

ECONOMIC GROWTH OF THE AGRARIAN SECTOR AND IMPROVEMENT OF LIVING STANDARD IN THE REPUBLIC OF MOLDOVA IN THE CONTEXT OF THE SUBSIDY PROCESS

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Abstract

The Republic of Moldova is a country deeply dependent on agriculture holding sub-branches with most tangential areas, encompassing the economic and social sphere and defining the way of life in rural areas and the standard of living of the population. Subsidizing agriculture is one of the main mechanisms through which the state can promote its policies in this sector. The aim of this paper is to analyze the subsidy process and its impact on the economic growth of the agricultural sector. The research was carried out based on data provided by the Agricultural Intervention and Payments Agency and the National Bureau of Statistics. Several methods were used in this paper such as: comparison, average and relative magnitudes method, graphical and tabular, logical and synthetic analysis. Based on the results obtained, it was found that the impact of the subsidy process in the agricultural sector is positive, because through it, the state sends a clear message to agricultural producers regarding the priority directions of investment, which generating increased profits will result in an increase in the quality of life of the population.

Key words: agriculture, quality of life, economic growth, agricultural producers, subsidies

INTRODUCTION

Agriculture in the Republic of Moldova is a sector of the economy that is as much in demand as it is sensitive. Intensive work is being done at institutional and business level to reduce the effects affecting the expansion of this sector.

Bearing in mind that approximately one third of the population works in the agricultural sector, we conclude that agriculture is important for the socio-economic development of the country.

In all developed countries, subsidies are a considerable source of coverage of expenditure on agricultural production. This source is an important element in stimulating the development of agricultural production in all the countries, including in Republic of Moldova [6, 7, 24].

Financial support enables agriculture in its way to a sustainable development [18, 19, 20, 21] and implicitly, it also could contribute to the improvement of living standard and life quality [25].

Thus, in the Republic of Moldova, in 2010, by Government Decision no. 60/2010, the Agency for Intervention and Payments for Agriculture (hereinafter - AIPA) was created as an administrative body, subordinated to the Ministry of Agriculture and Food Industry, responsible for managing financial resources intended to support agricultural producers, monitoring their distribution and quantitative and qualitative evaluation of the impact generated by the measures of support to farmers by the state [14].

At the moment, AIPA is a public institution operating under Government Decision no. 20/2019, which is intended to manage the resources of the National Fund for the Development of Agriculture and Rural Environment (hereinafter FNDAMR), as well as the resources of development partners allocated for administration and to implement intervention measures for the agricultural sector.

The implementation of its mission focuses on the following areas of activity: ensuring the correct and legal conduct of operations for the management of funds allocated to support

agricultural producers; controlling the use of funds allocated to beneficiaries; participating in the development of the directions subject to subsidy; continuous monitoring of compliance with eligibility criteria and contractual conditions for granting non-reimbursable financial aid by grant recipients; information, communication, presentation of innovations occurring in the process of activity [3].

Currently, the subsidy policy in the Republic of Moldova is regulated by the National Agricultural and Rural Development Strategy for 2014-2020 [13] and the Law No. 276/2016 on the principles of subsidy in the development of agriculture and rural environment [16], which provides for the improvement of the subsidy system for agricultural producers in the Republic of Moldova and its adjustment to European best practices [1].

Efficient allocation of subsidies to agricultural producers is a precondition for sustainable development of agriculture and technological modernization of entities in transition economies, such as the Republic of Moldova. Thus, increasing the efficiency of subsidy allocation is a key issue in the context of sustainable development of the agricultural sector. To this end, the state has proposed to develop agricultural policy by increasing financial allocations and granting subsidies to agricultural producers. Granting subsidies is an effective lever both for attracting investment in agriculture and for developing the sector [2].

