IMPLEMENTATION OF THE REPUBLICAN BUDGET AND ASSESSMENT OF AGRICULTURAL
FINANCING: A CASE STUDY

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Abstract. This article discusses the results of implementation of the republican budget in the context of agricultural financing. The allocation of the necessary budget funds for the realization of the measures, which were taken into account by the State Program for the Development of the Agro-Industrial Complex of the Republic of Kazakhstan for 2017-2021, has been considered. The areas of financing and the level of utilization of budget funds in the framework of the program tasks for 2017 have been studied in detail. The results of using these funds in raising the level of food safety in the country have been assessed. Some problems in the development of the provision of domestic food products, in particular, dairy products, have been identified, and suggestions for their solution have been made.

Keywords: republican budget, local budget, budget implementation, state development programs, agricultural development, food security


JEL Classifications: Q14, H6

1. Introduction

One of the main tasks of the state is to provide financial support as a condition for the existence and development of agriculture. Purposeful financial support ensures the sustainable development of the industry, without which it is impossible to guarantee the country’s food security, to develop a competitive agricultural sector of the economy, to ensure the integrated development of rural areas or to solve social problems in rural areas (Assessment of the food security of the Republic of Kazakhstan, 2014). Sustainable agricultural development plays an important role in improving land use, helping to preserve and increase its productive power around the globe (Moumen et al. 2019; Shevyakova et al. 2019).

Self-sufficient agricultural industry is regarded as the very basis of the economic strength of any nation.
The main source of financial support is budget (republican and local) funds. The interest of the state in co-financing agriculture is due to the fact that it is significant for national economy (contribution to GDP, employment, natural resources), and especially as each country tends to ensure food security (Kuzman et al., 2017). Budget funds can be particularly allocated for the financing of the following programs: agricultural research; marketing organization; crediting; land conservation; support of prices, purchase, compensation payments; support of farming supply and marketing cooperatives, market orders; subsidizing food; export subsidies; international food aid.

The purpose of this article is to compare the republican budget of 2017 and 2016 in order to identify the level of financing of budget programs in the field of the agro-industrial complex (Report of the Government of the Republic of Kazakhstan, 2018). Analysis of research work makes it possible to note that the current globalization processes raise new questions from the point of view of theoretical, methodical and practical understanding of the areas and results of agricultural financing (Kudryavtsev, 2009; Polonskiy, 2010; Popova & Sidorin, 2015; Martynova & Evarovich, 2018).

At the same time, excessive state intervention in the field of agriculture can lead to serious imbalances and negative impact on the efficiency of the agricultural sector. Under these conditions, it is necessary to find the optimal interaction mechanism between the use of free market relations and state intervention in the field of agriculture.

One of the interaction mechanisms can be the development and use of targeted programs and projects in priority sectors of the agrarian economy with the justification of the amount of financing. An example of the implementation of such a mechanism is the implementation of the State Program for the Development of the Agro-Industrial Complex for 2017-2021, approved by the Decree of the President of the Republic of Kazakhstan on February 14, 2017. This program complemented and developed the previous program “Agribusiness-2020”. In the new program, the total cost in 2017-2021 should be 2.4 trillion tenge, which is slightly less compared to "Agribusiness-2020", where it was planned to allocate 2.8 trillion tenge for expenses in 2017-2020 (State Program, 2017).

The implementation of this and other programs cannot be considered in isolation from the study of the level of state support. Such an approach to the study of the development of the agro-industrial complex is being widely discussed, since it has a great scientific and practical interest. In this article, we put the question in a slightly different way, namely, we consider the state support of programs for the development of the agro-industrial complex on the basis of their interrelation with the implementation of the republican budget. We will also try to assess the possibilities of financing projects that are planned in this program. We can see that huge budget funds are to be allocated for state support. The question now is, first of all, how effectively these funds are used, what their returns are, and how effective the financial mechanism for regulating and stimulating agricultural production is.

For this purpose, in this article we try to assess the results of the above-mentioned development program, which has been implemented in the Republic of Kazakhstan since 2017. As the program plans to finance specific targets for agricultural development, the task of the study is to assess the financing of state targeted programs in the agricultural sector and to analyze trends in the provision of state financial support for the country’s sustainable agricultural development.
2. Materials and Methods

The methodology of the study was based on the methods of calculating the dynamics indicators characterizing the republican budget data and data on financing development programs, as well as on a comparative analysis. In order to achieve the objectives, we used specific data from the republican budget in terms of financing in accordance with the implementation of the above-mentioned program in 2017. In order to analyze and assess the results of the program implementation, we used the methods of comparing the calculated levels of dynamics according to the republican budget and data on the amount of financing for development programs through budget funds.

