

## AGRICULTURAL SUPPORT POLICY IN MOLDOVA: A KEY FACTOR TO AGRICULTURAL DEVELOPMENT?

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### Abstract

*Governmental support policy is important to achieve growth and sustainable development of important sectors for the economy. The requirements of such an involvement is based on frequent cases of market failures. Agricultural subsidizing policy is an important mechanism through which the government can support this sector. One of the main instruments of intervention in the agricultural sector are subsidies. Subsidies aim to influence or improve food/agricultural prices/costs, food supply, farm profits and incomes. The aim of this paper is to analyze the evolution of the current support/subsidizing policy, through the allocation and distribution of farm subsidies in Moldova as main economic incentives to support the development of the agricultural sector. The research is based on secondary data analysis related to the amount of allocated subsidies, number of beneficiaries and their distribution provided by the Agency of Interventions and Payments in Agriculture. Also, some specific macroeconomic data related to the agricultural sector performance from National Bureau of Statistics was used. The referred time series analysis belongs to 2010-2019. Despite the fact that agriculture is an important sector for economic development in Moldova, the financial resources allocated for its support are limited. Subsidized policy should target new aspects related to improving the access to information, introducing annual assessment of the efficiency of allocated funds to support agriculture and rural development, value chain development.*

**Key words:** agriculture, agricultural policy, farmers support, farm subsidies

### INTRODUCTION

Governmental intervention into the economy helps to stabilize markets and ensuring the efficient allocation of resources. Traditionally the agricultural sector is highly exposed to different hazards, mostly due to climate factors causing a greater risk uncertainty for farmers. Thus the state support to agricultural sector is highly discussed and often justified among economists.

Through the mechanisms used by government to manage and support the agricultural sector of the economy are agricultural subsidies. Developed countries use support policies to support farmers' incomes and increase their wellbeing, correcting inefficiencies related to market failures or even benefit consumers [14]. Subsidies represent a policy instrument used by government to influence or improve food/agricultural prices/costs, food supply, farm profits and incomes.

Governmental support policy implies a number of programs/objectives and incentives aimed not only at supporting farmers'

incomes or compensating costs of production, but ensuring country's food security, employment and income support for rural population, sustainable development of rural areas. Initially, this support aims to ensure the economic development, "but as the country obtains a higher level of development, agriculture becomes a net beneficiary of an interventionist agricultural policy"[5, pp. 82]. The state support policy for farmers can contribute to improve the economic performance, particularly small farmers that have less financial possibilities. Thus is important "to allocate the scarce subsidies funds to the farms that would contribute to obtain the highest return in terms of increasing viability of farms and sustainable development of rural areas" [9].

Different opinions exist regarding the positive and negative impacts of subsidies allocations [4, 9, 12, 13]. Many believe that farms subsidies can contribute to the increase of competitiveness and farm profits, while others believe they generate distortions in the level of their costs of production [13]. In the same

time subsidies allocations can positively impact the output levels particularly regarding some activities that are risky [9]. Others believe that “subsidies can help to maintain direct resources for more productive use in response to new technologies or changing market environment” [9].

In Moldova among the main tools of government regulation in the agricultural sector are farm subsidies. Despite the fact that agricultural subsidies are the most famous tool among economic incentives for the agricultural sector, not the largest amount of funds are directed for this purpose.

The aim of this paper is to analyze the evolution of the current support/subsidizing policy, through the allocation and distribution of farm subsidies in Moldova as main economic incentives to support the development of the agricultural sector.

## MATERIALS AND METHODS

The research is based on secondary data analysis related to the amount of allocated

subsidies, number of beneficiaries and their distribution provided by the Agency of Interventions and Payments in Agriculture. Also, some specific macroeconomic data related to the agricultural sector performance from National Bureau of Statistics was used. The referred time series analysis belong to 2010-2019. In this paper will be discussed the legal framework of farmers support policy which includes a number of governmental decisions and policy documents.