The State, by Government Decision No 455/2017, provides for the distribution of the National Fund for Agricultural and Rural Development. This Regulation lays down the support measures, as well as the conditions, order and procedure for granting funds from the Fund, including the mandatory conditions required to obtain funds, eligibility criteria, the annual, maximum amount of financial support allocated, the procedures for receiving, inspecting, authorizing, accounting for payments.

The Fund means shall be used within the limits of the allocations approved annually by the State Budget Law, in accordance with the provisions of the Law on the principles of

subsidizing agricultural producers and the provisions of this Regulation, which is valid for the period 2017-2022 [12].

At present AIPA implements three ways of subsidy from the National Fund for Development of Agriculture and Rural Environment, namely: Post-investment subsidies, provided for in Government Decision 455/2017 on the method of distribution of funds from the National Fund for the Development of Agriculture and Rural Environment [12], advance subsidies, approved by Government Decision 507/2018 approving the Regulation on the conditions and procedure for granting advance subsidies for start-up projects from the National Fund for the Development of Agriculture and Rural Environment [11] and direct payments, found in Government Decision 836/2020 approving the Regulation on the granting of direct payments per animal head [3].

Post-investment subsidies are non-reimbursable and non-taxable financial support granted from the National Fund for the Development of Agriculture and the Rural Environment to support investments made in the development of agriculture and the rural environment and which meet the eligibility criteria set out in the regulatory framework and, advance subsidies are non-reimbursable and non-taxable financial support granted from the said Fund, to be implemented by young and women farmers who start up projects for the first time in economic activity or in the development of rural localities and who meet the eligibility criteria set out in the regulatory framework [1].

MATERIALS AND METHODS

In this paper the research was carried out based on data provided by the Agency for Intervention and Payments in Agriculture and the National Bureau of Statistics.

Several methods were used to analyze the current status and efficiency of subsidy allocation such as: comparison, average and relative size method, graphical and tabular, logical and synthetic analysis. The period analyzed is the years 2020- 2021, using such indicators as: the volume of agricultural

subsidies allocated and their impact on overall agricultural production.

RESULTS AND DISCUSSIONS

According to the author Goian I. "business or entrepreneurship is the economic activity of market agents who take financial risks and who are registered in the established way, oriented towards the systematic achievement of profit through the use of goods or the provision of services" [8].

The stimulation of entrepreneurship in agriculture by the state requires the facilitation of the creation of a competitive sector, the clear separation of rural and social measures from agricultural policy measures and instruments, which would create a framework conducive to stimulating efficiency and competitiveness in the agrifood sector [23].

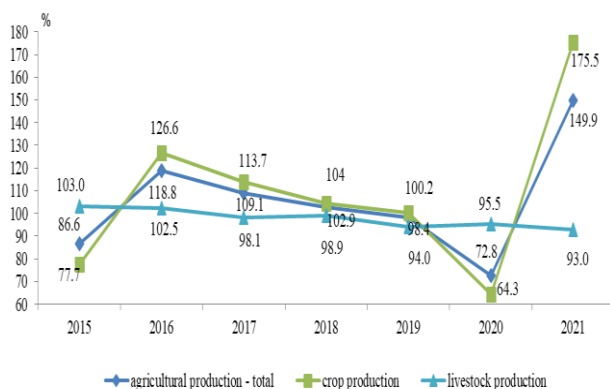


Fig. 1. Dynamics of annual indices of agricultural production volume in households of all categories in 2015-2021.

Source: Based on data provided by the National Bureau of Statistics [17].

According to the data of the National Bureau of Statistics, it is noted that the overall agricultural production in households of all categories (agricultural enterprises, peasant (farmer) households and population households) in 2021, according to preliminary estimates, increased by about 49.9% (in comparable prices) compared to 2020 (against the background of the reduction of the indicator in question in 2020 compared to 2019 by 27.2%). The increase in overall agricultural production was driven by the increase in crop production by 75.5%. In 2021

the share of crop production in total agricultural production was 81% (in 2020 - 69%), while animal production was 19% (in 2020 - 31%) (Figure 1) [17].

