

## **AGRICULTURAL SUBSIDIZING POLICY AND ITS EFFICIENCY: THE CASE OF MOLDOVA**

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### **Abstract**

*The paper is aimed at analyzing the subsidizing directions, the allocation of subsidies to farmers and its efficiency on farm development in Moldova. For the given study were used data from the Ministry of Agriculture and Food Industry of Moldova, Agency of Interventions and Payments in Agriculture, National Bureau of Statistics, as well as collected data from corporate farms. The data have been analyzed during the years 2006-2011 concerning the main subsidized directions and geographical distribution of subsidies across the country, the access of farmers to the allocated subsidies. In order to establish the efficiency of the allocated subsidies was used the average data for the year 2008-2010 to calculate its impact on the main indicators per hectare as: the gross agricultural output, profit and level of profitability. As a conclusion, is still missing a clear and consistent policy that could be implemented through the allocation of subsidies. The allocated subsidies follow some objectives aimed at the development of the agricultural sector and do not have a stable character, by changing each year, fact that does not allow farmers to forecast their production activity.*

**Key words:** agriculture, Republic of Moldova, subsidies, subsidizing policy.

### **INTRODUCTION**

The state support for agriculture is a widely spread practice. For the Republic of Moldova a common opinion is that the amount of allocated agricultural subsidies is still low. In the same time, is almost not discussed how well grounded are the subsidized directions, and if the allocated resources respond to the needs of the agricultural sector and rural development. Nowadays, the government use various tools aimed at the development of the agricultural sector, one of the most important being farmers subsidizing.

### **MATERIAL AND METHOD**

In order to characterize the evolution of subsidies allocation, the following indicators were used: the structure of allocated subsidies by directions, the impact of the amount of subsidies per hectare, on the obtained profit and level of profitability. The period analyzed in this study is 2006-2011. The analyzed data were provided by the Agency for Interventions and Payments in

Agriculture, National Bureau of Statistics as well as own carried research concerning the farms activity. All data have been processed and interpreted, grouped by the amount of subsidies per ha and analyzed for the given period.

### **RESULTS AND DISCUSSIONS**

The agri-food sector plays a key role in Moldova's economy. Nevertheless the transition to a market economy, together with the number of reforms carried out at the beginning of 90s lead to changes in the agricultural sector. As a result, had decreased the gross agricultural output, increased the number of unprofitable farms etc. The given situation requires a higher support from the government for the agricultural sector. The state regulation and sustainable development of the agri-food sector of Moldova is reflected in the “National Strategy for the Agri-Food sector's sustainable development for 2008-2015”, with objectives oriented to competitiveness, living standards of rural population and maintenance of the

rural areas (e.g. improvement of food security in terms of quality as well as quantity of production, consumers access to a constant and suitable supply of food according to their demands, and particularly prices, the quality and safety of the agri-food products; the increasing the agricultural sector's competitiveness through a more efficient production and marketing; ensuring stable incomes for farmers, as well as fair working and living standards; the decreasing agriculture's vulnerability related to risk factors and environment protection etc). [3]

Under the current situation of the agricultural sector, the governmental financial support is important for its further development. In this context the Moldova's government had adopted a new "conception for the agricultural producers' subvention system for the years 2008-2015" which has two main directions:

- the modernization of agricultural sector – through the subsidy of investments activities related to the creation of units for handling and processing agricultural production, endowment with the corresponding equipment, agricultural row materials, establishing vineyards and orchards, improving the sphere of services in agriculture.

- performance agricultural activities for the vegetable and livestock sector – for the growth in productivity and competitiveness in agriculture, market stabilization, insurance of food security and equal incomes for agricultural producers will be given direct payments by taking into account the culture, animal species, the individual average yield in case of corresponding with the regional, as well as regarding the holding area or number of cattle. [2]

The financial support to agricultural producers was allocated from state budget through a number of programs or single actions, as well as from external sources (e.g. Project of Investments and Rural Services, Project of Agriculture Revitalizing, Program Rural Financial Services and Marketing etc.). Nevertheless, a unifying tool of all the programs and projects is the subsidizing fund of agricultural producers.[1]

The subsidizing fund of agricultural producers until 2010 was administrated by four state institutions, mainly by the Ministry of Agriculture and Food Industry of Moldova. Nowadays the agricultural subsidizing fund is being administrated by the Agency of Interventions and Payments in Agriculture, established by the Government's decision nr. 60 from February 4<sup>th</sup> 2010. The establishment of the Agency was 2 years delayed, being planned in the same time with the approval of the Conception of subsidizing agricultural producers in 2007.

The aim of establishing the Agency of Interventions and Payments in Agriculture was the administration of all the subsidizing fund's financial resources (and not by various institutions as before), monitoring its distribution, and the evaluation of the quantitative and qualitative impact from allocated subsidies, the support of more agricultural producers, increase of transparency and decrease in the bureaucracy level in state support.

Despite the fact that the amount of allocated financial resources to the agricultural subsidizing fund increased during the last years, its amount is still low.

Table 1. The evolution of the agricultural subsidizing fund in Moldova (2006-2011)

Indicators	2006	2007	2008	2009	2010	2011
Total amount allocated in the agricultural subsidizing fund, mil. lei	256	465,3	270	563,5	400	400
Total amount executed in the agricultural subsidizing fund, mil. lei	247,7	546,8	533,2	560,5	400	400
Number of subsidies recipients	1721	2110	3907	3954	3749	2198

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

According to the carried research we can mention that from the subsidized directions the largest share belongs to subsidizing the

purchasing of plant protection materials and fertilizers.