## RESULTS AND DISCUSSIONS

Agricultural sector is important for Moldova’s economic sustainable development. Over the last ten years it had a contribution of about 12 percent in GDP, and 45 percent of total exports belong to agricultural and food products. Moldova’s overall trade balance is negative during the whole period, mainly because of large amounts of imported electricity and gas resources. Nevertheless, Moldova is a net food exporter (Table 1).

Table 1. Main macroeconomic and agri-food sector specific data

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Average value
Gross domestic product per capita, million MDL	41,615.48	46,810.83	48,951.50	54,780.10	61,754.67	67,001.29	73,553.60	80,605.15	86,562.14	-	62,403.86
Agricultural share in GDP, %	13.2	13.4	11.5	12.4	12.6	11.7	11.8	12.2	10.9	13.2	12.29
Agricultural share in total employment, %	24.24	21.20	20.28	14.05	14.12	13.96	14.10	14.24	13.63	13.04	0.16
Trade balance, million MDL	326,733.5	394,208.6	612,413.5	783,360.3	1,201,373.1	1,642,822	2,349,474	3,307,649	1,995,289.1	2,313,802	1,492,712.5
Agri-food trade balance, million MDL	140,688.80	229,318.50	135,541.40	231,749.90	346,025.40	327,912.40	337,429.28	425,665.59	393,004.31	395,242.21	296,257.78
Agri-food products share in total exports, %	47.50	41.37%	40.65	41.82	45.54	46.50	46.24	46.63	43.14	43.58	44.30

Source: own calculations based on National Bureau of Statistics data.

Both the agricultural share in GDP and in total employment had decreased over the last decades. Despite the fact that the agricultural share in GDP is relatively constant over the last ten years (on average 12 percent), its

share in total labour force employment decreased almost twice. Moldova is a net food exporter, the main traded commodities being oil seeds and oleaginous fruits, cereals, edible fruit and nuts, and beverages.

Moldova's government policy for agricultural sector experienced different changes in its forms and methods of regulation. The agricultural policy in Moldova is aimed at enhancing the sustainable development of the agricultural sector and rural areas. Despite the fact that the government always supported the agricultural sector, most of these interventions were based on allocating financial support for certain programs aimed to support farmers, insurance risks, development of wine sector etc, often with the absence of a long-term strategy. Often financial support was offered for compensating the fuel price increase or subsidizing fall plowing works aimed to give immediate expected results/impact.

The legislative framework that regulates agricultural sector in Moldova is on the following normative and legislative acts [1, 6, 7, 8, 10, 11]: Law nr. 1353/2000 concerning the farm holdings; Law nr. 312/2013 concerning the agricultural producers and their associations; Law nr. 243/2004 concerning the subsidized risk insurance in agriculture; Governmental decision nr. 217/2005 to approve the Regulation for subsidizing risk insurance in agriculture; Law nr. 276/2016 concerning the subsidizing principles for developing agriculture and rural areas; Governmental decision nr 455/2017 to approve the financial resources distribution of the National Fund for Agricultural and Rural Areas Developing; Governmental decision nr. 507/2018 to approve the Regulation concerning the conditions and the procedure to offer subsidies in advance for start up projects from the National Fund for Agricultural and Rural Areas Developing; Governmental decision nr 476/2019 to approve the Regulation concerning the subsidies allocations for improving the living and working conditions in rural areas from the National Fund for Agricultural and Rural Areas Developing. Financial resources aimed to support the agricultural sector are allocated based on the yearly approved governmental budget law.

The financial support for farmers was allocated from governmental budget through different programs and actions, including from external sources. Traditionally, the

financial support was mostly administrated by the Ministry of Agriculture and Food Industry, (now Ministry of Agriculture, Regional Development and Environment), about 60-70 percent of all funds. Other participating institutions in managing the resources allocated in the subsidizing fund were: Ministry of Finance; Governmental agency "Apele Moldovei", State enterprise "Moldresurse". The financed directions to support farmers were variable not allowing a long-term planning activity for agricultural producers [2, 3].

