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REGULATION OF DEMAND AT AGRIFOOD MARKET
AS A DIRECTION OF AGRARIAN POLICY

The paper considers the opportunities for implementation of internal food aid for the purpose of increasing the effective demand for agricultural production and food in Russia. International and domestic experiences of food aid mechanisms application for the poor are described. Calculation of the overall volume of food aid is carried out on the case of a big agrarian region. Preliminary estimated stimulating effect of food aid on agricultural output increase is presented. Keywords: state support; agrifood market; food aid; agricultural producers.

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РЕГУЛЮВАННЯ ПОПИТУ НА АГРОПРОДОВОЛЬЧОМУ РИНКУ
ЯК НАПРЯМОК АГРАРНОЇ ПОЛІТИКИ

У статті розглянуто можливості використання внутрішньої продовольчої допомоги з метою розширення платоспроможного попиту на сільськогосподарську та продовольчу продукцію в Росії. Охарактеризовано іноземний та російський досвід використання механізму продовольчої допомоги малозабезпеченим верствам населення. Проведено розрахунок загального обсягу продовольчої допомоги на прикладі одного з найближчих аграрних регіонів Росії. Наведено попередню оцінку стимулюючого впливу продовольчої допомоги на розширення обсягів виробництва сільськогосподарської продукції.

Ключові слова: державна підтримка; агропродовольчий ринок; продовольча допомога; сільськогосподарські товаровиробники.

Рис. 4. Табл. 4. Літ. 18.

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РЕГУЛИРОВАНИЕ СПРОСА НА АГРОПРОДОВОЛЬСТВЕННОМ
РЫНКЕ КАК НАПРАВЛЕНИЕ АГРАРНОЙ ПОЛИТИКИ

В статье рассмотрены возможности использования внутренней продовольственной помощи с целью расширения платежеспособного спроса на сельскохозяйственную продукцию и продовольствие в России. Описан зарубежный и российский опыт использования механизма продовольственной помощи малообеспеченному населению. Проведен расчет общего объема продовольственной помощи на примере одного из крупных аграрных регионов страны. Дана предварительная оценка стимулирующего воздействия продовольственной помощи на расширение объемов производства сельскохозяйственной продукции.

Ключевые слова: государственная поддержка; агропродовольственный рынок; продовольственная помощь; сельхозпроизводители.

Problem setting. Under today's economic instability, introduction of economic sanctions and anti-sanctions, rapid currency fluctuations, the problem of complex state regulation administration of Russian food market emerges as a vital one (Erokhin et al., 2014; Erokhin, 2015).

The state attempts to make efforts directed on ensuring national food security. However, most of those undertakings are either explicitly or implicitly focused on output increase, i.e. product supply, under almost complete disregard of measures, which regulate demand.

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Such a lop-sided approach leads to market imbalance, when undersized effective demand does not stimulate the increase of production output. As a result, the potential of agricultural production remains untapped, even with large-scale state support.

Recent research and publications analysis. Among Russian publications on the abovementioned problem we can mention the works of A. Bogoviz (2014), who emphasizes its systemic and chronic character. I.G. Ushachev (2014), R.S. Gaisin (2014), V.I. Nechaev and D.H. Khatuov (2014), V.Y. Uzun (2014), and others point out that in the current model of state regulation and support of agriculture 4 dimensions of food security (i.e., existence, access, utilization, and stability) are underestimated. This means that even with the achievement of target parameters of the Food Security Doctrine we may witness only some sort of presence of food and agricultural products at the market, not their full availability (Borhunov and Rodionova, 2013; Gysin, 2014; Nechayev and Khatuov, 2010).

In particular, R. Gaisin (2014) states that under the conditions of undersaturated market an imbalance occurs, because those prices, which are low for producers of agricultural raw materials and food, are at the same time high for consumers. With prices moving higher, economic availability of food decreases. As a result, demand stays low and does not provide any market signals for output increase. N. Borkhunov and O. Rodionova (2013) wrote about the need for stimulating agricultural output by means of increasing demand. This point of view is shared by I. Khitskov et al. (2014), who investigated the problem of effective demand increase at Russian domestic food market.

Despite the essential volume of the already conducted research, there is still a need for the economic analysis of food aid use for disadvantaged population as a measure to increase the demand for agricultural products and food. The previously mentioned determines the goal and the tasks of the current research.

The research objective is to study the opportunities for implementation of internal food aid for the purpose of increasing the effective demand for agricultural production and food.