In the context of the above, it is understood that the modernization of the agro-industrial sector and the development of rural localities is ensured by setting the following priorities:

- I. increasing the competitiveness of the agro-industrial sector through modernization and market restructuring;
- II. ensuring sustainable management of natural resources in agriculture;
- III. improving the standard of living in rural areas.

By allocating financial means from the National Fund for Agriculture and Rural Development, the following objectives are to be achieved:

- to increase the competitiveness and productivity of the agro-industrial sector;
- to encourage investment in the agro-industrial sector by creating rural infrastructure and modernising the material base of the agri-food sector;
- creating new jobs for the rural population;
- stimulating growth in high value-added production;
- equipping agricultural entities with high-performance agricultural machinery and equipment;
- establishing multiannual plantations;
- development of services in agriculture [2].

Drawing up priority directions, one of them was efficient agricultural activities in the plant and animal sector. In order to increase productivity and competitiveness in agriculture, stabilize the market, ensure food security and a fair income for farmers, direct payments were to be granted according to the agricultural crop, animal and poultry species, the average individual yield in case of correspondence with the regional one, as well as according to the actual area or the number of animals on the holding [5].

According to AIPA estimates, in 2021 the FNDAMR amounted to 1,100 million lei, subsequently increased to the amount of 1,535.0 million lei, increasing by 27.9% compared to the financial means allocated at

the beginning of 2021. FNDAMR was executed as follows:

- State contribution to the National Wine Fund - 26.1 million lei;
 - commitments to agricultural producers who made investments in 2020 but did not receive subsidies due to the exhaustion of FNDAMR - 764.8 million lei;
 - advance subsidies for young and women farmers for the development of start-up projects - 11.1 million lei;
 - advance grants for the implementation of rural development measures - 56.5 million lei;
 - direct payments per animal - 105,8 million lei;
 - post-investment subsidy to agricultural producers based on applications received in 2021 - 480.1 million lei;
 - drought compensation - 2.0 million lei,
- graphically represented as follows in Figure 2. According to Timofti E., "the objective of integrating the Republic of Moldova into the European economic system, as a competitive partner, requires a change in the conditions of activity of agricultural units with various forms of ownership and legal forms of organization, which requires a new approach to research. The results of this research should not only determine the changes in the dynamics of enterprise development, the links between phenomena, but also serve as a basis for making important decisions in the field of forecasting the development of the agricultural sector" [22].

Despite the fact that in 2020 agricultural producers suffered losses due to natural disasters, the amount of subsidies claimed by agricultural producers in 2021 compared to the amount of subsidy claimed in 2020 increased by 132.7 million lei. From the financial sources of FNDAMR for 2021, AIPA paid as post-investment subsidies 1244.9 million lei or 81.1% of the fund's value.

As a result of the subsidies applied for this year, it was possible to attract investments in the agro-industrial sector and related branches of this sector of about 4.5 billion lei. The investments made by grant applicants have created 1,334 new jobs, of which 651 seasonal jobs. The distribution of the fund by support

measures/sub-measures is shown in Table 1 [2].