A unification of all former support programs was attempted in 2010 by consolidating all resources into farmers subsidizing fund and the establishment of only one managing institution only – the Agency of Interventions and Payments in Agriculture (AIPA) (established through GD nr. 60/2010). In the same time, the conception of farmers subsidizing fund was adopted (GD nr. 1305 /2008) aiming at: increasing the agricultural productivity and competitiveness; stimulating technological transfer and extensions services; increasing farmers' incomes and reducing poverty; efficient use of natural resources and protecting the environment.

The dynamics of allocated financial support to farmers shows an almost constant evolution until 2015 (Table 2). During the following five years the amount of the allocated subsidies increased considerably. During the last ten years the amount of allocated subsidies constituted on average 606 million MDL. The amount of farmers that received a subsidy fluctuates considerable, the more beneficiaries being registered in 2018 (6538), while the lowest number was in 2010 (93). The amount of subsidy in calculation to a farmer was the highest in 2010-2011, then decreased due to an increased demand from farmers. Over the last five years it was basically unchanged, registering the maximum amount in 2019 (295 thousands MDL). The amount of allocated subsidies remains extremely low considering its share in total government expenses (around 5 percent). Its share in the gross agricultural output (GAO) was 2.15 percent over the last ten years (Table 2).

Table 2. Dynamics of allocated subsidies

Main target	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Average
Total subsidies allocated, million MDL	300.0	400.0	400.0	400.0	500.0	610.0	700.0	900.0	900.0	950.0	606.0
Number of subsidy recipients	93	1,010	4,364	3,877	2,865	3,539	4,028	5,211	6,538	3,231	3,475.6
Amount of subsidy per recipient, thousands MDL	3,225.8	396.03	91.65	103.17	174.5	172.36	173.7	172.7	141.5	294.02	494.54
Agricultural expenses in governmental budget, million MDL	982.7	829	1,253.8	1,359.7	2,009	2,173.4	1,350	2,073	2,135.1	2,051.82	1,621.75
Share of agriculture in total expenses, %	4.1	4.5	5.8	5.7	6.8	7.2	4.5	3.5	3.5	4.7	5.04
Share of allocated agricultural subsidies in GDP, %	0.5	0.4	0.37	0.38	0.42	0.41	0.43	0.5	0.5	-	0.43
Share of subsidies in GAO, %	1.51	1.77	2.01	1.68	1.83	2.24	2.31	2.64	2.76	2.75	2.15

Source: own calculations based on data from National Bureau of Statistics, AIPA, Ministry of Finance.

Taking into account that the main objective of the existing policy is enhancing competitiveness in agriculture the share of subsidizing funds in GDP is less than one percent (0.43 percent on average). Moreover, one third of these expenses are directed to research, extension, education and food safety services [4].

During 2010-2015 the main subsidized directions by government were the following: loans and risk insurance; establishing multiannual plantations; producing vegetables on protected ground; purchasing agricultural equipment and machinery; developing ecological agriculture; livestock farms renovation; purchasing of breeding animals; developing post-harvest and processing infrastructure; compensating irrigation costs; subsidizing the use of phytosanitary products and fertilizers.

The aim and objectives of allocated farmers support during 2015-2020 were based on the National Strategy for agricultural and rural development for 2014-2020 and adjusted according to the European experience within ENPARD project. According to this the allocated subsidies were directed towards three main priorities: increasing

competitiveness of the agri-food sector through restructuration and modernization; insuring sustainable administration of natural resources; and increasing investments in infrastructure and services from rural areas [7, 8, 10].

Despite the fact that the three priorities were established for 2015-2020, some of previous subsidized measures can be included into first or second target. Subsidies include recurrent and capital expenditures and are characterized by a high concentration rate.

The largest amount of the allocated subsidies to farmers is included into the first support policy priority “increasing competitiveness of the agri-food sector through restructuration and modernization”. The subsidies allocated within this target increased and constituted on average over 500 million MDL or about 90 percent (Figure 1). The policy priority “Increasing competitiveness of agri-food sector through restructuration and market modernization” includes two main subsidized measures: Investments in agricultural explorations to restructure and adapt to European Union standards; and investments in the processing and marketing of agricultural products (Table 3).

