

SUBSIDY PRACTICE IN THE REPUBLIC OF MOLDOVA

Natalia MOCANU¹, Nadiia DAVYDENKO², Nicoleta MATEOC-SÎRB³, Tatiana BUJOR⁴,
Dragoș CIMPOIEȘ⁵

e-mail: mocanunatalia@gmail.com/natalia.mocanu@usm.md

Abstract

Subsidies are a complex economic and political concept, representing non-repayable financial aid granted by the state or other public authorities to specific economic sectors or activities, in exchange for compliance with certain conditions. [4] In the work of economist Paul Bran, this support aims to support economic development, stimulate certain branches of the economy or protect vulnerable groups from negative market effects. Typically, subsidies can take various forms: direct subsidies, in the form of cash payments or financial aid, or indirect ones, such as tax exemptions, research grants or preferential access to certain resources. According to interventionist theory, subsidies are essential to remedy market defects, especially in sensitive sectors, such as agriculture or industries that have a strategic role in the national economy. Subsidies are a necessary tool to protect and support economic sectors that are affected by unfavorable market conditions, as well as price fluctuations or climate risks - the author emphasized this. In agriculture, for example, subsidies can offset losses caused by seasonal variations or lack of adequate infrastructure, allowing producers to continue operating (Legea nr. 71/2023). Such aid, applied over several stages, has a multiplier effect that generates demand for related goods and services and, at the same time, supports the overall economic recovery.

Keywords: subsidy, agriculture, efficiency, price, development, allocations.

Introduction. Agriculture is a strategic sector of the economy of the Republic of Moldova, with a significant share in the gross domestic product and constituting the main source of income for a large part of the rural population. In this regard, agricultural subsidies are asserting themselves as a key instrument of public policies, aimed at stimulating investments, technological modernization and competitiveness of local farmers. Free markets should be left to operate without government intervention, and economic actors should be responsible for their own success or failure in the market. In this view, subsidies can create dependency on government support and perpetuate economic inefficiencies in the long run (Milton Friedman, 1962).

Other economists, such as Arthur Cecil Pigou, argue that the institution is capable of subsidizing such investments that impose net economic losses on the activities of producing goods with larger social externalities, such as education or public health care (John Maynard Keynes, Paul Samuelson, 1936) integrated

Keynesian ideas into his theory of the "neoclassical synthesis", arguing that government intervention through subsidies may be necessary to achieve and maintain full employment and to correct market failures, such as the lack of public goods or the effects of externalities (John Maynard Keynes, Paul Samuelson 1936) continued Keynesian ideas and promoted the use of subsidies in the context of counteracting the negative effects of economic fluctuations, emphasizing the importance of equity in the distribution of resources and income. These works and concepts show that subsidies are seen as an important tool in modern economic policies, both to stimulate demand and to correct market failures (Paul Samuelson, 1948).

The modern approach to subsidies is seen more in the legislative framework. Subsidies are addressed differently depending on the legislation of each country, but most regulations follow the principles established by the Agreement on Subsidies and Countervailing Measures of the World Trade Organization (WTO) (Milton Friedman, 1962).

¹ State University of Moldova, Moldova ORCID: 0000-0002-8523-1080, e-mail: natalia.mocanu@usm.md

² State Tax University, Ukraine ORCID: 0000-0001-7469-5536, e-mail: davidenk@ukr.net

³ King Mihai I University of Life Sciences, Timișoara, Romania, ORCID: 0000-0002-6023-9668, mateocnicol@yahoo.com

⁴ State University of Moldova, Moldova, ORCID iD: <https://orcid.org/0000-0001-5583-8802> tatiana.bujor@usm.md

⁵ Moldova State University, Moldova, ORCID iD: 0000-0001-8267-5738, email: dragos.cimpoies@usm.md

The modern and practical approach in the Republic of Moldova to subsidies is also found in the legislative framework, namely Law No. 71/2023 on Subsidies in Agriculture and Rural Areas.

The World Trade Organization defined the main forms of subsidies, which were later adopted by local legislation. Subsidies can be granted in several forms:

1. Direct subsidies: These are financial aid granted directly to beneficiaries. A clear example would be direct aid provided to farmers to support agricultural production or to compensate for losses caused by adverse weather conditions.

2. Indirect subsidies: These include tax reductions, tax exemptions or tax incentives provided to certain businesses or economic sectors. For example, a company investing in renewable energy may receive tax breaks to encourage the transition to a green economy.

3. Investment subsidies: This form of subsidy is mainly intended to finance long-term development projects. An example could be supporting research and development in the technological field, where subsidies help finance innovative projects.

4. Social Subsidies: These aim to protect vulnerable groups in society, such as people with low incomes, the elderly, or those with disabilities. Social benefits and other forms of financial assistance to protect these groups are examples of social subsidies (Milton Friedman.1962).