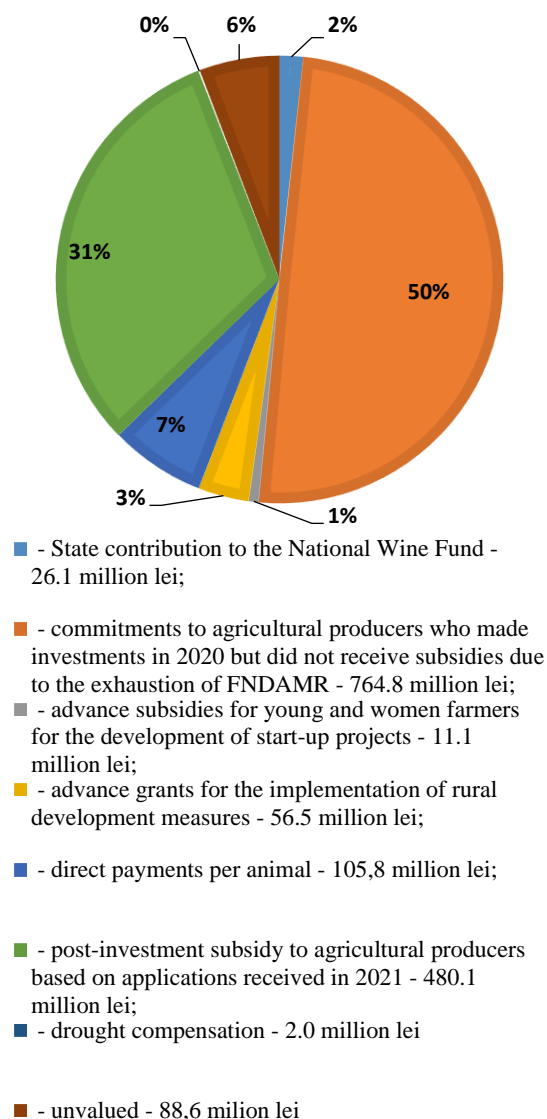


Fig. 2. Use of financial means allocated to FNDAMR in 2021
Source: According to AIPA estimates [2].

The state, through Law No. 179/2016 on small and medium-sized enterprises, aims to promote the sustainable development of micro, small and medium-sized enterprises by improving the legal framework and the economic environment in which they are created and operate [15]. Thus, the AIPA, depending on the average annual number of employees, annual turnover or total assets they own, classifies grant applicants as micro, small or medium-sized enterprises.

Table 1. Number of files received/authorized by AIPA and amounts requested/authorized from NAMRF funds in 2021

Areas and forms of support	No. of dossiers received	Amount of grant requested, MDL million	No. of dossiers paid	Amount of grant paid, MDL million	Share of financial sources by area, %
Priority I. Increasing the competitiveness of the agri-food sector through restructuring and modernization					87.13
Production of vegetables and fruit on protected land	135	19.05	65	8.05	1.41
Stimulating investments for the establishment, modernisation and clearing of multiannual plantations	883	180.21	463	61.83	13.36
Stimulating investments for the purchase of agricultural machinery and equipment	2,414	297.38	1,278	154.23	22.05
Stimulating investment in equipment and technological renovation of livestock farms	234	76.75	84	10.86	5.69
Stimulating the purchase of breeding animals and maintaining their gene pool	57	22.8	21	12.97	1.69
Stimulating investment for the development of post-harvest and processing infrastructure	667	369.95	230	90.17	27.43
Lending to agricultural producers	2,775	157.21	531	38.69	11.66
Agricultural risk insurance	463	47.41	420	41.3	3.52
Stimulating the establishment and operation of agricultural producer groups	14	4.12	11	1.77	0.31
Stimulating promotion activities on external markets	7	0.31	2	0.03	0.02
Priority II. Ensuring sustainable management of natural resources					9.20
Stimulating investment in the purchase of irrigation equipment	353	75.42	167	24.23	5.59
Stimulating agricultural producers to compensate irrigation expenses	21	2.46	0	0	0.18
Stimulating investment in purchasing No-Till and Mini-Till equipment	261	38.78	133	19.17	2.88
Promotion and development of organic farming	59	7.48	11	1.25	0.55
Priority III. Increasing investment in physical and service infrastructure in rural areas, including infrastructure related to off-farm businesses					3.66
Improving and developing rural infrastructure	165	48.47	51	15.62	3.59
Advisory services and training	14	0.93	0	0	0.07
TOTAL subsidies requested in 2021	8,522.00	1,348.73	3,467.00	480.17	100.00

Source: AIPA ESBS as at 31 December 2021.

