

SUBSIDIZING AGRICULTURAL RISKS: TRENDS AND OPPORTUNITIES

Maria COJOCARU, Iulia CAPRIAN

Moldova State University, 60 Alexe Mateevici, Chisinau, MD-2009, Republic of Moldova,
Phone/Fax: 373 022 57 77 75; Email: cojocaruum@gmail.com, fse.usm@gmail.com

Corresponding author: cojocaruum@gmail.com

Abstract

The paper analyzed the issue of subsidizing agricultural risks in Moldova. The data were collected from the National Bureau of Statistics of the Republic of Moldova, the Agency for Payments and Intervention for Agriculture, National Commission of Financial Market, insurance companies, and various studies on the topic. The study was based on the following methods: monograph, analysis, synthesis, time series analysis, trend analysis, graphical method, etc. It was concluded that agricultural insurance represents a real mean for crop protection and for the investments made in this sector. Agricultural risk subsidy programs implemented in Moldova so far can be considered inefficient and unattractive for farmers. It requires a radical rethinking of the policy of subsidizing agricultural risks.

Key words: compensation, insurance, risk, subsidies

INTRODUCTION

For the Republic of Moldova agriculture remains one of the main branches of strategic importance. In many states, the contribution of agriculture to the GDP is about 30%, and about $\frac{3}{4}$ of the consumer market consists of goods manufactured from raw materials. At the same time, agriculture also contributes to the development of other areas: agricultural products' trade, transportation etc. Agriculture does not involve only the production, processing and food trade.

The development of the agriculture field determines the level of development and vitality of rural communities, living standards of the rural population. The farmers, in addition to the noble activity of providing the people with food, maintain a rural lifestyle. "If the farms and farmers would not exist, the hamlets and our trade fairs would be extremely affected" [8]. Thus, besides the production and supply of safe food products, affordable, of good quality and in sufficient quantity, the farmers also manage the rural areas in the benefit of the society. But to produce goods in sufficient quantities, they must use agricultural technologies that are not always sustainable. Farmers face a double

challenge: on one hand to maintain market competition, and on the other hand – to protect the soil, landscape, biodiversity etc. Meanwhile, agriculture is a field that it is affected greatly by climatic, economic, political risk factors and others. Farmers do not earn sufficiently for development in sustainable and efficient circumstances. Therefore, the state governments offer them support for the services provided to the society, for their contribution to food security and preserving the vitality of the rural economy [5].

MATERIALS AND METHODS

The study on subsidizing agricultural risks in Moldova is based on materials from the National Bureau of Statistics of the Republic of Moldova, the Agency for Payments and Intervention for Agriculture, the National Commission of Financial Market statistical data of insurance companies, and studies from researchers from European countries. To achieve this study, were applied the following methods: monograph, analysis, synthesis, logical method, time series analysis, trends' analysis, and other methods of processing statistical data.

RESULTS AND DISCUSSIONS

Agriculture is the activity which mostly takes place outdoors. Taking into consideration that destructive natural events are increasingly common, the farmers are more often resorting to insuring plantations and/or animals [4]. In recent years it is noted an increased negative impact of natural disasters on crops. For example, the year 2012 was marked by a very strong drought that caused Moldovan agriculture losses of over 2 billion Lei, the year 2013 was highlighted by heavy rains and hail thunderstorms, and the year 2015 has already been noted by an excessive drought that caused great losses for farmers. International meteorological services and industry scientists predict an increase of the negative effects on different areas of human life, but especially on agriculture.

The analysis of statistical data shows that only 1% of the agricultural producers in Moldova insure their crops and animals, in spite of the fact that agricultural risks are subsidized by the government of the Republic of Moldova. The subsidies amount for insurance is 60% for insuring multiannual plantations, sugar beet and vegetables, and 50% for ensuring other crops and animals [2].

Subsidized insurance in agriculture is accomplished in accordance with the provisions of Law nr.243-XV from 08.07.2004 „Regarding subsidized insurance of production risks in agriculture” [6], according to which subsidizing insurance premiums are awarded to the agricultural producers that have registered at the town hall the crops, animals, birds, bees families and fish that belong to them and the ones that maintain the agricultural crops, animals, birds, bees families and that produce fish according to approved technologies, take disease prevention measures and control pest attacks, and keep records of the performed works.