The research tasks are:

- specification of the need to increase the effective demand at Russian domestic food market;
- investigation of foreign and Russian experience of food aid provision for disadvantaged population;
- calculation of the overall volume of food aid on the study case of a big agrarian region of the country;
- estimation of the stimulating effect of food aid on the increase in agricultural output.

Conditions, materials and methods. The research is conducted on the basis of dialectic, abstract-logical, and comparative methods with application of index analysis to the official statistic data and also compilation of data, obtained from other research publications.

Results and discussion. Internal food demand in Russia is limited by low incomes of population, which are below the minimum subsistence level for a significant of share Russian people (Table 1).

Table 1. Russian population with income below the minimum subsistence level (www.gks.ru)

	mln people	% of the overall population	Minimum subsistence level, RUB/month
2000	42.3	29.0	1210
2001	40.0	27.5	1500
2002	35.6	24.6	1808
2003	29.3	20.3	2112
2004	25.2	17.6	2376
2005	25.4	17.8	3018
2006	21.6	15.2	3422
2007	18.8	13.3	3847
2008	19.0	13.4	4593
2009	18.4	13.0	5153
2010	17.7	12.5	5688
2011	17.9	12.7	6369
2012	15.4	10.7	6510
2013	15.5	10.8	7306
2014	16.1	11.2	8050

Monthly income level of most Russian citizens is in between 10,000–27,000 RUB; only 13.6% of people have higher incomes (over 45,000 RUB per month) (Figure 1).

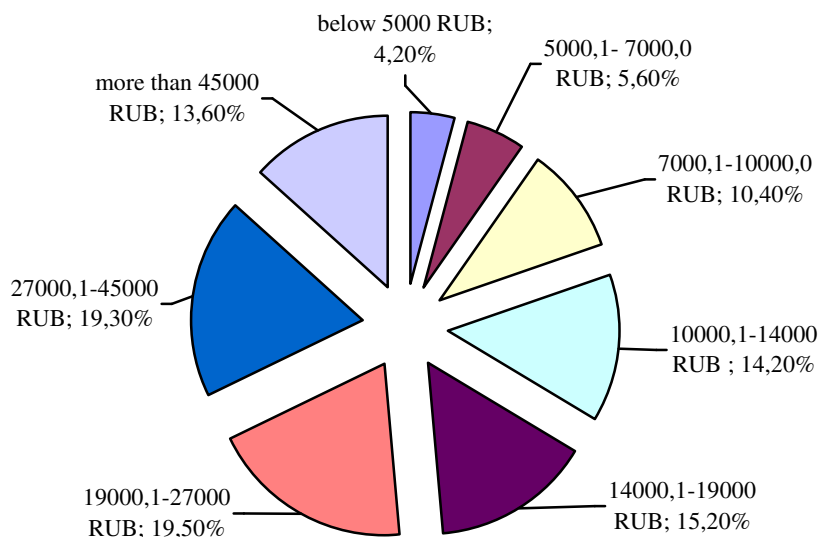


Figure 1. Distribution of Russia's population by per capita income, %, calculated on the basis of (Uzun, 2014)

Thus, the demand stays low; it is focused primarily on economically available kinds of food: potatoes, bread, cereals, pastries, poultry meat etc. Consumption of meat, milk and fruit in Russia is extremely low, while bread and potatoes – higher that in developed market economies (Table 2).

Table 2. Annual food consumption per capita in 2013, kg (Khitskov et al. 2014)

	Meat and meat products	Milk and dairy products	Fruit and berries	Bread	Potatoes
USA	118	271	99	91	56
Germany	88	255	87	98	71
France	89	250	114	...	55
Austria	106	238	152	78	...
Italy	91	252	163	...	44
Belarus	91	260	69	85	179
Russia	69	248	64	118	111

Comparison of actual food consumption with scientifically proven consumption rates, approved by the Ministry of Healthcare of Russian Federation, shows that even physiological need of population in milk, meat and fruit is not entirely satisfied.

