

STIMULATING INVESTMENT IN MOLDOVAN AGRICULTURE THROUGH SUBSIDIES

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Abstract

Providing sustainable financial services for rural areas and agriculture in developing countries has proven to be difficult. Millions of lei have been spent in Republic of Moldova for subsidizing programs and policies to develop financial institutions to serve this neglected market. But, Moldovan farmers are dissatisfied with the results. Agriculture continues to receive only a small share of total formal credit and that most farmers must rely on savings or informal credit supplies to finance their operating costs and long-term investments. These critics argue for a return to more active government intervention, including the creation of state-owned agricultural development bank.

Key words: *agricultural households, agricultural policy, agricultural sector, banking, donors, economic growth, financial institutions, financial flows, fiscal policy, incentives, investments, private property, subsidies*

INTRODUCTION

Moldova is a landlocked country endowed with rich agricultural resources. Agriculture and agro-processing activities account for about 30 percent of Moldova's gross domestic product (GDP), 40% of employment, and about 60% of the nation's total exports. Agricultural lands cover 74% of the country. Conducting business processes in transition countries require applying various economic methods for stimulus and support of certain sectors of the economy. From a strategic perspective, Moldova needs to nurture agriculture. An effective way to develop the agricultural sector is to promote and support investment and subsidy policies.

In literature, a subsidy is a payment limited in time or in relation to a specific investment or to allow a person, company or organization to cover all or part of its overall costs, or costs of an activity specific.

In all developed countries subsidies are a significant source to covering costs for the manufacture of agricultural production. This support is an important element in stimulating the development of agricultural production.

MATERIALS AND METHODS

As informative sources in the process of investigation that has been made, there have been used some information from Agriculture Ministry and Food Industry, Intervention Agency and Payments for Agriculture, Information of National Bureau of Statistics of Moldova, Financial Ministry and financial reports of other economical- financial structures from the country and abroad. The base methods of research are analyses and synthesis, economical comparison and statistic method.

RESULTS AND DISCUSSIONS

The reforms initiated in the early 90s led to lower agricultural production and destruction of material and technical base. Taking into consideration that 20 years have passed, the situation in the agricultural sector has changed dramatically and still there is a need to expand the plantation of perennial crops, livestock sector development, purchase of tractors, combines and agricultural inventory and equipment the irrigation.

To overcome a low productivity agricultural sector in general needs a lot of investments.

Just only by investing we can transform local agriculture in a modern, highly developed branch of economic activity. With the launch of reforms on the relation of production the state share of investment activity showed decreasing trends with only 2,6 percent at the moment. So basically all the volume of fixed capital investment for agricultural development comes from private investment. In recent years the foreign investment in agriculture remains very small and constituted just 4,4 percent of total investment. More detailed information on the development of investment in agriculture is reflected in Table 1.

Table 1. The information of investments in agriculture

Year s	Total fixed capital investm ent in product iv purpose	From which		Investment in joint ventures and foreign, mil.lei		
		Publ ic inve stme nt	Privat investm ent	Joint venture s, without foreign capital	Joint venture s with foreign capital	Fore igh inve stme nt
2008	1031,3	52,3	861,9	14,9	98,1	4,0
2009	908,8	30,4	777,2	2,5	85,1	13,7
2010	1045,6	30,8	812,5	0,9	123,2	28,1
2011	1808,2	47,5	1444,1	3,0	234,6	78,9

Source: It's elaborated by author on the basis of information of National Bureau of Statistics of Moldova

From the analysis on investment activity in the domestic agricultural sector till 1999, we can highlight a clear trend of decrease of the investment volume throughout the period of reformation of agriculture. From the year 2000 onwards has held permanent growth of the volume of investment in the agricultural sector. The level of investment needed for the simple reproduction of fixed assets of productive job was exceeded in 2007 and 2010, agricultural investment being insufficient in the remaining years of the considered period even to maintain the existing levels of agriculture endowment with fixed assets.