3. Results and Discussion

State financial support for agricultural producers in the Republic of Kazakhstan is provided in the form of subsidies, concessional lending and tax incentives. In this regard, it is of interest to conduct a comparative analysis of financing and lending, by highlighting the areas of financial support for agricultural producers, provided by the state in order to increase the competitiveness of agricultural products. Such an analysis makes it possible to assess how state subsidies, short-term and long-term credits of commercial banks as well as loans of non-banking institutions contributed to an increase in the production and sales of agricultural products, and improved the financial performance of the company.

A literature review on the research question allows us to state that there are different points of view on the issues under consideration, but the common denominator is that, in general opinion, all state programs for agricultural development should have financial support from the budget.

We agree with the opinion of those authors who note that the financing of such expenses as on agricultural research, education and infrastructure contributes to the growth of labor productivity and the development of agricultural production. Investing in agricultural infrastructure has a significant impact on the state of poverty in rural areas, since there is a complex development of rural areas that leads to economic growth and poverty reduction (Utibayev et al., 2017; Utibayeva et al., 2016; Clark, Menifield & Stewart, 2018).

The republican budget approved for 2017-2019 preserved a conservative approach to planning priority expenses, which is based on the forecast of socio-economic development, basic expenses of the previous period, the results of budget monitoring and the assessment of budget implementation. At the same time, the developed three-year budget is more focused on the realization of state and sectoral programs, which define the actual timeline for project implementation (State Program, 2017).

However, it should be noted that in the forecasts there is a slight decrease in the volume of state subsidies provided for the development of crop production, as well as their low size, directed to the development of the livestock industry. Such an approach, in our opinion, will not contribute to the stable growth of agricultural production in the medium term.

Some results of the development of the country’s agricultural sector indicate that over the past five years, agricultural production has increased 1.4-fold (from 2,949.5 billion tenge to 4,097.5 billion tenge), and processing volumes have increased 1.5-fold (from 970.1 billion tenge to 1,478.4 billion tenge). Over the years, there has been an increase in the level of labor productivity in the agro-industrial complex, with an average annual growth rate of almost 24%. Over the same years, 4.4 billion US dollars was allocated to the agricultural sector, of which more than 80% was from the private sector, which indicates an increase in the attractiveness of this sector for business development.
Any state program or project, first of all, must have financing sources. The above-mentioned state program for the development of the agro-industrial complex also has clearly indicated financing sources and amounts. It should be noted that more than half of the expenses envisaged will be financed from the republican budget. For the entire implementation period of this program, as mentioned above, about 2.4 trillion tenge is needed, of which the share of the republican budget accounts for slightly more than 1.2 trillion tenge, the share of local budgets – 0.9 trillion tenge, and the rest will be financed from other sources. In addition, the annual financing amounts will be adjusted in accordance with the budget parameters.

It should also be pointed out that in the approved republican budget for 2017-2019, in general, there are positive forecasts of financing costs. However, according to the forecast volume of budget expenses, provided for by the functional group “Agriculture and related industries”, there is an incomprehensible decrease in the amount of financing costs for this functional group. While in 2017 it was planned to allocate 167,136.7 million tenge for this group and in 2018 – 160,042.4 million tenge, in 2019 these amounts decreased to 153,948.4 million tenge. In this case, we can note that the share of costs is about 2% of the level of all costs. This level, in our opinion, does not correspond to the goals, objectives and directions that are provided for by the state development program of the agro-industrial complex for 2017-2021. Moreover, the amount of 167.1 billion tenge, planned for 2017, is not linked to the expenses envisaged for this year. In this regard, during this year it was necessary to allocate more than 359 billion tenge for the implementation of this program, of which only 198 billion tenge being from the republican budget, 144.5 billion tenge – from local budgets, and the rest – from other sources, for example, attracting loans from commercial structures (Utibayev et al., 2017).