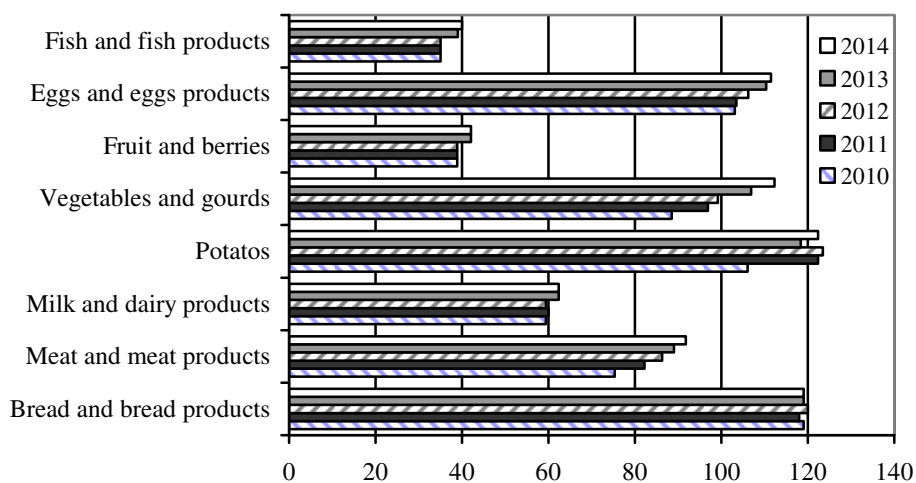


Figure 2. Satisfaction of the physiological need of population in major kinds of food products, %, calculated on the basis of (Uzun, 2014)

Deficit of these products is compensated by excessive consumption of bread, vegetable oil and potatoes. Bread consumption is above the scientifically proven consumption rate by 18%, potatoes – by 11%. The poorest part of population is primarily oriented on these products; almost one-half of their aggregated income (44%) is spent on food. Even so, the nutritive value of food, which they consume, remains extremely low.

Among consequences of low population incomes are limited demand and underpricing of agricultural producers, which leads to the decline of return on agricultural production. In such conditions, one-sided market adjustment policy, solely oriented on the increase of production output, turns out to be low effective. It does not balance demand and supply on such a price level, which would ensure a balance between interests of producers and consumers.

There is an objective need for incorporation of new tools into the agricultural and food market mechanism, which would regulate the demand and be primarily focused on support of consumers.

Internal food aid is one of the tools to develop demand. This method of final consumption promotion has shown good results in international practice; it is widely implemented in the USA, EU, and BRICS.

According to the WTO Agreement on Agriculture, "eligibility to receive the food aid shall be subject to clearly-defined criteria related to nutritional objectives. Such aid shall be in the form of direct provision of food to those concerned or the provision of means to allow eligible recipients buy food either at market, or at subsidized prices. Food purchases by government shall be made at current market prices, financing and administration of aid shall be transparent" (Decree of the Government of Russian Federation..., 3.7.2014, # 1215-p).

Consequently, domestic food aid is divided into the system of social catering in budgetary establishments and targeted food support. Targeted food support is provided by free (subsidized) meals in the network of specialized public catering enterprises (social canteens); food products of standard assortment in trade enterprises (social shops or specialized departments in conventional stores); or by other means.

According to the WTO rules, domestic food aid is provided in the framework of the "green box" without any limits on state support.

For example, food aid plays a leading role in the budget of the United States Department of Agriculture, constituting 74% of its total expenses (Figure 3). It gives a powerful multiplicative effect: every US dollar of food aid generates approximately 2 USD in economic activity. Implementation of the program support 18,000 of work places, including 3,000 work places in agriculture. The volume of the program in 2013 was 76 bln USD.