In 2007, in Moldova the National Strategy for Sustainable Development of Agro-Industrial Complex was adopted that has set as a goal to ensure sustainable growth of the agribusiness sector, improve the quality of life in rural areas through increased productivity and

competitiveness of the agricultural sector. The funds allocated to fund farming subsidies are distributed to the state budget in line with the concept of farming subsidy system in Moldova.

In 2010, Payments and Intervention Agency for Agriculture was created, which performs administration and management of the fund to subsidize farmers. According to the "Regulations on the use of the fund for subsidizing farmers' allocation of subsidies is determined by:

- 1) the need to enhance the competitiveness of Moldovan agricultural domestic and foreign markets ;
- 2) the need to ensure food security of the population of Moldova;
- 3) the need to address the economic, social and ecological problems in the rural environment;
- 4) the requirements and obligations of European integration aspirations.

The allocation of the fund is to achieve the following objectives:

- 1) to increase agricultural productivity and competitiveness ;
- 2) to stimulate technology transfer and extension services ;
- 3) to increase farmers' income and reduce poverty;
- 4) to attract young farmers in the design and development of agricultural activities in the rural sector ;
- 5) to use efficiently natural resources and environmental conservation. [1]

Subsidizing is generally a measure to protect local farmers from international competition.

In Moldova, in 2006 about 40% of subsidies were granted to sugar beet seeds and tobacco. In 2011, most of the grants were awarded to purchase agricultural equipment. During the last years over 80% of the grants have a supporting character. Agriculture must generate more revenue, but this requires investment. Agricultural modernization and tech needs to improve competitiveness of agricultural production. This is important in the context of preparing for conditions to be created with the opening of new markets. For comparison, about 40% of the EU budget is meant for subsidies, in Moldova £ 400 million (less than 2%), so it is difficult to achieve competitiveness. The

average grant in Moldova is 20 euro per hectare in the EU and 400 euro per hectare, so all ideas and proposals are not realistic.

The current system of subsidizing farmers is characterized by the application of the management and allocation of variable budgetary resources, in some cases inefficient, opaque and bureaucratic.

Thus, if in the early stage support areas were limited to stimulate lending to agricultural subsidies and creating technological machinery stations, with an extension, then, starting with 2006, they were extended to tree plantations, support livestock sector, subsidizing agricultural risk insurance, VAT compensation to the achievement of the country's own production and purchasing products of plant protection and fertilizers, subsidies for sugar beet producers and tobacco producers.

However, sources for subsidizing farmers in 2008, focused mostly on investment issues, supplemented by introducing a complex compartment that stimulates investments in the purchase of machinery and equipment for small and medium processing, drying and freezing fruits and vegetables, packing houses and refrigerators - designed to develop competitive advantages of the agricultural sector and its integration into the international trading system.

The results of the subsidy policy trends:

-Increasing new 3 plantations about 18 000 ha, or an increase - about 11 times: from 519 ha in 2001 - to 6100 ha in 2008, with a rejuvenated perspective of them, in an area of 60 000 ha in 2016;

-Recovery of new branches – „nut tree culture” by planting approximately 3100 ha of nut trees;

-Startup and expansion of areas that produce environmentalists - from about 22 000 ha;

-The economic and financial recovery and revitalization of over 20 agricultural companies and 15 pork production units. Thus, in 2006-2010 to revitalize the livestock sector have been renovated and refurbished 1 cattle breeding farm, two farms pigs, 2 sheep farms, 6 poultry farms, including one incubator; one breeding farm rabbits, 2 modern slaughterhouses;

-Maintaining and restoring genetic resources by offsetting a part of the costs to purchase animals for breeding and artificial insemination;

-Developing rural infrastructure of service delivery to workers that breed animals through the establishment and strengthening of material and technical base of local offices for artificial insemination, milk collection and animals;

