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MOLDOVA'S SUBSIDIZING POLICY AS A PRECONDITION FOR SUSTAINABLE AGRICULTURAL DEVELOPMENT

Liliana CIMPOIEȘ, Olimpiu GHERMAN
Universitatea Agrară de Stat din Moldova

Rezumat. Scopul lucrării constă în analiza distribuției subvențiilor din sectorul agricol al Republicii Moldova în perioada anilor 2011-2014. În acest scop, autorii au analizat alocarea subvențiilor pentru producătorii agricoli pe direcții de subvenționare și regiuni de dezvoltare. Datele statistice din această cercetare au fost furnizate de către Agenția de Intervenții și Plăți pentru Agricultură și Biroul Național de Statistică a RM. Pe parcursul perioadei analizate a fost majorat volumul subvențiilor alocate pentru producătorii agricoli, însă au fost observate inegalități în distribuirea acestor fonduri, dificultăți în obținerea subvențiilor și lipsa de transparență. De asemenea, lipsește o politică clară și consistentă care ar putea fi implementată prin alocarea subvențiilor menite să conducă la dezvoltarea sectorului agricol.

Cuvinte-cheie: Sector agricol; Subvenții; Politică de subvenționare; Producători agricoli.

Abstract. The aim of the paper is to analyze the distribution of subsidies in the agricultural sector of the Republic of Moldova during 2011-2014. Thus, the authors have analyzed the subsidies allocated to farmers by directions and regions. The research is based on data provided by the Agency of Interventions and Payments in Agriculture and the National Bureau of Statistics. During the analyzed period, the amount of subsidies allocated to farmers had increased but still there are inequalities in the distributed funds, difficulties in obtaining the payments and lack of transparency. Also, a clear and consistent policy that could be implemented through the allocation of subsidies aimed at developing the agricultural sector is missing.

Key words: Agricultural sector; Subsidies; Subsidizing policy; Farmers.

INTRODUCTION

The aim of the agricultural policies is to correct market imperfections and to promote the interests of the sector, consumers or producers. In developed countries, the regulation of the agricultural sector aims at supporting farmers' income, prices, correcting the inefficiencies that occur when the market is not properly regulated and promoting policies that might benefit consumers.

Agricultural subsidies have an important role in supporting farmers' incomes and ensuring food supply. Given its importance, the state support for agriculture is highly discussed among the leading economists. Many of them are debating that this support of income for farmers is a basic need; others are advocating that agricultural subsidies represent a compensation for the public goods that farmers deliver. At the same time, a number of researchers consider that there is no need of such payments, arguing that we should not distinguish the agricultural sector from other economic sectors and that subsidies are inefficient and don't benefit farm's performance (Rizov, M., Pokrivcak, J., Ciaian, P. 2013; Schmidt, E., Sinabell, F., Hofreither, M.F. 2006; Zhu, X., Lansink, A.O. 2010). Subsidizing agricultural producers is a common practice in many countries, including the EU member states. Since the direction towards European integration was adopted, the alignment of Moldova's subsidizing policy to the European policy (CAP) in this context should be undertaken. Nowadays, local subsidizing policy and chosen approaches differs considerably from those of the EU. This is caused by the instability of the subsidizing policy in Moldova and the lack of financial resources for implementing policies similar to those of the EU.

At the same time, there are quite a few discussions about how well the subsidized directions are defined and if the allocated resources are enough for the sustainable development of the agricultural sector.

MATERIAL AND METHODS

This research is based on the secondary data provided by the National Bureau of Statistics and the Agency for Interventions and Payments in Agriculture. The analyzed period is 2010-2014.

RESULTS AND DISCUSSIONS

For Moldova, as for other countries in transition to market economy, the transformations that occurred in the 90's led to different problems concerning changes in ownership relations, transition from a

planned economy to market economy, alignment of the agro-industrial complex components to the new market requirements, the development of market infrastructure, investment process etc. The agricultural policies promoted during the last decade followed some objectives common for transition economies using a number of actions aimed at stopping the further degradation of the agri-food sector. The financial resources allocated from the governmental budget were oriented to partially funding some programs for supporting agricultural producers, subsidizing the production risks in agriculture, supporting the grape production and wine making sector etc.