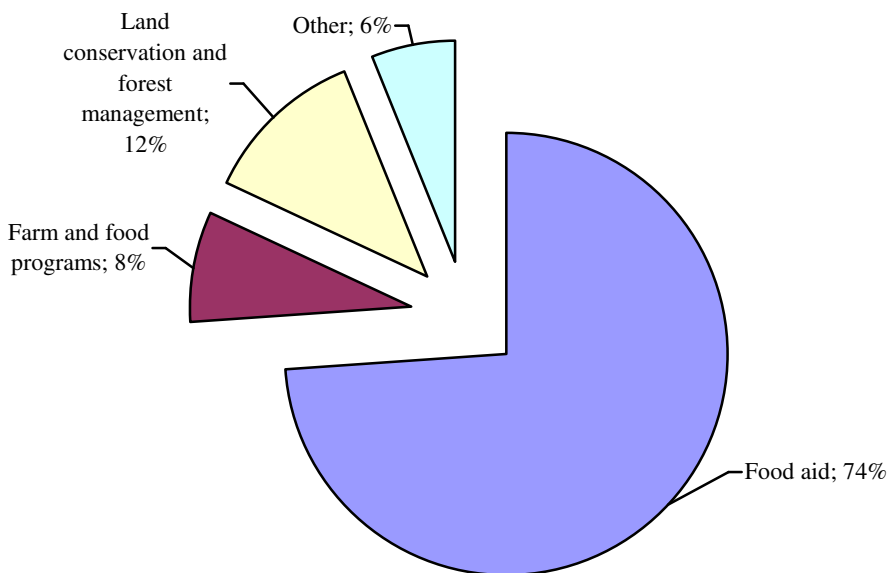


Figure 3. Structure of the US Department of Agriculture budget in 2013, % (Program domestic food aid as an instrument of state support for agricultural producers, 2015)

Taking into account the previously mentioned arguments, the Moscow Economic Forum 2014 mentioned food aid to disadvantaged people as one of perspective measures to develop domestic sales market. The necessity for its implementation is substantiated in Agricultural Production Roadmap, developed by the Forum. As of today, the Development Concept of Domestic Food Aid has been approved by the Government of Russian Federation.

The major goal of such kind of support is guaranteeing economic and physical availability of food products to ensure health protection and promotion, to the citizens of Russian Federation. Along with that, domestic food aid has to become the effective mechanism of sales market expansion for Russian agricultural and food producers, as well as to support import substitution. Another goal of food aid's introduction is the use of available "green box" opportunities to support domestic agriculture.

In order to ensure the maximum effect of food aid programs, it is necessary not only to increase the income level of disadvantaged people in Russia, but also to ensure further spending of these extra incomes on food products of domestic origin.

At present, the placement of orders and organization of social catering are provided by social welfare authorities, which do not have the task to support domestic agricultural production, thus they are oriented on cheaper import products.

Unification of various measures of social care and support of agriculture in the framework of food aid is intended to stimulate the market even at the absence of food glut. It becomes possible under the guaranteed sale of manufactured products at prices, which stimulate further expansion of production.

Currently the pilot projects of targeted food aid are implemented in Ulyanovskaya, Omskaya and Saratovskaya oblasts, Republics of Mordovia and Buryatiya (Agribusiness Development Program in Russia..., 2013). It is carried out in the form of monthly payments to the disadvantaged people for purchasing food products of domestic origin in the network of retail stores, using universal electronic cards. Receivers of domestic food aid are the children of disadvantaged and multi-child families, indigent pregnant and nursing mothers; disadvantaged pensioners and disabled people; other categories of people by the decision of state authorities. The amount of monthly payments vary from 350 to 1,000 RUB (Figure 4).

The experience of these pilot regions has shown that involvement of peasant farm enterprises and personal subsidiary economies into the system of domestic food aid increases their merchantability. The important condition for projects' effectiveness is the development of appropriate production and commodity distribution infrastructure. The implemented mechanisms ensure the traceability of food products and orientation on domestic producers.

Positively assessing the experience of pilot regions, we conducted the preliminary estimation of the implementation of similar projects in Stavropol, the capital city of the same-name agrarian region of Russia, with 426,000 inhabitants.

Two kinds of food aid are included into calculations:

- social catering of school pupils in the age between 7 and 14;
- targeted food aid to people, whose income is below the minimum subsistence level (11.8% of population in the Stavropol region).

Preliminary calculations show that the number of social catering recipients is 23,600 people. Targeted food aid may be provided to 19,800 people. The potential

annual capacity of social catering market is 50.9 mln RUB, targeted food aid – 216.8 mln RUB. Aggregated cost of domestic food aid measures is 267.7 mln RUB (Table 3).