-Renovation and modernization of material and technical base of the processing and storage of agricultural production in rural areas, the revitalization and modernization of 25 refrigerators, 4 enterprises of processing fruits / vegetables and three dryers until 2008. With state support through IFAD programs and RISP, until 2010, was funded the development of 33 refrigerators, 8 bakeries, 3 drying fruit, 11 grain processing enterprise, 7 processors of meat, 1 fruits and vegetables processing enterprise;

-Extending the irrigated areas from 3.4 ha in 2001 - to 23 300 ha - in 2008. In 2013 will be allocated 102 million\$ for rehabilitation of 11 irrigation systems that will provide water about 1,260 hectares of agricultural land in Moldova.

For the first time, a new measure was instituted pertaining to stimulate lending and compensation of interest on loans obtained for use in agriculture. Thus in 2011 there have been attracted investments in agriculture worth 1.526 million lei, subsidized with 214 million. Subsidies, currently represents 13% of total investment.

The priority measures of policy implementation for authorities from the agribusiness sector in 2013 are protected field crops, perennial plantings, upgrading and renovating farms, purchase of breeding animals and post-harvesting and processing infrastructure.

Although there are enough problems, both the state and farmers continue to develop the agricultural sector. Thus, in 2012 a record investment in the agribusiness sector was attracted, £ 4.6 billion, 1.6 billion or about 30 % more than in 2011.

The news of the Regulation concerning measures to subsidize investments in agribusiness sector for 2013 are actions to increase the priority directions of the authorities. Consequently, within the measure of subsidization, agricultural credit loans with an interest rate of 14 % will be fully subsidized, as subsidies were far smaller than the amount of interest. Another change concerns the extent to

stimulate establishment of perennial plantations, which means that the subsidy density apple tree orchards from 700 to 1200 per hectare subsidies will still be 10 thousand lei per hectare (\approx €600). Also, investments in growing vegetables on protected areas will receive additional support because of the small number of applications for this position from the start being allocated grants covering 50% of the investment. In the case of irrigation subsidies will cover other expenses related to the pipe supplying water system and the film covering water storage basin. The grants awarded this year of 50% for cattle breeding farms extend to materials manufacturing and design works of such farms. Tripled the amount of subsidy for the purchase of breeding sheep and goats to 100 lei per kilo (\approx €6), which allows payback of 100%.

One of the additional measures introduced in 2013 stipulates subsidized land consolidation in which they will be compensated at the rate of 50% of the costs incurred to authenticate transactions of sale, donation or exchange and registration in the Land Register of farmland. To qualify for this support, farmers have to consolidate three parcels regardless of the surface. The last measure includes subsidies to boost agricultural irrigation. Energy costs used to pump water through centralized systems will be subsidized by 50-80% and the costs incurred for oil and gasoline used to pump water, grants of money allocated being 50 (\approx 0,03 €) per cubic meter of water.

Young farmers can receive subsidies increased by 10% for investment measures in agroindustrial sector. Subsidies will not be distributed in installments of 75% and 25%, this year being allocated grants in amounts of 100%.

CONCLUSIONS

Moldova has very limited resources to subsidize the agricultural sector in the near future is unlikely to reach the limit stipulated by the WTO for our country. In this context the problem of effective use of budget appears and it is unlikely to use subsidized models that work in the European Union.

For the Republic of Moldova the experience of countries in transition is more attractive, in

particular to subsidize bank loans for agriculture. In Moldova there can be used a system of subsidies with greater focus and more transparent, represented by supplementary grant to the amount of the credit.

To say it otherwise, it is necessary that agricultural subsidies be allocated to viable farms, be acceptable in terms of tax legislation and transparency, minimize deviations and be strictly oriented towards favoring activities in post-privatization restructuring.

In parallel with direct subsidies, the government should use the so-called "green subsidies", which show essentially public funds for peasants' farms. Implementation of these goals can be achieved by attracting international technical assistance.

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