

## **PROVIDING AGRICULTURAL RISKS IN THE REPUBLIC OF MOLDOVA: TRENDS, PROBLEMS AND OPPORTUNITIES**

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### **Abstract**

*In this paper, the author presents results of scientific researches on the problems which farmers of the Republic of Moldova are facing in the field of risk management and insurance. In conclusion, the author formulates recommendations on farm managers' opportunities to benefit from subsidized insurance, but also some recommendations resulting from the research of the experience of other countries from the European Union aimed to ensure the entrepreneurial risks in agricultural entities.*

**Key words:** state insurance programs, agricultural risks, opportunities.

### **INTRODUCTION**

Agro-industrial complex is an essential field of each economy and society. Sustainable development of the agricultural sector is impossible without state support. At actual stage the state support granted to this sector is the foundation of agricultural policy of all developed countries, including the European Union.

In many countries the contribution of agriculture to GDP is about 30% and consumer goods market in proportion of about 3/4 is the goods manufactured from raw materials. Also, agriculture contributes to the development of other areas: trade with agro-food products, transport etc.

Agriculture does not imply only production, processing and trade with food. Agriculture is the development field, which depends on the development level and vitality of rural communities, life and living level of the rural population. Farmers, in addition to noble activity to provide food to people, also maintain rural lifestyle. "If there were no farms and farmers, villages, hamlets and our fairs would be deeply affected. Many jobs from rural areas are related to agriculture" (Understanding the EU policies, 2014)

Thus, besides the production and supply of safe, available and good quality product and

also in sufficient quantities, farmers manage and rural area for the benefit of whole society. In order to produce sufficient quantities, they shall apply agricultural technologies that are not always sustainable. Farmers are facing with a double challenge: on the one hand to be competitive on the market, on the other hand - to protect soil, landscape, biodiversity etc.

At the same time, agriculture is a field that is largely affected by risk factors such as climatic, economic, political nature and otherwise. As a result, farmers would need to learn to manage their own risk. (Skees et al., 1999) Farmers are not paid sufficiently to develop sustainable and effective conditions.

Therefore, state governments offer support for services they provide to society for their contribution to ensure food security and to maintain the vitality of rural economy.

The subsidies to agricultural insurance systems are widespread. The USA have a long history of subsidised crop insurance systems. There is a special Federal crop insurance Program which offers a more complex, multi-peril agricultural insurance aimed at covering the losses in revenues, not only yields. In the USA correspond to 58% of the total risk premiums. The European subsidies to insurance premiums are around 32%, on the other hand, a more complex insurance coverage is usually more expensive for farmers, so that the average

premium rates in the USA (9%) are much higher than in Europe (4%) (Špička et al. 2009).

## **MATERIALS AND METHODS**

The survey on subsidized agricultural risks in the Republic of Moldova is based on materials of National Bureau of Statistics of the Republic of Moldova, Ministry of Agriculture and Food Industry, Agency for Interventions and Payments in Agriculture, National Commission of Financial Market, statistical data of certain insurance companies, as well as studies of certain researchers in the field of agrarian economics. The author has used for realizing this thesis the monographic method; analysis, synthesis, logical method, time series analysis, trend analysis and other processing procedures of statistical data.

## **RESULTS AND DISCUSSIONS**

For the Republic of Moldova, on the background of an excessive surplus of activities, especially based on providing services, agriculture still remains the main branch of the national economy. That is why the state pays a special attention to this sector, which has the major assistance from both state budgets as well as from development partners. From year to year, it is registered an increase of investment in the agro-industrial sector. This fact is due to favorable climatic conditions for practicing these types of activities in our country, but also due to the population growth on the global level, including reducing the areas of land with crops, fact which can lead to worsening of global food crisis.

The existence of an intervention and subsidized mechanism of agricultural sector is one of the catalysts for increased investment in this sector, subsidizing policy based on well-defined problems, objectives and concrete actions make the subsidized system, under limited financial means to be an appreciated one.

In modern economies tends to economy models of social market characterized by intervention of public administration in specific fields (social security, training, environment, agriculture etc.). Developed countries protect

agriculture from political and economic reasons.

In all countries with market economies, the state directly and indirectly supports agriculture. The differences reside in nature and mechanisms of distribution of subsidies. Modern agriculture cannot be developed neither based on naive liberalism, nor by a way of certain interventionism and systematic and rigid protectionism from state.

Forms of assistance are highly diversified in time and space and are changing depending on evolution of supply-demand report on national and international markets. Choosing forms of assistance and protection of agriculture requires imagination and innovation and this is done differently from country to country, depending on its agrarian policies approved by them.

