

SUBSIDIZATION – AN IMPORTANT FACTOR IN AGRICULTURE DEVELOPMENT

Efim ZUBCO, Senior Lecturer, State Agrarian University of Moldova, Faculty of Cadastre and Law, Chişinău, 42 Mirceşti St., Republic of Moldova, phone: +37369238114, e-mail: e.zubco@uasm.md

Abstract: The interest in agriculture has been and will be one of the main objectives of the whole society, given the increasing global population, scarce natural resources, complicated and unstable climate conditions (drought, floods and other natural disasters). At present Moldova's agriculture is looking for the most efficient ways of development. Under such conditions, the development and implementation of stimulating measures to support this sector are inevitable. Any country, regardless of its economic development, uses a subsidization system meeting its social and economic needs. This practice is confirmed by the policy pursued by all European Union (EU) in this direction.

Key words: agriculture, subventioning, state buget, land relations, property.

1. Current situation of the agricultural land relations in the Republic of Moldova

Analyzing the current situation in Moldova's agriculture through the prism of those past 25 years, we can conclude that the privatization process has penetrated deep into all areas, institutions, organizational forms creating finally the private owner – an important subject of agricultural land relations. [1]

At present, agricultural land area (private property) constitutes 1.70 million hectares or 83.8% of the total area. The privatization process was extended to all agricultural goods (constructions, agricultural machinery, irrigation systems, multiannual plantations, etc.). Imperceptibly, the privatization process has been idealized. As a result, a great error was committed, which we will remember for many years, as it was denied that private ownership has not only a content but also a form.

Currently, Moldovan agriculture faces a number of problems which together have a negative impact on the rural economy as a whole: the fragmentation of agricultural land into smaller parcels as well as the presence of numerous economically unprofitable agricultural farms. Abandoned farmland areas increase every year. Also, there is a pronounced trend of the rural population decrease, most of them leaving to the city or abroad in search of higher-paying jobs. Local agricultural production is not competitive with the one imported from abroad, therefore it is sold at low prices that barely cover production costs. There isn't a modern local market for the sale of domestic agricultural products. These and many other reasons halt the development of agricultural sector requiring the subsidization of agriculture.

1.1 Legal framework

Land reform involves changes in legislation regarding land ownership. These changes should pursue a more efficient use of the land fund, especially the agricultural one. The reform had the effect of changing social and economic relations in the country.

The implementation of progressive methods concerning the regulation of land relations in concrete conditions is compulsory. This supposes the development of a legal and normative framework appropriate to the current situation of land relations. The supreme law, in this sense, is the Constitution of the Republic of Moldova. However, state policy in the field of land relations is reflected in the development of Land Code no. 828-XII of 25.12.1991 with all the modifications made so far. [2] At present, a new project of the Land Code was developed, which includes a new content on the regulation of land relations under current market economy conditions. It is now necessary to develop a number of other legislative acts in the field of land relations.

1.2 Object and subject

The subject of this study is represented by the agricultural land involved in the subsidizing process in terms of market economy. Agricultural land includes a wide and varied spectrum of categories and subcategories of land use. In this context, subsidization has an important role, serving as a regulatory mechanism of the state in using them efficiently.

Moldova's agriculture is dominated by several legal forms of organization based both on associated and individual principles. However, the future of agriculture and its progress will depend on the harmonious development of both associated and individual businesses. Agriculture is a sector in which the legal forms of organization were mostly affected by the economic reforms and by the implementation of market relations. The reform has modified the economic essence of production process in agriculture - property. State monopoly on land ownership and other agricultural goods has been transformed into private property.

More detailed information on the distribution of the private agricultural land fund according to the legal forms of organization is shown in Table 1. [4] Analyzing the data presented in this table, it could be observed that most agricultural land is used by the agricultural farms (AF) and limited liability companies (LLC). Also, a large area of agricultural land is processed independently by individuals (physical persons - owners). Other legal forms of agricultural land organization have a smaller area: agricultural cooperatives - 93.83 ha and joint stock companies - 32.3 ha. The category of other lands includes: farm plots with fruit plantations, auxiliary plots, monasteries and other religion-supporting organizations (institutions), etc.