The basic forms provided for in world legislation and Law No. 71/2023 provides for the following forms of subsidy in the Republic of Moldova:

1. Advance payments: a subsidy granted on the basis of an investment project, positively assessed by the Agency and authorized for the payment of the subsidy until the costs of its implementation have been incurred.

2. Post-investment payments: a subsidy granted on the basis of an investment project or the extension of an investment project, positively assessed by the Agency and authorized for the payment of the subsidy after the implementation of the respective project based on the costs fully borne by the applicant.

3. Investment payments in stages: a subsidy granted in stages, based on an investment project or the extension of an investment project, positively assessed by the Agency and authorized for the payment of the subsidy after the implementation of each stage based on the costs fully borne by the applicant.

4. Complementary payment: a subsidy, granted in a single tranche, for the support of

current costs or for the support of income losses (Legea nr. 71/2023).

We present the models for basic headings and paragraphs for each section.

MATERIAL AND METHOD

The observations, records and analyzes related to the given article were carried out through various observations, measurements and determinations. The research used the following methods of scientific research: theoretical generalization, scientific abstraction, system analysis, dialectical method of cognition (for researching the theoretical foundations of the financial potential of regions); system-structural analysis (when determining the system of indicators for assessing the financial potential of regions); graphic (to illustrate research results).

RESULTS AND DISCUSSIONS

In the Republic of Moldova, subsidies are widely used in the agricultural sector, one of the most important for the country's economy. Farmers benefit from subsidies to improve modern equipment, develop irrigation infrastructure and insure crops against climate risks. These measures are important to ensure the continuity of agricultural production in an economy vulnerable to external factors.

Law no. 71/2023 establishes the general principles of state policies regarding the encouragement and stimulation of agricultural activities and rural development, the priorities for the use of financial means intended for the development of agriculture and the rural environment, and its adjustment to good European practices.

In 2025, the FNDAMR (National Fund for the Development of Agriculture and the Rural Environment) constitutes 1900000.0 thousand lei. The FNDAMR funds are approved annually under the State Budget Law. In 2025, initially, the FNDAMR constituted 1700000.0 thousand lei. Subsequently, by amending the Budget Law, on 22.04.25 the amount constituted 1900000.0 thousand lei. At the reporting date, the distribution of FNDAMR funds is approved in accordance with the Order of the Ministry of Agriculture and Rural Affairs no. 77 of May 13, 2025 on the distribution/redistribution of funds allocated to the FNDAMR, as follows:

- the state contribution to the National Vine and Wine Fund – 28,704.9 thousand lei in accordance with art. 2 letter c) of the Law on the State Budget for 2025, with the latest amendments;

- restructuring measures in agriculture – 50,000.0 thousand lei.

Activity of AIPA (Agricultural Intervention and Payments Agency) sem I 2025:

- commitments to applicants who made investments in 2023 and/or investments in advance subsidy measures initiated for implementation in previous years, which require the allocation of the following tranches – 408,513.0 thousand lei;
 - form of subsidy complementary payments - (Regulation on complementary subsidy measures and specific eligibility conditions for complementary subsidy from FNDAMR, approved by GD no. 464/2023) – 608,928.3 thousand lei;
 - form of subsidy advance payments for the implementation of projects (Regulation on advance subsidy measures and specific eligibility conditions for advance subsidy from FNDAMR, approved by GD no. 465/2023) – 129,038.8 thousand lei;
 - the form of subsidy in advance payments – LEADER Program (GD no. 277/2022 on the approval of the Regulation on granting advance subsidies for local development through the implementation of the LEADER Program) – 123,700.0 thousand lei;
 - the form of subsidy in phased investment payments (GD no. 491/2023 on subsidizing investments from FNDAMR) – 30,182.0 thousand lei;
 - the form of subsidy in post-investment payments (GD no. 491/2023 on subsidizing investments from FNDAMR) – 264,263.0 thousand lei;
 - form of subsidy direct payments for the livestock sector - direct payments per head of animal and direct payments per kg of milk product (GD no.

492/2023 for the approval of the Regulation on the granting of direct payments in the livestock sector from the FNDAMR)

–256,670.0 thousand lei
 (<https://www.wto.org/index.htm>).

Following the activities carried out by AIPA in the first semester, the sources utilized from the FNDAMR were distributed as follows:

- state contribution to the National Vine and Wine Fund – 28,704.9 thousand lei;
 - restructuring measures in agriculture – 50,000.0 thousand lei;
 - the form of post-investment subsidy, both commitments to farmers who made investments in 2023, but also sources utilized based on applications submitted in 2024 – 585,442.2 thousand lei;
 - payments for investment projects (GD no. 455/2017) – 4,574.24 thousand lei;
 - the form of complementary subsidy (insurance not included) – 482,580.86 thousand lei;
 - complementary form of subsidy (subsidized insurance in agriculture), authorized applications from 2024 and 2025 – 91,824.92 thousand lei;
 - payments for the form of advance payment (GD no. 465/2023) – 117,875.0 thousand lei;
 - subsidies for the form of advance payment (GD no. 476/2019) – 80.64 thousand lei;
 - LEADER Program – 63,036.9 thousand lei;
 - direct payment per kg of product – 86,642.58 thousand lei;
 - commitments to beneficiaries whose applications were authorized at the end of 2024, but the sources were insufficient to execute the payment – 554.14 thousand lei.