The development of the agricultural sector is very important for Moldova. Rural population constitutes 58% of the total population whose earnings come from the agricultural sector and other related activities. In this context, the government has to undertake policy actions to support rural population in maintaining their earnings. The share of the agricultural sector in the Gross Domestic Product (GDP) is about 12%, and together with food processing industry it constitutes about 35%. However, the agri-food products representing country's main export items have a share of 40% in total exports. The transition to market economy, together with the number of reforms carried out at the beginning of the 90s led to changes in the agricultural sector. At the same time, the share of public expenditure on agriculture is very low, about 5%.

Farmers do not have enough resources to ensure their activities, many of them being not profitable. Also the amount of investments in this sector is quite low. Therefore, Moldova's agricultural sector requires a support from the government in order to become more attractive for investments, thus contributing to the development of the sector, decrease of production expenses, and prices as well. One of the key elements of the governmental policy is state support for the agricultural sector. The main purpose of subsidies allocation is to increase benefits from governmental support while reducing the related negative effects as much as possible, particularly in the countries which are facing both low competitiveness of agricultural production and scarce accumulated capital that could be used for the reconstruction of the sector.

The agricultural sector is much supported by the government in many countries. In Moldova, during the last years, the support for farmers occupied a central place in the promoted governmental policy. Thus, a number of documents reflects the sustainable development of Moldova's agri-food sector, such as the "National Strategy for the Agri-Food Sector's Sustainable Development for 2008-2015", having its objectives oriented to competitiveness, living standards of rural population and maintenance of the rural areas and the "Conception for the agricultural producers' subsidizing system for the years 2008-2015" (MAFI, 2007).

In 2014, the National Strategy for Agricultural and Rural Development of Moldova for 2014-2020 was adopted with the main priorities to increase the agricultural competitiveness, to ensure the sustainable use of natural resources in agriculture and to improve the life quality in rural areas (Government of Moldova 2014).

A major importance was given to the subsidizing policy as main measure to support farmers and aimed at enhancing the competitiveness of the agricultural sector. This was reflected in the "Conception of the agricultural producers' subsidizing system for the years 2008-2015" which has two main directions:

- ◆ the modernization of agricultural sector – subsidizing the investment activities related to the creation of units for agricultural production storage and processing, purchase of the appropriate equipment, providing agricultural raw materials, establishment of vineyards and orchards, improvement of agricultural services;

- ◆ the implementation of performant agricultural activities for the vegetable and livestock sector – direct payments will be given for the increase of the agricultural productivity and competitiveness, market stabilization, insurance of food security and equal incomes for agricultural producers by taking into account the agricultural crops, animal species, their individual average yield compared with the regional one, as well as the area involved and the number of cattle (Guvernul RM, 2007).

- ◆ Financial support was allocated to agricultural producers 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 of Rural Financial Services and Marketing etc.). Nevertheless, a unifying tool of all the programs and projects is the subsidizing fund for agricultural producers (Budianschi, D., Prohnițchi, V., Savva, T. 2012).

In 2010, the Agency for Interventions and Payments in Agriculture (AIPA) was established as legal entity under the Ministry of Agriculture and Food Industry, which is responsible for the administration of financial resources aimed at supporting agricultural producers, monitoring their distribution and evaluating the qualitative and quantitative impact generated by the government's support measures on

the agricultural sector. Before 2010, the subsidizing fund was managed by four different institutions, mainly by the Ministry of Agriculture and Food Industry (about 70%).

According to the General Agricultural Census data, in the period 2009-2011, 70541 farms benefited from the governmental support including bank credits, subsidies or other type of financial assistance. Out of these, 1170 were corporate farms and 69371 individual farms. Most of farms benefited from subsidies allocation (89% or 63209 farms), out of which 1026 corporate farms and 62183 individual farms.

The amount of subsidies allocated for farmers and the number of beneficiaries during the analyzed period had increased, but its share still remains low.