Table 2. The distribution of allocated subsidies by directions, %

Subsidized directions	2010	2011
Stimulating crediting for agricultural producers and by banks non financial institutions	2	1
Stimulating risks insurance in agriculture	6	7
Subsidizing investments for the establishment of multiannual plantations	31	19
Subsidizing the production of vegetables on protected ground	1	3
Subsidizing investments for purchasing agricultural machinery and equipment, including irrigation equipment	25	46
Stimulating the promotion and development of ecological agriculture	1	0.2
Stimulating investments in the use and technological renovation of livestock farms	1	6
Stimulating the purchasing of pedigree cattle and the maintenance of their genetic fund	1	4
Stimulating investments in the development of the processing and post harvesting infrastructure	5	13
Subsidizing agricultural producers for offsetting irrigation energy costs	5	1
Subsidizing purchasing of plant protection materials and fertilizers	22	-

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

Nevertheless, according to the Government's decision for approving the distribution of the subsidizing fund's meanings to agricultural producers for 2012 [4], this subsidizing direction was not included, but which is needed in the context of adverse weather conditions, as the drought from the fall of 2011 and the frosts in the winter of 2012. Also an important share belongs to capital investments. In the same time, the subsidized directions are not stable, being changed from one year to another, as the case with the subsidies allocated to sugar beet producers or to the wine making sector.[5]

Nevertheless, some positives changes occurred in the subsidizing policy during the last years. Among them, the amount of allocated budget financial resources for the subsidizing fund had increased from 300 mil lei in 2010, to 400 mil lei in 2012. Also an advantage is that the entire amount of 400 mil

lei allocated for 2012 will be available from the beginning, in contrast with the previous years when the money were given in several stages (e.g. in 2010 at the beginning was allocated 250 mil lei, and after – 150 mil lei). However, the number of subsidized directions decreased, for 2012 being eligible only 8 subsidizing directions. A negative aspect is the variable character of the subsidized directions that do not allow agricultural producers to forecast better their activity. Concerning the subsidies allocated to the agricultural farms (1595 enterprises researched during the years 2008-2010) the largest share belongs to crop production (about 70-80%), as a result of the largest share of the crop production in the gross agricultural product (about 70%).

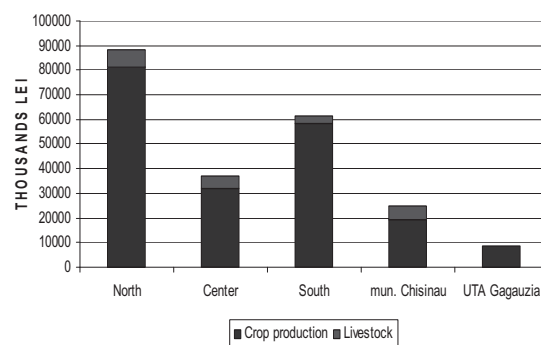


Fig. 1. Subsidies allocation by agricultural branches (2008-2010)

The research carried demonstrates that the subsidies allocation has a higher efficiency for the farms that received a higher amount of subsidies per hectare. For the analysis were used the collected data from corporate farms in average for the years 2008-2010.

As well, a higher level of profitability is noticeable for the farms for last group which benefited from a higher amount of subsidies.

As a result, the group of farms that received in average an amount of 1105 lei per hectare, obtained higher economic results, having a profit of 1799 lei per hectare and a level of profitability of 35,2%.

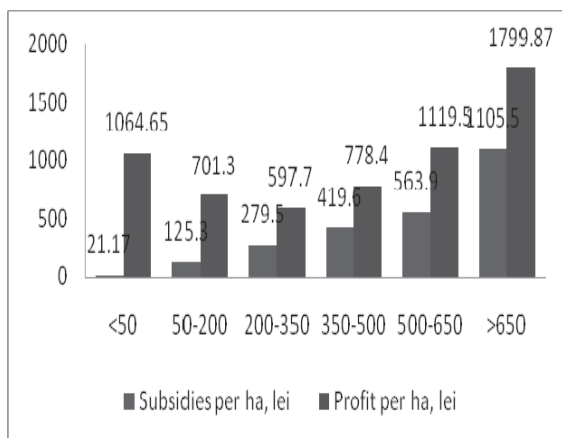


Fig. 2. The impact of subsidies allocation on farms profit per hectare, by farms groups.

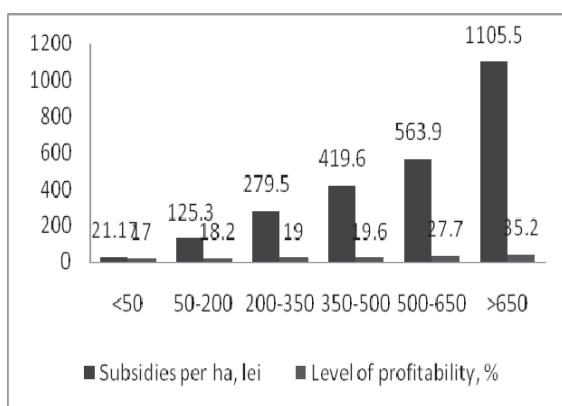


Fig. 3. The impact of allocated subsidies on the farms level of profitability, by farm groups.

## CONCLUSIONS

In Moldova still does not exist a clear and consistent policy that could be implemented for the allocation of agricultural subsidies. So far, the objectives followed by their allocation are aimed only to the development of the agricultural sector but does not take into consideration the objectives of rural development.

The regulation of subsidizing fund is approved every year, also being modified the directions eligible for subsidies and the allocation terms, by this being difficult to make the forecast for the public institutions involved as well as for the recipients.

A major importance for insuring the high efficiency in the agricultural sector would be a evaluation of impact from the allocated subsidies by using a evaluation methodology. The most adequate institution for implementing such an evaluation is the Ministry of Agriculture and Food Industry.

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