

AGRICULTURAL SUBSIDIZING SYSTEM AND ITS EFFICIENCY: EVIDENCE FROM MOLDOVA

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Abstract

The paper is aimed to present the evolution of the allocated subsidies in the Republic of Moldova towards different subsidizing directions and an analysis of its efficiency. The data used in the analysis were provided by the Agency of Interventions and Payments in Agriculture, National Bureau of Statistics, as well as own carried research concerning the activity of agricultural enterprises. The data have been processed towards the subsidized directions in the last years, and had been analyzed the allocation of subsidies per hectare to different groups of agricultural enterprises by the following indicators: gross agricultural product per ha, profit per ha, level of profitability, as well as by regions. During the analyzed period, the amount of allocated subsidies had increased. The allocated amount of subsidies to the agricultural enterprises demonstrates that in 2008-2010 only 214 of them received a subsidy higher than 650 lei per ha allowing them to obtain a profit of 1845 lei per ha and a level of profitability of 35%. As well, in 2012 have decreased the number of subsidized directions comparing to the previous year, being excluded some of the directions, as the subsidizing the purchasing of fertilizers and plant protection materials which are needed in the adverse weather conditions (as the drought from the fall of 2011 and winter frosts in 2012). As a conclusion, the subsidizing policy is needed for the development of the agricultural sector and therefore it should make incentives for the efficient enterprises activities, and as a result for the whole efficiency of the agricultural sector.

Keywords: *subsidies, subsidizing directions, agricultural sector, agricultural policy, Republic of Moldova*

INTRODUCTION

The state support for the agriculture is a widely spread practice. It is believed that the market can cause harm to agriculture and food supply when it relies to its forces only. Thus, a state support is important for the agricultural sector, otherwise may be overused natural resources, causing harm to environment, becoming unable to meet quality standards and leaving many people at the edge of hunger. The government supports the agricultural sector directly or indirectly, using various tools, depending on its agricultural policy and the different mechanisms of subsidies allocation.

MATERIAL AND METHOD

In order to characterize the evolution of subsidies allocation, the following indicators were used: the amount of allocated subsidies to each direction, of the amount of subsidies

per hectare, and the obtained profit and level of profitability. The period analyzed in this study is 2008-2010. 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 activity of agricultural enterprises. All data have been processed and interpreted, grouped by the amount of subsidies per ha and analyzed for the given period.

RESULTS AND DISCUSSIONS

For Moldova, the transition to a market economy led to various changes in the ownership relations, the development of the market infrastructure, investments process and others. Thus, during the last years were carried out a number of reforms and policies following some objectives common for transitions economies. Their aim was to prevent the further degradation of the country's agricultural sector.

Thus, the allocated resources by the government for subsidizing the agricultural sector were aimed to support agricultural producers including various directions as: supporting grape production and the wine making sector, subsidizing risks in the agricultural sector etc.

The agricultural sector in Moldova is regulated by the National Strategy for Sustainable Development of the agro-industrial complex until 2015 [1], aimed at insuring the sustainable growth of the sector, improvement of living conditions in rural areas through the increase of competitiveness and productivity of the given sector. The legislative framework of the government to support the agricultural sector is reflected into the Conception of subsidizing agricultural producers until 2015, [2] which is oriented to the modernization of the agricultural sector and the performing activities inside the crop production and livestock sector. By the approval of this conception, the government admitted that the existing subsidizing system in agriculture were variable, inefficient, not transparent and bureaucratic, which implies a complete lack in use of the financial budget resources allocated for subsidizing the agricultural producers.

The state support to agriculture is one of the key elements, its goal being to increase the benefits from state support and bringing the other negative effects to minimum. This is particular for countries which face low competitiveness of agricultural production and scarce accumulated capital that could be used for the reconstruction of the agricultural sector.

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 4th 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[4].

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

Table 1. Evolution of subsidies allocation during the period 2008-2011 (millions lei)

	2008	2009	2010	2011
Stimulating crediting for agricultural producers and by banks non financial institutions			2,8	23,5
Stimulating risks insurance in agriculture	27,2	25,49	18,82	11,2
Subsidizing investments for the establishment of multiannual plantations	53	50	80	38
Subsidizing the production of vegetables on protected ground	20	12,5	6,9	2,9
Subsidizing investments for purchasing agricultural machinery and equipment, including irrigation equipment	163,5	216,15	91,8	45,9
Stimulating the promotion and development of ecological agriculture	0,7	2	4,1	5,3
Stimulating investments in the use and technological renovation of livestock farms			2,7	8,08
Stimulating the purchasing of pedigree cattle and the maintenance of their genetic fund			7,3	2,5
Stimulating investments in the development of the processing and post harvesting infrastructure	20		29,1	19,6
Subsidizing agricultural producers for offsetting irrigation energy costs	9,67	7,22	10,0	1,9
Subsidizing purchasing of plant protection materials and fertilizers	159	130	107,3	67,4