The subsidizing of agricultural producers from the Republic of Moldova according to the act ”Boosting subsidizing production risks in agriculture” during 2011-2014 is presented in Table 1.

The data from Table 1 show a decrease in the number of contracts compared to 2011, but a

decrease in the amounts of paid compensation, although given the fact that 2013 was not favorable to farmers (with strong floods and hail).

Table 1. Boosting subsidizing production risks in agriculture during 2011-2014

Year	Contracts approved for compensation	The amount of damages payable, thousands Lei	Total subsidies to agriculture	Total weight measure subsidies, %
2011	164	14.61	215.4	6.78
2012	266	27.81	399.8	6.95
2013	78	41.29	455	9.07
2014	107	29.36	564.7	5.20

Source: Adjusted by the authors based on data from CNPF: www.cnpf.md

Compared to the year 2014, the share of subsidies awarded for risk insurance has decreased from 9.1% to 5.2%, a fact due to the refusal of insurance companies to insure these types of risks.

The means provided for this action are used for subsidizing the insurance premiums of the agricultural producers, based on production risks insurance in agriculture contracts and based on the List of risks for which the insurance is subsidized from the insurance fund of agricultural producers premiums in cultivation, horticulture, viticulture, and livestock breeding (storms, hail storms, excessive drought) and the List of crops, livestock and poultry species for which the insurance is financed from the subsidizing premiums fund of the agricultural producers (sugar beet, sunflower, maize, etc.).

In 2013 only 4 insurance companies have conducted business in the field of subsidized insurance of production risks in agriculture, 221 contracts being signed for subsidized insurance of production risks in agriculture with the amount of 12,322.4 thousands lei paid (Table 2).

In 2014, the amount authorized for compensating farmers affected by agricultural risks was increased 2 times, up to about 29.4 million Lei, and the number of signed contracts has increased insignificantly.

The cumulative value of gross premiums in 2013 amounted up to 91.0 million Lei, registering a 16.5 million Lei increase

compared to the value recorded in the previous year.

Table 2. Boosting the mechanism of risk insurance in agriculture

Insurance company	The number of beneficiaries		The amount requested, thousands Lei		The amount authorized, thousands Lei	
	2013	2014	2013	2014	2013	2014
Moldcargos	89	93	5,043.58	5,022.6	5,043.58	4,887.55
Garanție	62	55	3,868.88	2,493.86	3,789.51	2,243.10
Klassika Asigurări	11	16	270.84	196.81	270.84	196.81
Moldasig	59	52	3,225.73	23,359.63	3,218.43	21,435.97
Asterra Grup		8		306.99		306.99
Galas		1		146.02		146.02
Acord Grup		4		158.88		146.28
TOTAL	221	229	12,409.0	31,684.8	12,322.4	29,362.72

Source: [1]

The subsidies allocated to the payment of insurance premiums have amounted 54.5 million, or 11.8 million Lei more compared to 2012, registering an increase of the agricultural producers' interest in this type of insurance.

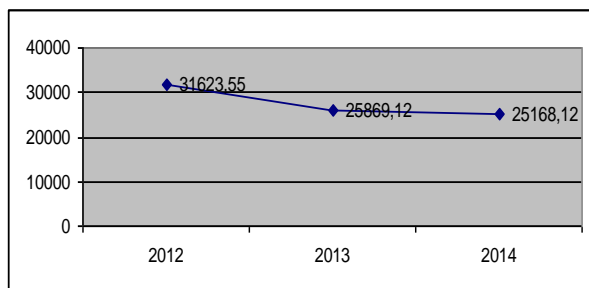


Fig. 1. The evolution of insured agricultural areas in the Republic of Moldova during 2012-2014

Source: Adjusted by the authors based on data from AIPA:[2]

Meanwhile, the potential of agricultural insurances in the Republic of Moldova remains unexploited, insured areas being only 3.3% of the total agricultural areas (Fig.1). Insurance compensations have amounted 27.4 million Lei and have decreased by 3.6 times compared to the previous year. The evolution of gross awarded premiums and compensations paid to farmers during 2008-2014 is presented in Fig. 2.

The data presented in figure no. 2 shows that the paid compensations have exceeded the subscribed premiums only in 2012.