Table 1

Number of files and amounts authorized from FNDAMR funds in the first semester of 2025, (files received for the complementary subsidy form, in the subsidy year 2024)

Subsidy measures	No. of authorized files	Authorized amount, thousand lei
SC_5.1 Stimulating access to investment or working capital loans	3282	404143,9
SC_5.2 Stimulating promotional activities	24	722,3
SC_5.3 Stimulating the use of irrigation systems	23	4466,7
SC_5.4 Development of organic agriculture	64	23750,7
SC_5.5 Implementation of good agricultural practices	8	375
SC_5.6 Deforestation of perennial plantations	332	46768,8
SC_5.7 Agricultural training services	13	37,5
SC_5.8 Stimulating association in producer groups	6	2316,1
SC_5.9 Subsidizing insurance premiums in agriculture	324	37523,29
TOTAL	4076	520104,3

Source: SIA ESBS on 02.07.25

In the first semester of 2025, applications received under the complementary payment form in 2024 were examined and authorized for payment. Of the number of applications received under the measure SC_5.9 Subsidizing insurance premiums in agriculture, 163 applications were authorized in the same reporting period, the amount of the subsidy being – 54,301.63 thousand lei. The object insured by farmers is: animals, crops and multi-annual plantations. The annual ceiling within the complementary subsidy form does not exceed 1.5 million lei for a beneficiary, with the exception of water user associations, for which the ceiling does not exceed 3,000 thousand lei, and no ceiling is established for the subsidy of insurance premiums. Subsidy applications are submitted annually, between February 1 and September 30.

CONCLUSIONS

If we analyze the process of granting subsidies, we see that the legislative framework has no gaps and the information environment is supported and consolidated by AIPA so that applicants do not encounter difficulties in obtaining information and submitting files. The statistical data for 2024 regarding beneficiaries paints a clear picture that farmers currently need more investment, namely in stimulating access to credit or for working capital, this measure surpassing all others both in terms of amount and number of files. We understand that the money allocated for subsidies does not imply the development of agriculture but stimulates refinancing and financial support. To solve this problem, we can suggest the creation of an agricultural exchange where farmers will sell their products through "futures", thus receiving part of the money for the future harvest without resorting to banking institutions for loans. The legislative framework has regulated "advance" contracts, where the buyer will pay 50% of the total price in advance, 30% at the time of packaging and another 20% at the time of delivery.

The next measure with the largest budget is for soil processing technologies, which generally creates an impression of a positive trend regarding the modernization of the agricultural sector.

The next measure with the largest budget is for soil processing technologies, which generally creates an impression of a positive trend regarding the modernization of the agricultural sector. The next area with the highest demands is the one that provides allocations for the modernization of the processing, marketing and production infrastructure in the vegetable sector, which received six times more funds than the wine sector, which suggests that the wine sector has a better profit tendency and can self-finance and develop independently than the vegetable sector.

In conclusion, the analysis highlights the need to continue efforts to support farmers, with a strategic and sustainable approach, by involving all actors in the field. Only through efficient collaboration between authorities, beneficiaries and the economic environment can a sustainable, competitive development of the agricultural sector be ensured.

REFERENCES

- James Tobin.1977** "Macroeconomic Effects of Selective Public Employment and Wage Subsidies", (Brookings Papers on Economic Activity, 1977)
- Milton Friedman. 1962** "Capitalism and Freedom" (University of Chicago Press, 1962) "The General Theory of Employment, Interest, and Money", Macmillan, Londra.
- Milton Friedman.1962** "Capitalism and Freedom" (University of Chicago Press, 1962)
- Paul Bran. 1995** "Relații financiare internaționale", (editura ECONOMICA, 1995)
- Paul Samuelson. 1948** "Economics: An Introductory Analysis", (McGraw-Hill, 1948).
- Legea nr. 71/2023 cu privire la subvenționarea în agricultură și mediu rural din 31.03.2023** publicată în Monitorul oficial Nr.134-137 art.209 , (art.3)
- Legea nr. 71/2023 cu privire la subvenționarea în agricultură și mediu rural din 31.03.2023** publicată în Monitorul oficial Nr.134-137 art.209, (art.16,17,18,19,20,21)
- <https://dexonline.ro/definitie/subvenție>
<https://old.mei.gov.md/sites/default/files/document/subventiile-si-masurile-compensatorii.pdf>