to cost almost Rbl 400 billion, 31 percent of which was to be financed from the national budget, 59 percent from the Agricultural Producer Support Fund, and the rest through bank loans. This programme primarily supports farm gate prices for household farms, mainly for milk. Farm households receive the price of "class 1" quality milk, irrespective of the actual quality delivered. Other programme elements include the distribution of calves, cost compensation for seed potatoes, and direct payments. In India there is no Tax for agriculture and Government of India is Executing direct purchase scheme for agro products.

V. Conclusion

Belarus supports mainly agricultural input use (including subsidized credits and cross-subsidizing of inputs) rather than outputs and applies tax concessions for agriculture as a support tool. Belarus has three major sources for State financing of agriculture: the national budget, from both the expenditure and the revenue sides; the out-of-budget fund to support agriculture, financed from a duty of one percent of revenues on all non-agricultural entities; and cross-subsidizing, which is at the expense of other sectors of economy. The budget process is not very transparent for producers. Applied agricultural policy is expensive for the country. Although overall support for agriculture in Belarus lags behind that in major Organisation for Economic Co-operation and Development (OECD) countries, the share of agricultural spending in the national budget is extremely high (8 percent verse 1-2 percent in the majority of other countries). In India, the present system of Agricultural Cooperatives should be redefined and modernised.

REFERENCES

[1] Soviet Statistical Yearbook - Narodnoye Khozyajstvo SSSR,1990
[2] Land Code of the Republic of Belarus, 23 July 2008, No. 425-3
[3] Republic of Belarus, Law No. 255-3 of 10 May 1999
[4] Decree of the President of the Republic of Belarus No. 765 of 31 December 2006
[5] Decree of the President of the Republic of Belarus No. 332 of 13 June 2008
[6] Republic of Belarus, Government Decree 1798 of 26 November 2008
[7] Republic of Belarus, Government Decree 1021 of 14 June 2008
[8] Republic of Belarus, Government Decree 943 of 18 June 1999
[9] Republic of Belarus, Government Decree 19/8 of 31 January 2006
[10] Letter of the Ministry of Agriculture of Republic of Belarus 03-4-8/6553 of 2 July 2008
[11] WTO, 2008, Trade profiles
[12] Database of CIS Statistical Agency www.cisstat.com/rus/index.htm
[13] Database of the Ministry of Agriculture of Russian Federation
[14] Database of the Ministry of Agriculture of Belarus
[15] Database of the Institute for Systemic Research in Agriculture of the National Academy of Sciences of Belarus
[16] Database of the Analytical Centre AFE
[17] Govrnment of India , Agriculture Policy Note -2015-16
[18] Govrnment of India , 12th Five Year Plan -2012-17.
[19] http://www.lenta.ru/news/2009/04/23/work/
[20] http://en.wikipedia.org/wiki/German_budget_process
[21] http://www.whitehouse.gov/omb/rewrite/budget/fy2005/budget.html
[22] http://www.maf.ge/pdf/moa_budget_review_2000-2007.pdf
[23] http://indiabudget.nic.in/ub2004-05/eb/stat02.pdf
[24] http://www.budget.gov.au/2004-05/bp1/download/bst6.pdf