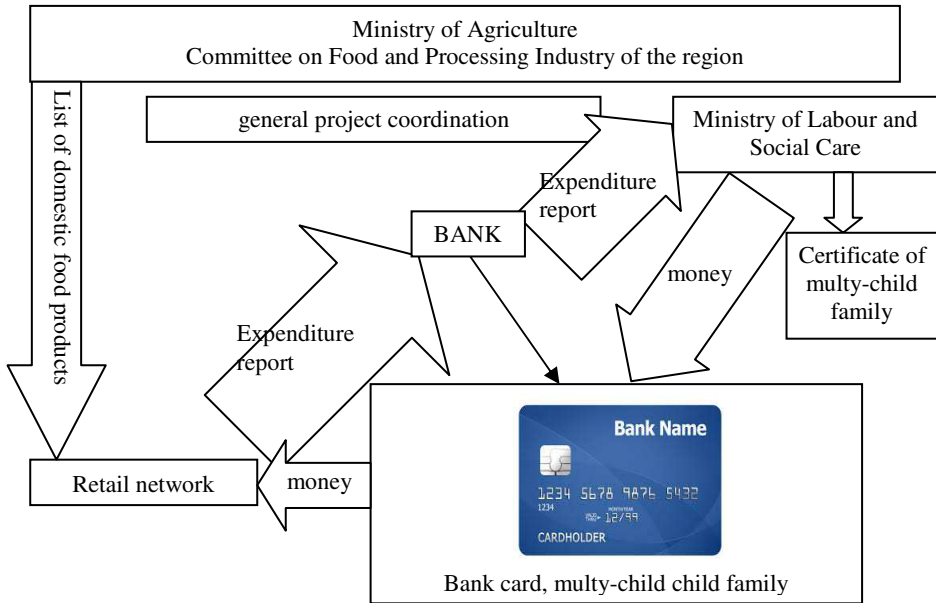


Figure 4. The scheme testing the domestic food aid mechanisms in pilot regions (www.mcx.ru)

Table 3. Preliminary cost of domestic food aid measures for the inhabitants of Stavropol city, compiled authors'

	Number of recipients, ths people	Volume of daily support, RUB	Number of days	Annual spending, mln RUB
Social catering	23.6 ¹⁾	12 ³⁾	180	50.9
Targeted food aid	19.8 ²⁾	30 ⁴⁾	365	216.8
Total	43.4	x	x	267.7

¹⁾ Number of school pupils in the age between 7 and 13.

²⁾ Population with income below the minimum subsistence level.

³⁾ Average cost of one glass of milk in school catering organizations in 2013.

⁴⁾ Approved by the Concept of Support of Domestic Producers and Processors of Agricultural Products on the basis of the domestic food aid in the framework of the WTO “green box”.

However, agricultural sector will not receive the full amount of these funds (Table 4).

Purchasing of agricultural and food products, resulting from the above presented volumes of food aid, are defined by the methodology of the All-Russian Research Institute of Agricultural Economics (VNIIESH) with the average share of cost of agricultural production in the retail price of food products being 41.3%. The result is: $267.7 \times 0.413 = 110.6$ mln RUB. It is below 1% of the total commercial output of agricultural sector of the Stavropol Krai. Such a volume would hardly affect the development of domestic sales.

Table 4. Share of agricultural production in the retail price of food products and food aid fund, % (Borkhunov and Rodionova, 2013)

	Share of production of 1st processing stage (flour, meat, milk)	Share of production of 2nd processing stage (bread, butter)	Average volume	Structure of expenses on food purchasing	Weighted average of the share of agricultural production
Bread	31–36	7–9	19–22	15.7	314
Meat and meat products	44–58	22–30	35–44	30.6	1224
Milk and dairy products	43	14–35	30–40	15.0	525
Sugar	38	–	38	6.7	255
Total	41.32				

Conclusions. In order for the food aid to affect the profitability of agricultural producers to a considerable extent, its volume has to be increased essentially. According to our estimations, the number of recipients in the Stavropol Krai has to be over 300,000 people.

When introducing food aid, it is necessary to take into account the specifics of social and economic development of rural territories, where the majority of disadvantaged and poor people is concentrated. Among such specifics are:

- high share of production of personal subsidiary economies in consumption (Trukhachev et al., 2015);
- underdevelopment of commodity distribution infrastructure;
- poor development and distribution of electronic payment systems and limited capacities for their use.

Considering the abovementioned peculiarities of rural territories, one of effective ways to provide targeted food aid is to distribute seeds, nursery plants and animal feedstuffs free or on preferential terms. Such measures are stipulated by the Concept of Domestic Food Aid of Russian Federation.

Large-scale operation of domestic food aid system requires the essential volumes of food products, which, in turn, causes the need for development of production and commodity distribution infrastructure. It has to ensure the formation of direct transparent linkages between agricultural producers, food and processing enterprises, and recipients of food aid. This will decrease production costs because of eliminating redundant intermediaries.

Along with agricultural organizations, it is necessary to involve farms and personal subsidiary economies into the food aid system on the basis of cooperation.

We believe, consideration of the above during the development of regional programs of domestic food aid will contribute to their effectiveness and performance, and will help alleviate poverty and expand the capacities of domestic market.

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