Consider the implementation of the republican budget in terms of financing in accordance with the State Program for the Development of the Agro-Industrial Complex of the Republic of Kazakhstan for 2017-2021 (henceforth referred to as the Program) (2017). The main goal of this Program is to ensure the production of high-demand competitive agricultural products. At the same time, it is planned to achieve results by target indicators.

Focusing on the demand for agricultural products involves, above all, the production of certain priority goods and food products that are necessary to meet the needs of the domestic market in terms of food security, as well as the development of the export potential of the agro-industrial complex. The latter is impossible without increasing the competitiveness of products, which involves resolving resource supply issues, developing infrastructure and implementing a stimulating state policy in the agro-industrial complex.

It should be noted that the Program for meeting domestic food needs specifically identifies priority agricultural products for which production needs to be developed. These include poultry meat, meat products, dairy products, fish, vegetable oil, fruits and vegetables, and sugar. At the same time, the Program provides for an annual decline in imports of agricultural products. For example, in 2018, the volume of imports of food products should be 96.2% of the 2015 level, in 2019 – 86.7%, etc.

With regard to the development of export potential, the Program notes that, first of all, it concerns those types of products whose domestic consumption is currently fully provided by domestic production, and those that are in high demand in foreign markets. These include beef, lamb, pork, corn, oilseeds, potatoes and their processed products, as well as organic products (State Program, 2017).

In 2017, the budget allocated 387,295 million tenge for financing its implementation, of which 243,747.4 million tenge was from the republican budget, including in the form of targeted transfers to the regions in the amount of 115,951 million tenge, and 143,547.6 million tenge – from the local budget. The amounts are impressive, and the degree of their utilization is of practical interest from the point of view of both their actual utilization and the results achieved by the planned tasks.
Table 1. Financing of agricultural development programs

<table>
<thead>
<tr>
<th>Financing of planned tasks</th>
<th>2017 plan (mln tenge)</th>
<th>2017 actual (mln tenge)</th>
<th>in % to plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Saturation of the domestic market and development of the export potential of domestic products</td>
<td>234 532.7</td>
<td>234 424.3</td>
<td>99.9</td>
</tr>
<tr>
<td>2. Efficient use of state financial measures</td>
<td>110 622.9</td>
<td>110 585.4</td>
<td>99.9</td>
</tr>
<tr>
<td>3. Efficient use of water resources</td>
<td>37 951.7</td>
<td>36 781.6</td>
<td>96.9</td>
</tr>
<tr>
<td>4. Creation of conditions for the efficient use of land resources</td>
<td>3 700.3</td>
<td>3 700.3</td>
<td>100</td>
</tr>
<tr>
<td>5. Scientific-technological, personnel and information-marketing support of the agro-industrial complex</td>
<td>460.8</td>
<td>460.7</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>387 268.4</td>
<td>385 952.3</td>
<td>99.7</td>
</tr>
</tbody>
</table>


The data given in Table 1 testify to the almost 100% utilization of the allocated budget funds. Nevertheless, we will try to assess which areas were covered by various types of financing and what was done specifically as a result of the utilization of the allocated funds.

Table 1 shows the data on three more important areas of financing tasks, namely, on the efficient use of water resources, on creating conditions for the efficient use of land resources, and on scientific-technological, personnel and information-marketing support of the agro-industrial complex. These areas are certainly significant and deserve close study, which is impossible in the framework of a single article. Therefore, we will dwell in more detail on the assessment of the results achieved by the first two tasks.

Consider in more detail the areas of financing for the implementation of the first task – the saturation of the domestic market and the development of the export potential of domestic products. Subsidizing at the expense of the local budget was carried out with the aim of increasing the yield and quality of crop production, as well as the cost of fuels and lubricants and other inventory values necessary for spring fieldwork and harvesting, by subsidizing the production of priority crops. Moreover, the payment of subsidies was carried out only in case of sowing on arable land, as well as on the reimbursement of the cost of growing crops in protected ground, the cost of laying and growing, including the restoration of perennial plantations of fruit and berry crops and grapes and other types of agricultural work.

As can be seen from the data in Table 1, more than 234.4 billion tenge was allocated and spent on the implementation of this task, which is 60.7% of all funds. Of these, 95,805.5 million tenge, or 41%, were funds from the republican budget. They were used to subsidize significant and priority areas. A significant amount of these funds was allocated for the annual lending of spring fieldwork and harvesting by agro-industrial entities. In 2017, 60 billion tenge was allocated and spent for these purposes, which, along with a reduction in the rate of remuneration, allowed financing 1,816 agro-industrial entities, while covering 3 million hectares (Report of the Government of the Republic of Kazakhstan, 2018).