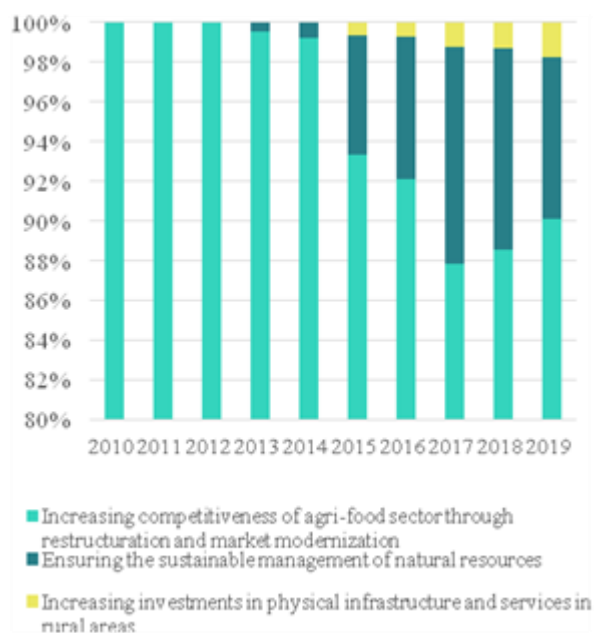


Fig. 1. Allocated subsidies by main objectives  
 Source: based on data from the Agency of Interventions and Payments in Agriculture.

The largest part of the allocated funds during 2010-2019 (on average) were directed to the purchasing of agricultural equipment and machinery - 125,7 million MDL (21 percent), investments for establishing, modernization and clearing of multiannual plantations (98,5 million MDL), investments in the development of the processing and post harvesting infrastructure (108,5 million MDL), crediting agricultural producers (36,4 million MDL).

Subsidies allocated within measure 3 “Preparation for implementation of actions related to the environment and rural area” correspond to the second priority and benefited from 32 million MDL during this period, while measure 4 “Supporting investments in infrastructure for agricultural enterprises” and 5 “Consultancy and training services” are found within the last policy priority with the smallest share.

Table 3. Subsidies allocated by measures, million MDL

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Average
Total subsidies	300.0	400.0	400.0	400.0	500.0	610.0	700.0	900.0	900.0	950.0	606.0
Measure 1. Investments in agricultural explorations to restructure and adapt to European Union standards	144.47	193.72	356.59	381.82	413.07	318.65	405.22	460.50	566.85	321.37	356.2
Measure 2. Investments in the processing and marketing of agricultural products	15.6	28.52	43.01	69.82	141.27	155.05	154.17	267.47	387.95	252.04	151.5
Measure 3. Preparation for implementation of actions related to the environment and rural area	0	0	0	2.16	4.41	30.52	43.78	90.81	109.39	45.75	32.7
Measure 4. Supporting investments in infrastructure for agricultural enterprises	0	0	0	0	0	3.4	4.16	8.88	13.09	10.11	4.0
Measure 5. Consultancy and training services	0	0	0	0	0	0	0	1.12	1.00	0	0.2

Source: based on data from the Agency of Interventions and Payments in Agriculture.

The most of farmers received a subsidy under first measure “Investments in agricultural explorations to restructure and adapt to European Union standards” in average 3,157 recipients over last ten years. However the greatest number of farmers (5,841 or 89 percent) received a subsidy under this measure in 2018 (Figure 2). The greatest amount under this measure belong to investments for establishing multiannual plantations, purchasing technique and equipment, the use and technological renovation of livestock farms (43 percent from total subsidies in 2019). Moreover, the subsidies are targeted to support sectors that are already self sufficient and enough competitive with high export shares.



Fig. 2. Number of subsidies beneficiaries by main supported measures  
 Source: based on data from the Agency of Interventions and Payments in Agriculture.