Note: From the amount of FNDAMR for the year 2021, in addition to the 3467 applications for financial support received in 2021, 5,356 applications for grants in the amount of 763.1 million lei were paid, which remained without financial coverage due to the exhaustion of the fund's means in 2020 [2].

In this sense, a small enterprise has from 10 to 49 employees, has an annual turnover of up to MDL 25 million or has total assets of up to MDL 25 million. Of the total number of subsidy applications, the number of small agricultural producers is on the rise, in 2021, they constitute 63% or 2,910 producers and applied for subsidy, amounting to 506.1 million MDL or 37.5% of the total amount of subsidy applications (Fig. 3).

In the context of AIPA reporting, it can be seen that medium-sized agricultural producers

play a secondary role. In 2021, 1,337 agricultural producers applied for subsidies, which constitutes 29% of the total number of applicants, in the total amount of 543.2 million lei or 40.3% of the total amount of subsidy applications. Their number, compared to 2020, also increased by 93 producers.

In insignificant increase are also large agricultural producers. Thus, in 2021, the number of large agricultural producers constituted 7.8%, increasing compared to 2020 by 1.7% or 6 entities. The 361 large

agricultural producers applied for subsidy in 2021 in the total amount of 299.3 million lei or 22.2% of the total amount of subsidy applications [2].

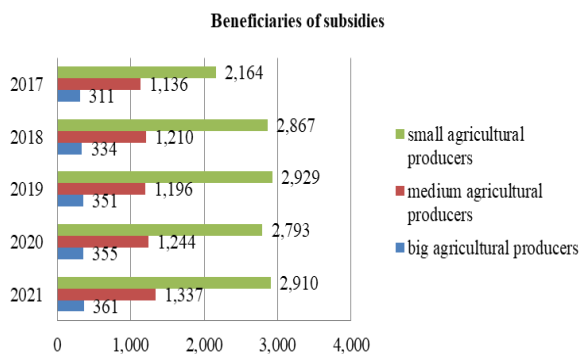


Fig. 3 Classification of subsidy beneficiaries according to the provisions of Law no. 276/2016

Source: AIPA's ESBS as of 31 December 2021 [2, 16].

At the same time, recently, the State, in the context of the implementation of the Government Decision No 476/2019 for the approval of the Regulation on the granting of subsidies for improving the living and working standards in rural areas from the National Fund for the Development of Agriculture and Rural Environment, annually, from the amount of the National Fund for the Development of Agriculture and Rural Environment, for each measure has directed up to 5% or 55 million lei for the granting of subsidies in advance. Thus, for the first time, in 2020, advance subsidies for improving living and working standards in rural areas have been allocated from the FNDAMR sources. The financial sources are directed towards the implementation of projects for the development of local infrastructure, as well as the diversification of non-agricultural activities and the subjects of the advance grants are both local public authorities and economic entities with a non-agricultural profile [10].

Thus from what AIPA reports, we can see that access/application for subsidies by agricultural producers is increasing. In 2021, the most investments were made by small and medium agricultural producers who will access 77.8% of the value of subsidies received. Similar situation is observed in the

subsidies accessed by small and medium agricultural producers in 2019 -2020, when medium agricultural producers accessed 42.0% and small agricultural producers accessed 40% of the value of subsidies accessed by all subsidy recipients (Fig. 4).

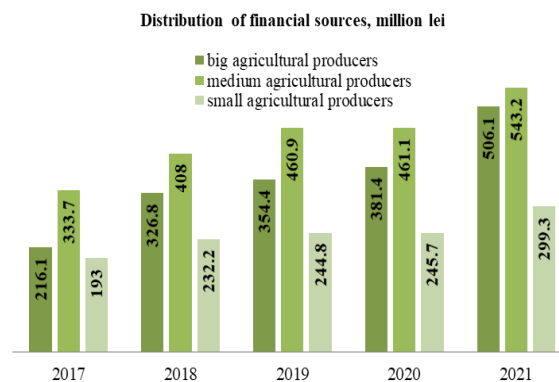


Fig. 4. Subsidies claimed by agricultural producers in 2021

Source: AIPA's ESBS as at 31 December 2021 [2].