It is necessary to note the importance of carrying out phytosanitary measures and measures on plant quarantine against highly dangerous pests and quarantine objects, since significant amounts are provided for these purposes at the state level annually. For example, in 2017, more than 4.8 billion tenge was allocated and spent on financing chemical treatments of more than 4 million hectares of agricultural areas against highly dangerous pests.

At the same time, currently, at the expense of local budgets, herbicides, bioagents and biological products intended for processing crops in order to protect plants are subsidized. For these purposes as well as for
subsidizing the costs of combating harmful, highly dangerous pests above the economic threshold of damage, quarantine objects and weeds, more than 26,270.6 million tenge was allocated and spent from the local budget.

In the structure of financing the development of the livestock industry, one should single out, first of all, the subsidizing of the cost of developing livestock breeding as well as increasing the productivity and quality of livestock products. For these purposes, 8,902.8 million tenge was allocated and spent from the republican budget. In total, 74,009.8 million tenge was allocated, of which 65,106.9 million tenge was allocated from local budgets.

Another rather large, in terms of financing, area is subsidizing the conduct of diagnostic studies of animal diseases and reference studies in veterinary medicine, the timely identification, localization and rehabilitation of foci of infection for highly dangerous animal diseases, as well as the acquisition of products for the identification of farm animals and the provision of veterinary drugs against highly dangerous animal diseases.

The total amount of funds allocated and spent for these purposes from the republican budget amounted to more than 20,875.7 million tenge. According to the reporting data for 2017, 133 foci of highly dangerous diseases were eliminated, 129 unfavorable points were improved, and 178.88 million doses of veterinary drugs were purchased.

Sufficiently large amounts from the republican budget, about 260 million tenge, were allocated and spent on monitoring food products regulated by the state veterinary and sanitary control and supervision service, which made it possible to conduct 21,332 studies. The costs of processing enterprises for the purchase of raw materials to produce powdered milk, butter and cheese in the amount of 2,869.8 million tenge were subsidized at the expense of local budgets. In this regard, 87 milk processing enterprises received subsidies.

In addition, 474,247 thousand tenge was allocated from the republican budget to procurement organizations in the agro-industrial sector for subsidizing the amount paid to the budget within the limits of the calculated value-added tax. 28 procurement organizations received subsidies.

Ensuring the country’s food security cannot be considered in isolation from the financial assistance provided by the state to agricultural producers. According to Table 1, the amount of financial measures of state support is more than 110.6 billion tenge, or more than 28%. As a result, the index of physical volume of investments in fixed assets in agriculture amounted to 1,902 compared to the level of 2015, or investments increased by 90.2%. In addition, significant growth was observed in investments in fixed assets in food production – 1,593 to the level of 2015.

The main measures of state support include the following areas of financing. The largest share is accounted for by subsidizing the reimbursement of a part of the expenses incurred by the subjects of the agro-industrial complex with investments. More than 76,224.9 million tenge was allocated and spent from the republican budget for these purposes. At the same time, 7,532 applications of investors in 21 priority areas of the agro-industrial complex were subsidized.

Another area of financing is the subsidization of interest rates for reducing the principal debt of agricultural producers, participants of the subsidy program; more than 15,609 million tenge was allocated and spent from the republican budget for this purpose. About 14 billion tenge was allocated and spent on subsidizing interest rates on loan and leasing obligations in the framework of the financial recovery of agro-industrial entities.

In this regard, it should be noted that in order to increase the availability of financing for agro-industrial entities, this program plans to gradually reduce inefficient subsidies that directly distort pricing and are referred by the WTO to the “yellow” basket. These should include commodity-specific subsidies distorting the market (per unit of area, per unit of production). The funds released as a result of such measures are to be used in the form of such
financial instruments as subsidizing the interest rate on loans, leasing agricultural machinery and livestock; investment subsidizing; insurance subsidizing; development of a system of credit partnerships and loan guarantee institutions. For example, for investment program participants (development of beef farming, intensive farming, intensive gardening, etc.), the rate of credit and leasing will not exceed 4% per annum in tenge, and the loan terms will be extended to 15 years. At the same time, program participants will not receive commodity-specific subsidies from the time of concessional lending (State Program, 2017).

