MOLDOVA
Special Topic: Agricultural Subsidies
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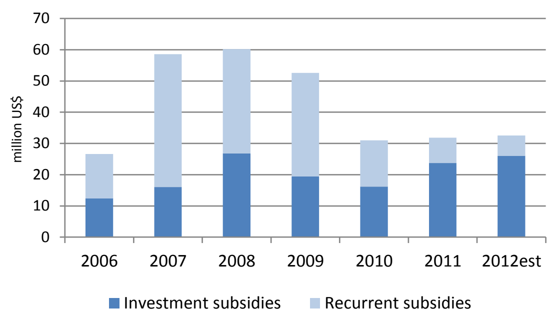
THE WORLD BANK

- ***Moldova's strategic vision for agriculture aims to improve competitiveness through modernization and improved market integration.***
- ***Despite recent progress, support for agricultural investment favors the corporate sector over individual small farmers and does not sufficiently promote innovation and competitiveness.***
- ***More could be done to reinforce efficiency and equity of investment subsidies in agriculture, reduce vulnerability and support adaptation to climate change.***

Figure 1: Agricultural support in Moldova, 2006-2012 (mil US$)



Source: Moldova BOOST, AIPA.

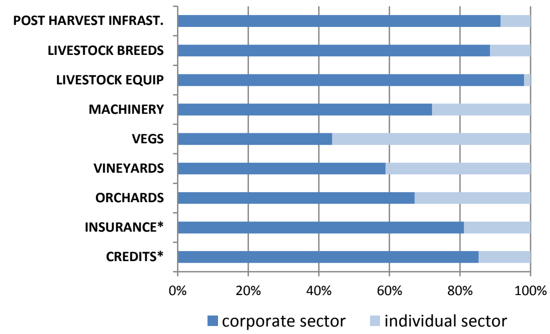
Agricultural Subsidies: Context and Recent Trends

Moldova's agricultural subsidy program aims to support sector modernization and improved market integration. In 2010-2013, 0.5 percent of annual GDP was spent on transfers to farmers as investment subsidies. Meanwhile, poverty incidence is still at its highest in rural areas, particularly among farmers and agricultural workers. Modernization could therefore play a key role in reducing poverty by encouraging high value crop production and reducing vulnerability in agriculture.

The broad scope of agricultural subsidies does not sufficiently encourage the introduction of modern and innovative practices in agriculture. Since 2009, agricultural subsidies have shifted from supporting recurrent needs to supporting investment: investment subsidies today account for 80 percent of the Agriculture Support Fund, compared to 30 percent in 2007 (Figure 1). However, the bulk of investment subsidies continue to be absorbed by traditional investments, with limited effective support to the priority high value agriculture (HVA) sector. Also, investment amounts associated with subsidies have dropped between 2010 and 2012 (figure 3).

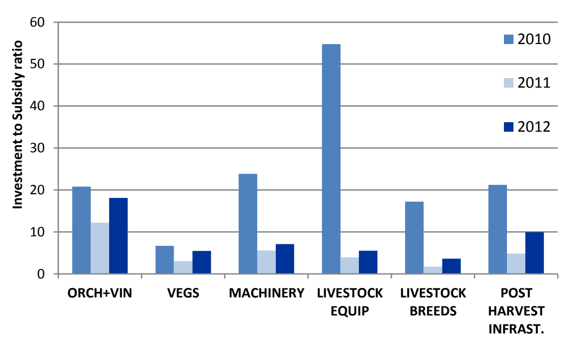
Agricultural support to small or individual farmers is modest and does not reflect their current and potential role in high-value agricultural production. Investment support is captured by a small number of large farms investing in traditional technologies and equipment. Large corporate farms received about 75-80 percent of agricultural subsidies over the past three years (Figure 2). This is hardly consistent with the relative weight of the two sectors in total agricultural output (70 percent individual versus 30 percent corporate). Between 2010 and 2012 the average size of the subsidy received by the corporate sector has been increasing, while the gap between the average subsidy amounts received by smaller and larger farms has been widening. As a result, the inclusion of individual farms in the subsidy program has reduced.

Figure 2: Subsidy beneficiaries per measure, 2012



* recurrent subsidies
Source: AIPA.