Table 1. *The evolution of subsidies allocation, mio MDL*

Subsidized directions	2008	2009	2010	2011	2012	2013	2014
1. Stimulating crediting of agricultural producers by commercial banks and non financial institutions	-	-	2,8	23,5	40,6	39,2	15,8
2. Stimulating risk insurance in agriculture	27,2	25,49	18,82	11,2	37,8	41,2	29,3
3. Subsidizing investments for the establishment of multiannual plantations	53	50	80	38	74,3	88,6	93,9
4. Subsidizing the production of vegetables on protected fields	20	12,5	6,9	2,9	10,6	14,4	50,9
5. Subsidizing investments for purchasing agricultural machinery and equipment, including the irrigation equipment	163,5	216,15	91,8	45,9	165,14	141,7	117,9
6. Stimulating the promotion and development of ecological agriculture	0,7	2	4,1	5,3	-	-	-
7. Stimulating investments in the advanced equipment and technological renovation of livestock farms	-	-	2,7	8,08	16,9	27,3	47,2
8. Stimulating the purchase of pedigree cattle and maintenance of their genetic fund	-	-	7,3	2,5	11,1	29,2	47,4
9. Stimulating investments in the development of the processing and post harvesting infrastructure	20	-	29,1	19,6	43	69,8	141,2
10. Subsidizing agricultural producers by compensating energy costs for irrigation	9,67	7,22	10,0	1,9	-	2,1	-
11. Subsidizing the purchase of plant protection materials and fertilizers	159	130	107,3	67,4	-	-	-
12. Stimulating agricultural land consolidation	-	-	-	-	-	0,046	0,059

Source: based on data provided by the Agency for Interventions and Payments in Agriculture (AIPA)

In 2013-2014, the amount of allocated subsidies increased as a result of some external projects with AIPA's co-participation. In 2014, the government initially allocated 500 mio MDL, later it was added an extra amount from the state budget as well as from additional funds offered by the World Bank and EU ENPI program.

Nevertheless, the number of subsidized directions had been changing during the analyzed period, not ensuring an efficient subsidizing policy and not achieving visible results for the agricultural development. Still among these directions, the largest share belongs to subsidizing investments for the purchase of agricultural machinery and equipment, including the irrigation equipment, subsidizing investments for the establishment of multiannual plantations, stimulating investments in the development of the processing and post harvesting infrastructure, stimulating crediting for agricultural producers both by commercial banks and non financial institutions.

In 2014, 543.9 mio MDL were allocated as subsidies to 2782 beneficiaries and this is by 36% more compared to previous year. Nevertheless, the number of beneficiaries had decreased with about 50% in 2014, fact which indicates that farmers benefited from higher amounts of subsidies. A particular attention in the last years was given to subsidizing credits for young farmers. Also, a new subsidizing direction - "stimulating agricultural land consolidation" -, which is particularly important for farm development in Moldova in the context of high degree of land fragmentation, was added in the eligible measures. Unfortunately, it had a small share so far.

Only 0,3% of landowners had benefited from subsidies allocation, fact which proves that only a small number of farmers could receive such a support, mainly those who hold larger agricultural areas.

The distribution of subsidies allocation by legal forms had changed. If in 2009, about 70% of beneficiaries were corporate farms and 30% individual and agricultural farms, then in 2014, out of 5291 applications for subsidizing 50% were submitted by individual farms. The main beneficiaries from corporate farms are still Limited Liabilities Companies (40%).

Regional distribution of the allocated subsidies by beneficiaries is unequal. The largest share belongs to the Northern region districts (Edinet, Briceni), being followed by Southern and Central regions. These two districts are those which benefited from the largest amounts of subsidies, due to the fact that most of large farms are situated in the Northern region, being specialized mostly in orchards, while the Southern and Central regions are mostly specialized in vineyards. In order to ensure the development of rural areas and a more equal distribution of state support, specific policies for the development of all rural areas including the less favored ones should be elaborated.

CONCLUSIONS

One important step in the development of Moldova's agricultural sector is the reform of the whole agro-industrial sector. The unstable and inconsistent agricultural policies are those that determine the position of the country on the international agri-food markets. At microeconomic level, an important direction in increasing the competitiveness of the agricultural sector could be achieved through its modernization, increasing the efficiency of production, increasing the quality of production etc. Also, the investment climate, state support programs, political stability would create favourable conditions for farms activity.

In Moldova, the existing agricultural policy is not clear and consistent. So far, the objectives followed by subsidies allocation aimed only at developing the agricultural sector but they did not take into consideration the objectives of rural development. The existing agricultural subsidizing policy does not create enough incentives for an efficient individual and corporate activity of farms. The eligibility for agricultural subsidies is not stable and together with the allocation terms impose difficulties for farmers in forecasting their activity, as well as for public institutions involved.

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

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