From the data above (table 1), we can mention that from the subsidized directions the largest share belongs to subsidizing the purchasing of plant protection materials and fertilizers. Nevertheless, according to the Government's decision for approving the distribution of the subsidizing fund's meanings to agricultural producers for 2012, [3] 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. Nevertheless, some positive changes occurred in the subsidizing policy during the last years. Among them, had increased the amount of allocated budget financial resources for the subsidizing fund 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). The subsidies will be paid to agricultural producers in two stages: 75% from the authorized amount will be granted just after signing the agreement, the other 25% - allocated after November 1st 2012. This was made in order to adjust the available fund balance at the end of the year with the total amount of cases for not allowing debts in granting subsidies and to cover all the demands from the agricultural producers.

However, the number of subsidized directions decreased, for 2012 being eligible only 8 subsidizing directions. From the negative aspects is necessary to mention the variable character of the subsidized directions that do not allow agricultural producers to forecast better their activity.

From the research carried out, concerning the subsidies allocated to the agricultural enterprises (1595 enterprises researched during the years 2008-2010) the largest share

belongs to crop production (about 70-80%). A possible explanation, could be the largest share of the crop production in the gross agricultural product (about 70%).

Table 2. The amount of allocated subsidies to agricultural enterprises, by regions, thousands lei

Regions	2008		2009		2010	
	Crop production	Livestock sector	Crop production	Livestock sector	Crop production	Livestock sector
North	64613	6092	118369	12279	78523	1941
Center	34514	5768	44180	5814	400163	3429
South	53480	3131	60371	2985	125587	2474
Chisinau	24149	5719	13482	8859	6476	2523
UTA Gagauzia	9774	4	12111	-	10042	689
Total	186530	20714	248513	28837	620791	11056

As well, from all the agricultural enterprises, only about 50% from them obtained a subsidy.

Table 3. The impact of the allocated subsidies on the efficiency of agricultural enterprises from Moldova, during the period 2008-2010

Indicators	Groups according to the amount of subsidies per ha, lei						Total
	<50	50-200	200-350	350-500	500-650	>650	
Number of farms	131	282	227	162	89	214	1105
% from total	12	26	21	15	8	9	100
Area of agricultural land per farm, ha	443,8	692,3	743,6	811,1	817,4	540,1	671,4
Subsidies per ha, lei	21,17	125,3	279,5	419,6	563,9	2399,1	601,5
Material costs per ha, lei	1865,14	1919,9	2281,5	2241,9	3243,17	4307,7	2592,15
Retribution per worker, lei	10032,25	11819,6	11645,9	11511,6	11937,5	13947,06	12120,5
Gross agricultural product per ha, lei	2423,2	2522,3	3192,2	3743,08	4560,1	6992,3	3779,4
Profit per ha, lei	1064,65	701,3	597,7	778,4	1119,05	1845,03	938,9
Level of profitability, lei	17,05	18,2	19,04	19,46	27,73	35,93	23,55

Analyzing the data concerning the amount of allocated subsidies per hectare during the period 2008-2010, it is noticeable that it is very different among groups. For the first groups of enterprises who obtained a small to average amount, its allocation was not so efficient, allowing them to achieve a modest performance. The most efficient was the allocation of subsidies to the last group (an amount higher than 650 lei per ha), which led to a high efficiency, obtaining a profit of 1845 lei per ha and a high level of profitability –

35,9%. This fact demonstrates the efficiency in the allocation of a higher amount of subsidy that allows enterprises to obtain higher results.

CONCLUSIONS

The existing subsidizing policy in the agricultural sector is so far inefficient, as the system does not create incentives for an efficient enterprises activity. As well, the amount of allocated subsidies is small so far, and cannot cover all the demands from the agricultural producers.

For 2012 was not included the subsidizing direction of purchasing plant protection materials and fertilizers, that was extremely demanded by the agricultural producers in the previous years (having a share of over 20%), even being introduced in 2010 in the last moment, and which is needed because of the adverse weather conditions, as the droughts from 2011 fall and the frosts from winter 2012.

As well, according to the carried research, more efficient are the subsidies allocated to the relatively efficient enterprises that allow them to increase their profits.

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