

## PERFORMANCE AUDIT REGARDING THE MANAGEMENT OF AGRICULTURAL SUBSIDY FUNDS

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### **Abstract**

*This paper studied the performance audit regarding the management of the agricultural sector subsidy funds in order to determine to what extent the actions undertaken boosted the agricultural development process in the Republic of Moldova. The analysis revealed that the activity of subsidizing agriculture is primarily aimed at increasing competitiveness and the sustainable development of the agri-food sector. This situation leads to the modernization of the agri-food chain, facilitating access to capital markets for agricultural producers, adapting to climate changes and mitigating their effects on agricultural production, increasing rural employment opportunities, developing agricultural businesses, etc. The data on the subsidy activity were taken from the database of the Agency for Intervention and Payments for Agriculture from the Republic of Moldova, which is responsible for managing the subsidy fund. The results of the study highlight a fairly efficient management of financial means for subsidizing the national agricultural sector.*

**Key words:** *audit, competitiveness, sustainable development, investment, performance, subsidy*

### **INTRODUCTION**

Agriculture is the determining sector of the Republic of Moldova, with most related fields (economic, social, cultural); it defines the way of life in the countryside and the standard of living of the rural population. In this context, the need to support the agricultural sector is urgent.

The most important mechanism for supporting the agricultural sector in the Republic of Moldova is subsidy. Granting subsidies is an effective tool for attracting investments in agriculture, which strengthens the development capacities of this sector.

Currently, the policy of subsidizing the agricultural sector is regulated by the Law on Subsidization in Agriculture and the Rural Areas, which establishes the general principles of state policies to encourage and boost agricultural activities and the development of the rural environment, the conditions for the distribution of financial means, as well as adjusting the subsidy procedure to European practices.

The sustainable development of the agricultural sector can be ensured by achieving the following objectives: increasing the competitiveness and sustainable development of the agricultural sector; ensuring the sustainable management of natural resources; sustainable rural socioeconomic development [8].

Considering the importance of the agricultural sector for the national economy, the improvement of the agricultural subsidy system is in the permanent sights of the state, its efficiency representing an important tool in order to promote economic growth and reduce poverty in rural areas. During the last years, a more complex and multidimensional approach to this system has been tried in order to identify an optimal mechanism for selecting the directions for allocating subsidies.

Thus, at the initial stage of subsidization, the support areas were oriented towards credit stimulation, the creation of technological stations of machines and the subsidization of agricultural works. Since 2006, they have extended to the establishment of fruit

plantations, the support of the animal husbandry sector, the subsidization of agricultural risk insurance, the support of the promotion and development of ecological agriculture, the stimulation of investments in the procurement of agricultural machinery and equipment, the compensation of the excise duty on diesel fuel, etc. From 2022, Local Action Groups from the Republic of Moldova can access subsidies for the implementation of the LEADER program, through which the creation of rural development opportunities is supported by identifying local needs, strengthening the development capacity of the economic environment and improving the organizational skills of local communities [7]. The financial means for subsidizing are allocated from the National Fund for the Development of Agriculture and the Rural Areas. This fund integrates all the budget means, including those from the development partners, intended to finance the financial support measures approved by the Government [2].

The value and structure of the National Fund for the Development of Agriculture and the Rural Areas is approved annually based on the provisions of the State Budget Law. Thus, in 2022, the fund constituted 1,500 million MDL, which was later increased by 17%, constituting 1,750 million MDL. For the year 2023, 1,500 million lei were also allocated [10].

The analysis of the subsidy directions indicates that the Government of the Republic of Moldova is oriented towards a series of support measures aimed at increasing investments in performing agricultural activities. Thus, in this work we will present the support measures for agricultural producers used by the Government in the period 2017-2022 from the subsidy fund, their characteristics and implications in the sustainable development of the agricultural sector. At the same time, the effectiveness of the performance regarding the management of the subsidy fund and its contribution to the fulfillment of the main objectives pursued within the subsidy policy was evaluated. In

this sense, the activities that benefited from financial support were examined.

## MATERIALS AND METHODS

The research on the topic of the paper mostly focused on the data of the Agency for Intervention and Payments in Agriculture (AIPA). The information presented by the Ministry of Agriculture and Food Industry and the National Bureau of Statistics was also consulted.

The study audited the use of the funding granted for the development of the agricultural sector in the period 2017-2022. The audit focused on the management of the subsidy fund and its contribution to the fulfillment of the main objectives pursued within the agricultural development policy. In this sense, the activities that benefited from financial support were examined, using the following methods and procedures: observation, comparison, descriptive analysis, tabular method, graphic method.