Table 1. Legal forms of organization of the privately held agricultural land, 2015

Indicator	Total area, thousand ha	Legal forms of organization					
		AF	LLC	AC	JSC	IP	Other land
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>
Total land	1699,29	540,19	739,33	93,83	32,3	219,86	73,58
Including: Individual land	879,23	453,09	99,65	25,53	7,52	219,86	73,58
Leased land	820,06	87,10	639,68	68,5	24,78	-	-

Source: elaborated by the author based on data provided by the land cadaster of the Republic of Moldova

State's subsidization policy is carried out through the Agency of Intervention and Payments for Agriculture (AIPA) created by Government Decision no. 60 of 04.02.2010. AIPA is an administrative body under the Ministry of Agriculture and Food Industry, which is responsible for managing the financial resources, intended to support farmers, monitoring

their distribution and evaluating the quantitative and qualitative impact of measures meant to support farmers by the state.

2. Agricultural subsidizing in the Republic of Moldova

Subsidies represent a mechanism of state influence in managing the economy through the use of funds.

Subsidization of agriculture in the Republic of Moldova is determined annually by the State Budget Law. Deasemenea sunt elaborate și alte acte normative (regulamente, instrucțiuni) care reglementează procesul de subvenționare agricolă, toate fiind plasate pe site-ul oficial a Agenției de Intervenție și Plăți pentru Agricultură – www.aipa.md.

Performing a study on the volume of planned annual expenditure for agricultural producers subsidies, it was noticed an increasing trend of their growth which is reflected graphically in figure 1. For the current year, state budget planned 900 million MDL in the form of agricultural subsidies; this is by 290 million MDL more than in the last year.

Stabilization and development of Moldova's agriculture involves: increasing the state budget fund to finance the agricultural sector, modernizing the forms and methods of state support, developing new directions and mechanisms to implement the agricultural policy. Also, the state support system should be flexible and meet both current and long-term farmers' needs.

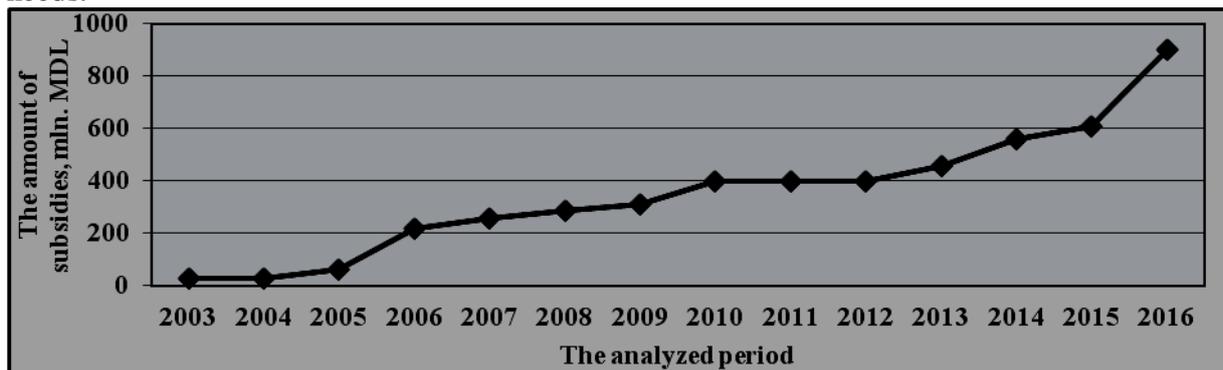


Figure 1. Moldova's state budget for subsidizing agricultural producers

Source: elaborated by the author based on [3]

Subsidizing is generally a measure to protect local farmers in terms of international competition. Unlike the poor countries, the industrially developed ones practice massive subsidization of agriculture with the aim of supporting local producers to compete with cheaper production imported from the least developed countries. Due to subsidies, we could obtain competitive agricultural products, prosperous agricultural enterprises and sustainable rural development. Agricultural subsidies represent an absolutely necessary help for agricultural development and, at the same time, a way of attracting investments in this area.