Subsidies hold the largest share within the economic costs performed by the state and represents the main manifestation form of its direct financial assistance granted to certain enterprises and activity sectors. They have not only financial role (coverage of certain expenses), but also an important instrument of state economic policy.

Agriculture is the activity that mostly is carried out outdoors. Since the destructive natural phenomena are more frequent, farmers frequently ensures their plantations or animals. In fact they ensure welfare of their tomorrow business which they have today. Analysis of statistical data shows that only one percent of all farmers from Moldova ensure their crops and animals.

In the last years is feeling a flare of negative impact of natural disasters on crops. For instance, in 2012 was marked by a strong drought that caused Moldovan agriculture losses of over 2 billion MDL and 2013 was highlighted by heavy rain and hail storms. International meteorological services and scientists from the field forecast an increase in negative effects on different fields of human life, especially on agriculture (Annual Report, AIPA, 2014).

The amount of insurance premium subsidy is 60 percent for ensuring multiannual plantations, sugar beet and vegetables and 50 percent for ensuring other crops and livestock. Government Judgment no. 152 from 26/02/2013 "On approval of allocation way of

means of subsidizing fund for farmers for 2013” stipulates that was accepted the allocation of means of subsidizing fund for farmers in the amount of 400 million MDL for a range of support measures, including the ensuring enhancement of agricultural production risk. The subsidized insurance in agriculture shall be realized in accordance with the Law No. 243-XV as of July 08, 2004 “On subsidized insurance of production risks in agriculture”, according to which the farmers benefit of subsidizing premiums insurance if they registered at the town hall crops, as well as animals, birds, bees and fish families belonging to them and those who maintain crops, livestock, birds, bees families and producing fish according to approved technologies, take measures to prevent disease and pest attack and keep records of performed work. Supporting farmers from the Republic of Moldova within the measure “Stimulation of ensuring risks production in agriculture” in 2011 -2014 is presented in the following table.

Table 1. Stimulation of ensuring risk production in agriculture in 2011-2014

Year	Contracts approved for compensation	The amount of paid compensation, million MDL	Total subsidies for agriculture	The measurement share in total subsidies, %
2011	164	14.61	215.4	6.78
2012	266	27.81	399.8	6.95
2013	78	41.29	455	9.07
2014	107	29.36	564.7	5.20

The data of Table 1 indicate a decrease in the number of contracts, and also of certain paid compensation. Compared to 2014 the share of subsidies granted for ensuring risks decreased from 9.1% to 5.2, which is due to the refusal from insurer’s side to ensure these types of risks.

The means provided for this measure shall be used to subsidize premiums insurance to farmers based on contracts of insurance of production risks in agriculture and based on List of risks for which insurance is subsidized premiums insurance from subsidizing fund of farmers in cultivation, horticulture, viticulture and zootechnics (hail, storms, drought, excessive) and List of crops and animals and birds species for which insurance is subsidized

premiums insurance from subsidizing fund of farmers (sugar beet, sunflower, corn, etc.). In 2013 only 4 insurance companies have performed subsidized insurance activity of production risk in agriculture. According to data of 4 insurance companies accredited to perform activity in this field, in 2013 were concluded 221 subsidized insurance contracts of production risks in agriculture with the amount of paid compensation of 12322.4 million MDL, Table 2 (Annual Report National Commission for Financial Markets, 2013).

Table 2. Stimulation of insurance mechanism of risk in agriculture

Insurance company	Number of beneficiary		The required amount, million MDL		The authorized amount, million MDL	
	2013	2014	2013	2014	2013	2014
Moldcargo	89	93	5043.6	5022.6	5043.58	4887.55
Garanție	62	55	3868.8	2493.86	3789.51	2243.10
Klassika Asigurări	11	16	270.84	196.81	270.84	196.81
Moldasig	59	52	3225.7	23359.63	3218.43	21435.97
Asterra Grup	n/d	8	n/d	306.99	n/d	306.99
Galas	n/d	1	n/d	146.02	n/d	146.02
Acord Grup	n/d	4	n/d	158.88	n/d	146.28
<b>TOTAL</b>	<b>221</b>	<b>229</b>	<b>12409.0</b>	<b>31684.8</b>	<b>12322.4</b>	<b>29362.7</b>

In 2014 the authorized amount for compensating farmers affected by agricultural risks was increased more than 2 times, constituting about 29.4 million MDL, and the number of contracts was increased by 8. Cumulative value of written gross premiums was 91.0 million MDL, registering an increase of 16.5 million MDL compared to value registered in previous year (Table 3).