Experts from the Food and Agriculture Organization of the United Nations (FAO) have assessed the effectiveness of subsidy activities in agriculture and rural areas. The study was based on a survey of about 200 farmers who received cash support in 2017-2018.

Thus, the authors argue that the majority of farmers surveyed are willing to invest their own financial resources and are not limited by credit constraints.

Similarly, according to the survey, the following categories of farmers are prolific:

- small-scale producers (19.9%);
- female producers (18.1%);
- producers aged between 40 and 49 (25.9%);
- members of associations (14%);
- those who invested in the measure "Stimulating investments for fruit and vegetable production on protected land (winter greenhouses, solariums, tunnels) in 2017" (40.2%) and in the measure "Stimulating investments for equipment and technological renovation of livestock farms in 2018" (23.6%);
- holders of quality certificates (29%).

At the same time, according to the data in the report, the state investments were effective, as the surveyed beneficiaries performed better in

terms of profit which increased by 51.25%, i.e. from 209 million lei in 2016 (before investments) to 317 million lei in 2019 (after investments).

Other indicators highlighted in the survey are:

- Labour productivity increased by 20% from 2016 to 2019;

- household mechanisation has advanced by 30%;

- land under cultivation increased by 7%;

- productivity (tonnes/hectare) of main products has exceeded 14%;

- quality certificates generate positive effects for agricultural producers;

- business plan deadlines are met at a level of 83% in the population average, etc.

On the basis of the questionnaire, FAO experts have developed a monitoring tool to enable AIPA to assess the effects of the subsidy policy in the short term [4].

CONCLUSIONS

In recent years, AIPA has achieved positive results in ensuring transparency by providing comprehensive information on the management of financial resources allocated from the fund for subsidising agricultural producers and providing public interest information on the lists of agricultural producers - beneficiaries of subsidies. Similarly, the agency has ensured consultation and participation of representatives of the business community and civil society, other social partners in the design, development and implementation of public policies.

The trend of increasing the value of the FNDAMR from 1,100 million lei at the beginning of 2021 to 1,535 million lei by the end of the same year in 2020 is observed. As a result, new jobs are created and investments in the agro-industrial sector and its related branches are increased.

Approximately 78% of the FNDAMR sources are accessed by small and medium agricultural producers investing in the development of agriculture and rural environment, and 87% of the FNDAMR value is absorbed by priority I "Increasing the competitiveness of the agri-food sector through restructuring and modernization" of

the National Strategy for Agricultural and Rural Development.

It is certain that for all sub-measures for post-investment subsidy, there was an increase in the number of applications submitted in the 2021 grant year compared to the 2020 grant year, i.e. the FNDAMR was 94.2% utilized in 2021.

Payments to farmers are authorized late due to the exhaustion of financial sources from the FNDAMR but also due to insufficient staff working in the Agency, thus causing great losses to beneficiaries.

It would be advisable to digitize by linking information systems with other competent institutions, being directly oriented towards facilitating the process of submitting grant applications.

In order to increase productivity and competitiveness in agriculture, stabilize the market, ensure food security and a fair income for farmers, it makes sense to grant direct payments according to the agricultural crop, animal and poultry species, the average individual yield if it corresponds to the regional one, and the actual area or livestock owned;

Quantitative and qualitative assessment of the impact of subsidies on the development of the agri-food sector, using a wider range of indicators, shows and illustrates the real effect of financial support from the state, which is reflected in increased productivity, production volume, sales revenue, value of exported production, new jobs, appearance of production and subsequently in a positive influence on the standard of living and an increase in the quality of life of the population.

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