Figure 3: Investment to subsidy ratio, 2010-2012



Source: AIPA.

Improving targeting of investment subsidies for inclusive growth

A multi-year program – rather than a one-year program – is needed to set clear rules of the game for the private sector, and improve program planning, implementation and evaluation.

The results produced to date by the on-going investment programs (especially long-existing programs) should be thoroughly reviewed.

Greater inclusion of smaller-scale farms into the subsidy program is important for growth, as they specialize in high value crops, and face high financial constraints to investment. Capping the subsidy amount available per individual beneficiary would allow increasing the number of potential beneficiaries. Refocusing support from large-scale traditional agricultural machinery to smaller-scale HVA-related technologies/equipment would also increase smallholders' participation.

Investment subsidy programs could focus more on fostering market competitiveness and integration. Large programs (such as the machinery and equipment program, orchards and vineyards, and the post-harvest equipment program) could be narrowed in scope by focusing exclusively on innovative production and post-production practices, with a stronger impact on long-term sector productivity and competitiveness. Also, setting differential subsidy rates, reducing rates over time, and placing time limits on measures could help optimize subsidy programs. Narrowing the scope of existing investment subsidies would allow strengthening the support program by introducing new measures to address the shortage of human capital in the sector, reduce agricultural output volatility, and improve compliance with EU food safety and quality standards. The latter is key to enhance market access for Moldovan producers, especially in the perspective of the Association Agreement with the EU.

The table below summarizes the key support measures and proposes reform options to achieve these aims.

Table 1: Summary of Proposed Reform Options for Agricultural Investment Programs

#	*Support Measure*	*Proposed Reform Options*
Refocus investment subsidies to trigger innovation, market integration and farmer inclusion		
1	NEW ORCHARDS AND VINEYARDS	Consider focusing exclusively on supporting innovative highly productive technologies that are not yet widely adopted.
2	PROTECTED FIELD VEGETABLES	This program, as amended in 2013, should be continued, with subsidies covering only investment purchases.
3	AGRICULTURAL MACHINERY AND EQUIPMENT	Consider abolishing the program and/or narrowing its scope by supporting exclusively modern high-tech agricultural machinery and equipment, particularly aiming to address the priority high-value sector.
4	LIVESTOCK EQUIPMENT	As market (especially export market) opportunities for livestock products remain limited, the two programs need to be closely monitored and possibly re-focused. The revision could narrow support to selected livestock products that exhibit promising market opportunities.
5	LIVESTOCK BREEDS	
6	POST-HARVEST AND PROCESSING EQUIPMENT	This program is generally effective but could be strengthened by taking a differentiated support approach by granting higher subsidy rates to innovative activities. Review priorities and consider focusing this type of support exclusively on the high-value sector.
New cross-sector programs for a comprehensive approach to sector challenges: attract young people, adapt to climate change and strengthen market focus		
7	FOOD SAFETY AND QUALITY REQUIREMENTS	Support private sector efforts to comply with EU food safety and quality requirements to improve market access for crop and livestock products. Consider supporting producer groups through a higher subsidy rate.
8	CLIMATE CHANGE ADAPTATION	Put in place a climate change package that would combine: (i) *recurrent support* to stimulate adoption of new high-yielding varieties, as well as heat- and drought-resistant varieties/breeds; (ii) *investment support* to climate-smart equipment/systems (anti-hail, anti-frost, on-farm irrigation, other); and (iii) related *technical assistance and advice* on broad climate change risks and adaptation measures at the farm level as well as more specific advice/training on the most efficient cultivation/use of new varieties and equipment.
9	YOUNG FARMERS	Support for young farmers (below 40 years of age) was introduced in the 2013 program. Consider deepening this support by providing one-time financial support for the set-up of own farms, together with business and market advice. This new program should be assessed after a 2-3-year time period, to decide on its continuation or termination.
Proposed reforms across programs: 1. **Cap the subsidy (put an upper limit) offered to one enterprise.** 2. **Put a time limit – 3 to 5 (in some cases 7) years - on the provision of the subsidy.** 3. **Reduce subsidy size/rate over time.** 4. **Consider setting differential subsidy rates/sizes (spanning from 10 to max 50%).**		

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