Table 3. Written gross premiums and paid compensation for subsidized insurance of production risks in agriculture on insurance items in 2013, million MDL

Ensured items	Total insurance premiums, million MDL	Including paid by		Share in total of collection, %	Insurance paid compensation, million MDL	Share in total of compensation, %
		Farmer	State			
Harvest	30.3	12.1	18.2	33.3	13.1	47.8
Plantations	59.0	23.6	35.4	64.9	13.9	50.8
Animals	1.7	0.85	0.85	1.83	0.4	1.34
<b>TOTAL</b>	<b>91.0</b>	<b>36.6</b>	<b>54.5</b>	<b>100.0</b>	<b>27.4</b>	<b>100.0</b>

Subsidies allocated to the payment of insurance premiums constituted 54.5 million MDL or 11.8 million MDL more compared to 2012, registering an increase of farmers interest for such type of insurance. Also, agricultural

insurance potential in the Republic of Moldova remains untapped; areas covered by insurance are only 3.3 percent of total agricultural land. Insurance compensation was 27.4 million MDL and decreased with 3.6 times compared to previous year. Evolution of premiums and paid compensations are represented in Figure 1.

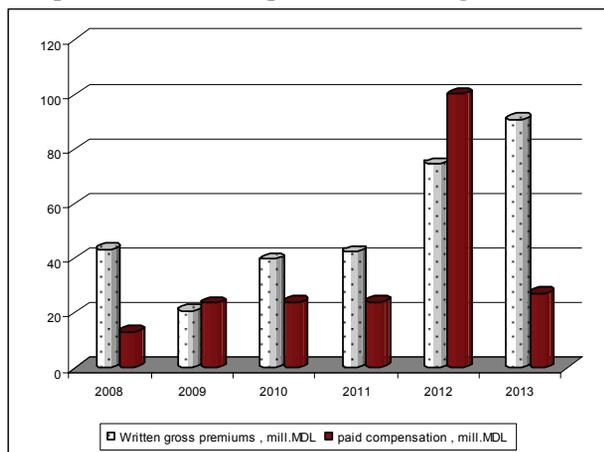


Figure 1. Written gross premiums and paid compensation for subsidized insurance of production risks in agriculture 2008-2013, million MDL

The structure of written gross premiums and paid compensation for subsidized insurance (of risk for which insurance is subsidized from subsidizing fund of farmers in 2013) on types of risks, presented in Figure 2, shows the following (Annual Report National Commission for Financial Markets, 2013):

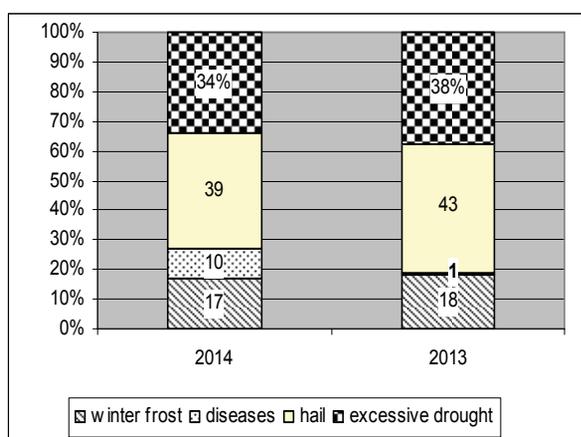


Figure 2. The most frequent agricultural risks insured by farmers

- For risk “hail” written insurance premium was 37.4 million MDL and paid compensation - 17.9 mil. MDL, compensation rate was 47.9 percent;
- For risk “winter frost” written insurance premium was 14.1 million MDL and paid

compensation - 0.3 million MDL, compensation rate was 2.1 percent;

- For risk “spring frosts” written insurance premium was 22.4 million MDL, paid compensation to be equal to zero;
- For risk “excessive drought” written insurance premium was 14.8 million MDL and paid compensation - 8.7 million MDL, compensation rate was 58.78 percent;
- For risks included in category “other” written insurance premium was 2.3 million MDL and paid compensation - 0.5 million MDL, compensation rate was 21.74 percent.

## CONCLUSIONS

Farmer’s subsidy is part of financial framework coming to realize agricultural policies on national level.

Thus, agricultural subsidies shall contribute to capitalization and increasing competitiveness in agriculture sector and ensuring connections between them and rural development: population employment, maintaining subsistence farm income and their transition to producing farms, micro and small business development in rural areas, population migration.

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