Moldova PUBLIC EXPENDITURE REVIEW: AGRICULTURE
Public support to agriculture is higher than 2% of GDP

- Moldova spends on agriculture more than other countries at the same level of development.
- Overall public support to agriculture includes direct spending and tax expenditures.

Public support: 2% of GDP in 2013

- Direct budget spending (1.4% GDP)
- Tax expenditures (0.63% GDP)
• Agricultural expenditures have 3 major components: SUBSIDIES, SERVICES and DONOR PROGRAMS.

• The structure of the budget reflects the three main pillars of the National Strategy for Agriculture and is well aligned with Government priorities for the sector.

• All large donor programs are included in the public budget.

• Composition of Ag Budget, 2009-2013
• Subsidies structure has improved significantly over the past years with over 90% directed to investment purposes and increasingly serving the introduction of new technologies.

• The remaining recurrent subsidies – accounting for less than 10% of the subsidy budget – are not very costly but not very effective either. They exhibit low efficiency and no long-term impact for the sector. Fraudulent practices are reported in the delivery of the risk insurance program.

• One major problem valid for all subsidies is the small inclusion of small and medium farmers in the current subsidy programs.

• **Distribution of Investment Subsidies, 2012-2014 (million USD)**

<table>
<thead>
<tr>
<th>Year</th>
<th>M3</th>
<th>M4</th>
<th>M5</th>
<th>M6</th>
<th>M7</th>
<th>M8</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>6.7</td>
<td>3.6</td>
<td>8.4</td>
<td>3.4</td>
<td>3.4</td>
<td>10.1</td>
</tr>
<tr>
<td>2013</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2014</td>
<td></td>
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</table>
• The core public agricultural services are present in Moldova to serve the private sector of farmers BUT

• The effectiveness of most services is questionable due to a series of deep-rooted structural inefficiencies in the existing systems.

• Comprehensive frameworks assessing the performance and impact of agri institutions are largely missing.

**SERVICES – 36% of total ag budget**

<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage (2009-2013)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ag education</td>
<td>31%</td>
</tr>
<tr>
<td>Ag research</td>
<td>16%</td>
</tr>
<tr>
<td>Plant Variety Testing</td>
<td>2%</td>
</tr>
<tr>
<td>Anti-hail Service</td>
<td>12%</td>
</tr>
<tr>
<td>Irrigation</td>
<td>5%</td>
</tr>
<tr>
<td>Food Safety</td>
<td>29%</td>
</tr>
<tr>
<td>Advisory Service</td>
<td>3%</td>
</tr>
<tr>
<td>Agriculture Advisory Service</td>
<td>3%</td>
</tr>
<tr>
<td>Food Safety, Anti-hail Service</td>
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<td>Ag education, Ag research</td>
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</tbody>
</table>

**Composition of Agricultural Services**, avg. 2009-2013 (% of total)
Three types of Government action on current programs could significantly improve direct spending in agriculture: *reduce*, *redesign* or *increase* the funding.

• **Reduce/Discontinue**: (i) reduce the large subsidy programs by narrowing down their scope; (ii) discontinue ‘old’ subsidy programs; (iii) reduce subsidy rates and subsidy caps; (iv) phase out the suspect insurance program and the anti-hail program.

• **Redesign/Reform**: key services such as Research, Education, Irrigation, Plant Testing - require structural reforms and/or revisions of their roles to better serve the needs of the private sector.

• **More funding**: (i) modern risk management programs/subsidies; (ii) smart subsidies aimed at promoting use of innovative technologies; (iii) extension service to increase its coverage and competencies.
Fiscal cost of tax expenditures is non-negligible

<table>
<thead>
<tr>
<th>Taxes and Contributions</th>
<th>Tax Expenditure, % of GDP</th>
<th>% of total taxes from Agriculture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduced CIT rate</td>
<td>0.07</td>
<td>59.0</td>
</tr>
<tr>
<td>Reduced VAT rate</td>
<td>0.50</td>
<td>9.7</td>
</tr>
<tr>
<td>Reduced Social Security rate</td>
<td>0.05</td>
<td>6.1</td>
</tr>
<tr>
<td>Reduced Health contribution rate</td>
<td>0.01</td>
<td>1.2</td>
</tr>
<tr>
<td>Total</td>
<td>0.63</td>
<td>63.0</td>
</tr>
</tbody>
</table>

- TE is over 0.6 % of GDP, sizable compared to both taxes collected from agriculture and public spending on the sector. (60 % of the tax collected in agriculture and about 40% of direct spending on agriculture)
- Agriculture is one of the least taxed sectors in the economy. Taxes collected from agriculture amounted to 0.8% of GDP.
What Might be Changed?

Revamp incentives to invest in agriculture:
- Increase the CIT rate for agricultural enterprises to the standard 12 percent
- Remove the VAT exemption for agricultural machinery
- Reconsider current tax incentives for private pension savings

Incentivize better use of land:
- Abolish or ease the restriction on land acquisition by foreigners
- Continue effective valuation of land and property and adopt value-based taxation of property
- Introduce a special tax on uncultivated land

Provide income support to the poorest farmers:
- Introduce a presumptive turnover-based tax
- Consider removing the reduction in the SSC rate for farmers
- Re-introduce a unified VAT rate for agriculture products combined with compensation for low-income households.