According to the Law nr. 179/2016 farmers are classified into small, average and large agricultural producers. From all subsidies recipients over half are small producers, while average size and large farms have a share of 25 and 7 percent (based on 2017-2019 data). In 2019 the greatest amount of demanded subsidies came from average size (42 percent) and small size (33 percent) producers. Small farmers have a share on 70 percent in total agricultural output, but receive only 30 percent of subsidies. From total amount of subsidy small farmers requests only 44 percent are approved, while over 60 percent of distributed subsidies were allocated to farms with an area over 100 hectares. Some

subsidies directed to purchase of machinery and equipment favorize mostly large producers. Moreover, such subsidized direction as capital expenditures does not support the development of innovative technologies in the agricultural sector as they are mostly directed to the acquisition of tractors (27 percent). Another important direction under first measure to which is allocated about 20 percent of all subsidies are investment in establishing orchards and vineyards. Yet it was mostly supporting larger entities, as only one third of beneficiaries were small farmers. Also this direction should be revised to stimulate innovative practices and disperse the traditional varieties and plantation designs.

The second measure “Investments in the processing and marketing of agricultural products” is the largest according to the amount of allocated subsidies but also according to the number of farmers that received a support (Table 3, Figure 2). Under this measure the greatest part of funds were directed to support post harvesting and processing infrastructure (about 25 percent of all subsidies) and appears to be a positive development for sector modernization and improved market access. This is particular important for fruits and vegetables supply chain development. Despite the fact that from this support benefitted only around 20 percent of small farmers, it is essential for the development and modernization of smaller entities, allowing them to store their production or sell it to the storages and/or packing houses.

Land fragmentation is an important impediment in developing a scale economy in Moldova. It is included in the third support measure “Preparation for implementation of actions related to the environment and rural area” that includes subsidies for consolidation of agricultural land. Unfortunately, little support was allocated for this purpose. The largest share into this measure is maintained by acquisition of irrigation equipment.

The agricultural support policy should be oriented more on targeting innovation, larger market integration and farmer inclusion. Some of the subsidized directions absorb a large

amount of subsidies and benefit mostly large entities. Their aim could be narrowed and instead to promote more modern and innovative programs, targeting small scale farmers. The subsidized farmers crediting program is rather inefficient aimed at subsidizing agricultural inputs and not enhancing competitiveness. This program target to support more small farmers to be sustainable in the long term.

A constant problem of the subsidizing policy is that yearly a large share of the allocated budget funds are directed to repay the subsidies to farmers from previous years that failed to be paid due to limited funds. Thus, previously approved requests are maintained on a holding list and given priority when funds become available in the next year. Nevertheless, this diminishes even more the already limited funds to support farmers.

## CONCLUSIONS

The agricultural policy in Moldova is aimed at enhancing the sustainable development of the agricultural sector and rural areas. Despite the fact that the government always supported the agricultural sector, most of these interventions were based on allocating financial support for certain programs aimed to support farmers, insurance risks, development of wine sector etc, often with the absence of a long term strategy. According to the agricultural support policy the allocated funds were directed towards three main priorities: increasing competitiveness of the agri-food sector through restructuring and modernization; insuring sustainable administration of natural resources; and increasing investments in infrastructure and services from rural areas.

Taking into account that the main objective of the existing policy is enhancing competitiveness in agriculture the share of subsidizing funds in GDP is less than one percent (0.43 percent on average). Moreover, the subsidies are targeted to support sectors that are already self sufficient and enough competitive with high export shares.

Small farmers have a share on 70 percent in total agricultural output, but receive only 30 percent of subsidies. From total amount of

subsidy small farmers requests only 44 percent are approved, while over 60 percent of distributed subsidies were allocated to farms with an area over 100 hectares. Some subsidies directed to purchase of machinery and equipment favorize mostly large producers. Moreover, such subsidized direction as capital expenditures does not support the development of innovative technologies in the agricultural sector

An important support program are subsidies for post harvesting and processing infrastructure (about 25 percent of all subsidies) that might have a positive impact for sector modernization and improved market access, mainly for fruits and vegetables supply chain development.

The agricultural support policy should be oriented more on targeting innovation, larger market integration and farmer inclusion. Some of the subsidized directions absorb a large amount of subsidies and benefit mostly large entities. Their aim could be narrowed and instead to promote more modern and innovative programs, targeting small scale farmers.

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