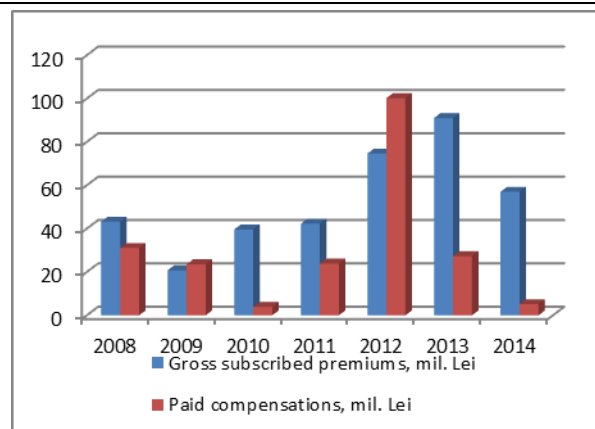


Fig. 2. Gross subscribed premiums and paid compensations for subsidized insurance of productions risks in agriculture during 2008-2014, Million Lei

In the other years of the studied timeframe, the insurance companies have paid amounts much lower compared to the premiums collected from agricultural risks insurance. Such a situation can be observed in the past 2 years as well. In 2014 the paid damages were less than 10% of the premiums.

The most common insured risks by the agricultural producers are the ones caused by hail, excessive drought and winter frosts.

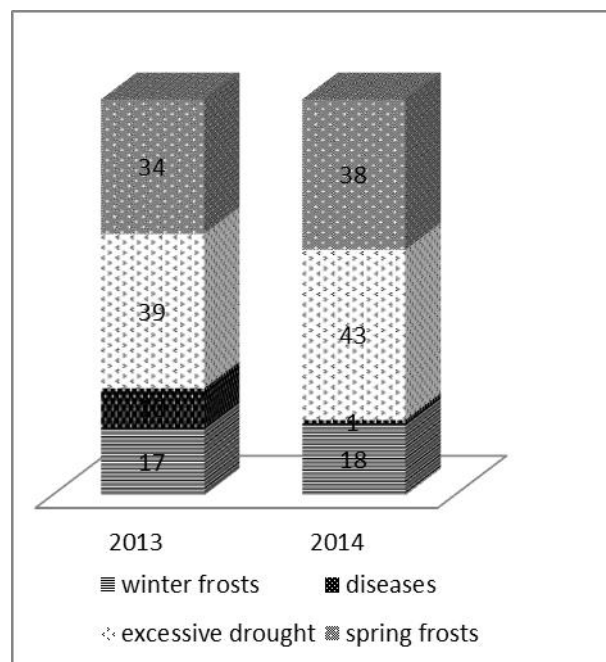


Fig. 3. The most frequent agricultural risks insured by farmers

Source: Adjusted by the authors based on data from NCFM: [1]

The structure of insured risks in 2014 compared to 2013, presented in figure 3,

reveals the following data [1]:

-for the risk „hail” the insurance premium subscribed amounts 22.9 million Lei, and the damages paid – 2.2 million Lei, the compensation rate being 9.6%;

-for the risk „winter frosts” the insurance premium amounts 10.1 million Lei, and the paid damages – 1.8 million Lei, the compensation rate being 17.8%;

-for the risk „spring frosts” the insurance premium amounts 6.8 million Lei, the paid damages - 0;

-for the risk „excessive drought” the insurance premium subscribed amounts 12.9 million Lei, and the paid damages – 1.5 million Lei, the compensation rate being 11.6%;

-for the risks included in the category „others” the insurance premium subscribed amounts 5.6 million Lei, and the paid damages – 3.6 million Lei, the compensation rate being 34.6%.

Regarding insured crops, the largest share by volume of paid premiums hold the fruit orchards, followed by grapes and sunflower. The share of premiums paid to insure the above mentioned crops consists 97.1% of the total insurance premiums subsidized in agriculture. However, the largest amount of damages for insured crops was awarded to orchard owners, followed by sugar beet producers and the ones who have insured their grapes' growth. The share of compensation for these crops in the total compensation paid to risks in agriculture is 91.4%.

CONCLUSIONS

Agricultural producers' subsidies are part of the financial framework aimed at accomplishing agricultural policies at national level. Thus, subsidized insurance of agricultural risks, should contribute to capitalization, increase competitiveness in the agricultural field and liaise between them and rural development: employment of the population, maintain and support farm incomes and their transition to the category of producing farms, developing micro and small businesses in the rural area, the migration of the population.

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