Conclusions

It can be stated that the amounts of the republican budget implementation in terms of financing the development programs of the country's agro-industrial complex were almost completely utilized. With few exceptions, a fairly large amount of funds from local budgets was utilized. All these funds were used to subsidize those tasks that were provided by the State Program for the Development of the Agro-Industrial Complex (2017).

As a result of the utilization of the allocated funds, the target indicators planned for 2017 were achieved. Thus, the index of physical volume of agricultural gross output (services) was 1.080 compared with the 2015 level, and the index of labor productivity was 1.270, while it was planned to achieve the level of 1.120. It was also planned to achieve the volume of exports of food products in the amount of 920 million US dollars, while the actual volume amounted to 1,202.5 million US dollars. Compared with the 2015 level, there was a decrease in the index of physical volume of the wholesale trade in food products – 0.798, although it was planned to amount to 1.06. For comparison, the values of the price index for food products over time are as follows: 2015 – 1.071, 2016 – 1.138, 2017 – 1.061.

Nevertheless, the volume of food production increased by 3.8% and exceeded 1.2 trillion tenge. At the same time, the production of cereals increased by 36%, sugar – by 49%, flour – by 13%, vegetable oil – by 14%, sausages and similar meat products – by 10%. 325.8 billion tenge was allocated and spent for these purposes.

In general, the total investment in agriculture increased from 148 billion tenge in 2016 to 228 billion tenge in 2017. This was contributed by the introduction of new regional projects to enhance the export potential of cattle meat, as well as the growth of investment subsidies and incentives for the introduction of cooperation in rural areas.

The development of cooperation in rural areas is one of the directions and main reserves of forming raw materials and food resources for the regional market of agricultural products with the participation of personal subsidiary farms. For example, according to FAOSTAT, cow milk production in Kazakhstan is about 5 million tons per year. At the same time, 80% of raw milk is produced on personal subsidiary farms. Only one third of this volume goes to industrial processing (Ishekenova, 2016). Personal subsidiary farms are organized in cooperatives for the production, processing, marketing, and storage of agricultural products, aquaculture products (fish farming), as well as services associated with the maintenance of members and associate members of the cooperative.

As of April 1, 2018, according to statistics, there were 2,849 registered cooperatives, which involved more than 62 thousand persons. However, audits of state bodies revealed a number of systemic problems that in one way or another hinder the effective development of agricultural cooperation. In particular, 18% of created cooperatives were inactive, and 42% were formally created cooperatives. That is, only 40% of cooperatives were more or less functioning, and they faced problems with processing and marketing products produced by the members of cooperatives. There was also the lack of sufficient measures to stimulate the development of cooperatives, and the lack of agricultural land in some regions.
In general, the development of agricultural cooperation would help to solve such key problems of the agro-industrial complex as:

- low level of labor productivity;
- low level of product competitiveness;
- underutilization of processing enterprises;
- low technical equipment;
- low profitability of product sales;
- high overhead costs.

We believe that for the development of agricultural cooperation it is necessary:

- to create equal conditions for subsidizing agricultural cooperatives in all available measures of state financial support;
- not to make plans for the creation of cooperatives for akimats;
- to revise the conditions for granting microcredits for agricultural cooperatives.

In this regard, the State Program for the Development of the Agro-Industrial Complex for 2017–2021 provides for two mechanisms of cooperation of organized farms as key tools for increasing production efficiency – horizontal cooperation and vertical (anchor) cooperation. It is believed that horizontal cooperation will allow small and medium-sized agricultural producers to increase profitability by merging and reducing costs in the manufacture and sale of products. Vertical cooperation ensures integration for agricultural producers and creates economically advantageous conditions for their interaction with both processing enterprises and other consumers, on the one hand, and with suppliers of resources necessary for production, on the other. At the same time, personal subsidiary farms can participate in cooperation as business entities in the form of individual entrepreneurs, and peasant farms. In order to obtain state support, starting from 2020, agricultural producers that are not registered as legal entities must be members of vertical cooperation or horizontal cooperation (State Program, 2017).

Furthermore, there is a need to introduce digitalization elements, for example, to create a special portal with automated information gathering and monitoring of data on agricultural units in order to assess performance, to account for jobs, and to analyze labor productivity.

References


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