2.1 Priority directions of subsidization

An important role for agriculture development is played by the method of subsidies allocation. Volumul fondului de subvenționare este repartizat pe următoarele măsuri de sprijin: [5]

- 1) stimulating agricultural producers' crediting by the financial institutions;
- 2) stimulating the agricultural production risk insurance;

- 3) stimulating investment for clearing the perennial plantations which are subject to cassation, establishment of new perennial plantations and promotion of the wine growing production;
- 4) stimulating investment for vegetable production in protected environment (winter greenhouses, solarium, tunnels);
- 5) stimulating investment for purchasing agricultural machinery and equipment, irrigation equipment, antifreeze systems and anti-hail protection equipment;
- 6) stimulating investment for equipment and technological renovation of the animal husbandry farms;
- 7) stimulating the purchase of breeding animals and maintaining their genetic background;
- 8) stimulating investment for the post harvest and processing infrastructure development;
- 9) stimulating agricultural land consolidation;
- 10) stimulating the irrigation of agricultural land;
- 11) Supporting investments in the infrastructure related to the enterprise;
- 12) Stimulating investments for No-Till and Mini-Till equipment procurement.

In this context, the volume of subsidies planned for each measure will not be uniform. Moldova has limited resources to subsidize the agricultural sector. In this regard, the efficient use of limited budgetary resources is essential. Therefore, it is very important to select thoroughly the priority directions and mechanisms of subsidies allocation in order to increase the level of economic development in rural areas and in the whole country. In this context, we propose two ways to make better use of the subsidies fund:

- subvention with short-term effect;
- subvention with long-term effect.

Taking into consideration the unstable weather conditions for the development of domestic agriculture, there is an increasing need to implement irrigation systems at the state level. In recent years, as a result of agricultural producers' requests, more subsidies are allocated for purchasing agricultural machinery and equipment. Among the priority directions of agriculture should be included the establishment of perennial plantations. Along with the development of the agricultural sector there should be also created conditions for the restoration and operation of the agricultural products processing industry.

2.2 Agricultural subsidy in the EU

EU countries spend billions of euros to subsidize the agricultural sector, fact which leads to higher volume of agricultural production on the global markets. The high level of agriculture subsidization practiced by the rich countries has a negative impact on the agricultural producers from developing countries.

At present, the EU budget for agriculture and rural development amounts to 40% or 62 billion euros of the total budget [6]. Analyzing the data collected over a period of 14 years, which are reflected in figure 2, we see an increase in subsidies allocated to this area. Compared to the year 2002, in this year there is an increase by 15.5 billion euros or by 33% more. Continuous increase in the volume of subsidies for agriculture and rural development reflects the interest of the EU in the economic development of member countries and their food security.

In the period 2008-2009, the volume of subsidies for agriculture and rural development in the EU fell by about two billion euros compared to 2007. This decrease is due to the influence of the global economic crisis, which was reflected in the development of

several socio-economic areas. The volume of subsidies planned in the EU budget covers almost completely the production costs, the farmers obtaining a pure income from production sale.

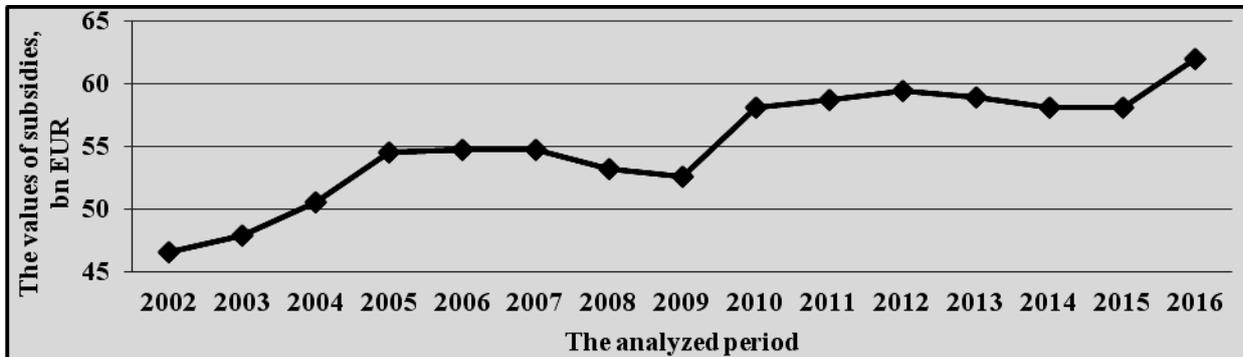


Figure 2. The EU budget for agriculture and rural development

Source: elaborated by the author based on <http://ec.europa.eu/budget>

Since 1957, it was developed the Common Agricultural Policy (CAP) focused on agricultural development in a healthy rural environment. Although CAP has undergone a series of reforms in the course of time, we can mention that its basic objectives are still the same. Also, we should point out the specific financing features of the CAP, which takes place in a multiannual financial framework for a period of 7 years.

The overwhelming majority of opinions confirms that the future CAP should keep a strong common policy in order to promote food security and to provide European citizens with a variety of quality and organic food products.

In the rich countries, governments provide grants for scientific research in the field of agriculture and rural areas. The highest shares of agricultural subsidization were registered in South Korea (20 billion USD), Japan (65 billion USD), Indonesia (28 billion USD). In most countries, 94 percent of subsidies were spent by Asia, Europe and North America, leaving only 6 percent for the rest of the world.

2.3 Comparative analysis of agricultural subsidies in Moldova and in the EU

The volume and growth of subsidies in the Republic of Moldova can't be compared with that of the EU, which covers almost all production costs, thus stimulating agricultural

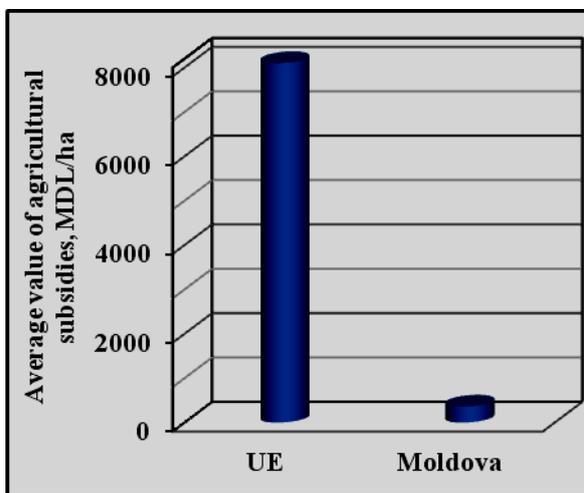


Fig. 3. Average value of subsidies per 1 ha Of agricultural land in Moldova and in the EU

activity development and ensuring food security of the EU member countries. In this context providing subvention funds requires the monitoring of their efficient use.

If we do some calculations, we will find out that given the volume of subsidies planned in Moldova's budget, there is a sum of 16 euros (360 MDL) per 1 ha of agricultural land, while in the EU countries the same subsidy is 23 times higher: that is about 368 euros (8100 MDL) per 1 ha. Certainly, this difference in the average value of the agricultural subsidies in the Republic

of Moldova and in the EU, presented in figure 3, is quite large and can't be compared, taking into account their different levels of socio-economic development. Therefore, market competition between our local producers and those from the EU countries is one unfair.

As the European Union, other highly industrialized countries – such as USA, Japan and other Western European non-member countries - practice a high level of agriculture subsidization. Setting this high level of support to agriculture was unavoidable when the respective governments decided to provide food security for their people and balanced development of their urban and rural areas. Unlike the EU, the Republic of Moldova, through the implemented strategies, continues to consider the agricultural sector as one separated from rural development.

3. Conclusions

1. Increasing the amount of subsidizing fund for agricultural producers based on the current needs of this sector development.

2. The need for greater transparency regarding the management of financial resources provided for agricultural subsidization.

3. Insufficient experience and lack of culture regarding the organizational process of distributing funds from the subsidy fund.

4. Creating and implementing specialized cadasters to provide information on the achievement of the subsidization process.

5. The highest share of subsidies should be oriented towards supporting viable and competitive agricultural enterprises under current market economy conditions.

6. Improving financial support for ecological agriculture development.

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