## RESULTS AND DISCUSSIONS

An important component of the agricultural sector development program is its subsidy. The subsidy represents the non-refundable and non-taxable payment, granted for increasing the competitiveness and sustainable development of the agricultural sector, ensuring the sustainable management of natural resources, sustainable socioeconomic development of the rural environment [8].

The subsidizing activity in agriculture is oriented towards the achievement of a series of objectives, based on the provisions of the Common Agricultural Policy (CAP) and aimed at supporting the increase in the productivity of agricultural production, ensuring a fair standard of living for the rural population, stabilizing markets and ensuring reasonable prices for consumers of agri-food products (Fig.1).

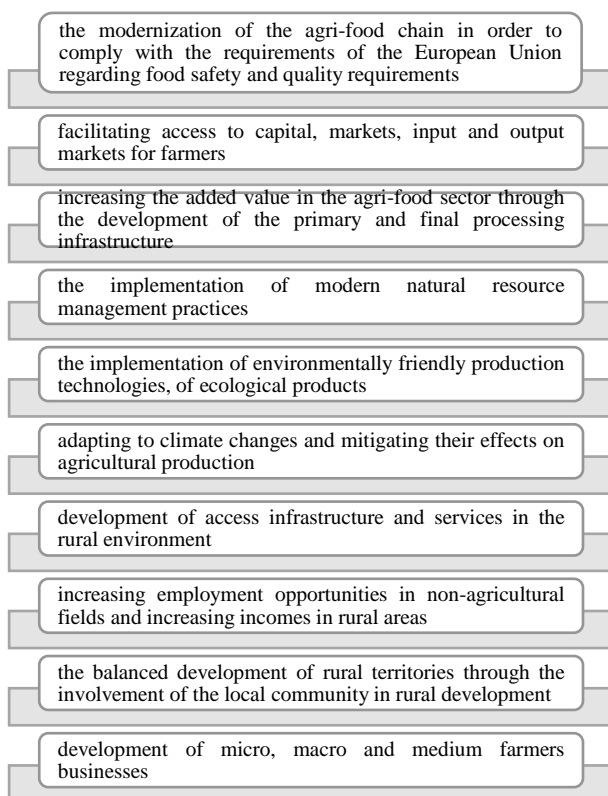


Fig. 1. The fundamental objectives of subsidizing the agricultural sector in the Republic of Moldova  
Source: based on data from the Guide of Common Agricultural Policy [5].

The identified subsidy objectives show us that the Government has a fundamental role in establishing and implementing support measures aimed at increasing the performance of agricultural activities. But, most of these interventions were based on the allocation of financial support with the absence of a long-term strategy. Financial aid was often offered to compensate for fuel price increases or to subsidize autumn plowing intended to give an expected immediate impact [4].

Following the audit of the subsidy measures, it can be found that, during the development of the subsidy process, they did not have a stable character, changing over the years as a field of action and as names. Starting from 2017, measures were established that more or less targeted the same field of action. Thus, in order to increase the competitiveness of the agri-food sector, two support measures are provided, in the composition of which several sub-measures are designated to stimulate

investments in various agricultural activities (Fig. 2).



Fig. 2. Financial measures to support investments made in order to increase the competitiveness of the agri-food sector  
Source: based on data from the Agency of Interventions and Payments in Agriculture [1].

Within the limits of the available data, further we will briefly analyze the situation for each submeasure.

### Management of the investment subsidy fund for the production of vegetables and fruits on protected land

One of the targeted measures provides for the subsidization of investments for the production of vegetables and fruits on protected land, in order to increase the productivity, quality and competitiveness of the respective sector. The support is granted for the partial compensation of the cost of new modules of greenhouses, solariums, tunnels, equipment and machinery, construction and covering materials (Table 1). In 2022, financial aid in the amount of 12.6 million MDL was requested for the construction and/or reconstruction of greenhouses, solariums and tunnels (33% less compared to 2021) for 115 investment objects. In fact, 5.8 million MDL were

authorized for payment (28.4% less than in 2021) for 55 investment objects. As a result, 499.6 ha of agricultural land intended for the production of fruits and vegetables on protected land were built and modernized, which is 2.3% less than the previous year. We observe a fluctuation of all indicators during the analyzed period, which is caused both by the amount of the subsidy fund and by the needs of agricultural producers.

Table 1. Subsidizing investments in the production of vegetables and fruits on protected land

Years	Financial aid				TOTAL	Area, ha				
	Investment objects	Amount, mil. MDL	Investment objects	Amount, mil. MDL		Winter greenhouses	Open field	Solariums	Tunnels	Mulching
2017	58	12.6	43	9.3	57.0	25.6	21.5	4.2	5.5	-
2018	92	11.3	89	10.9	112.6	33.0	46.4	10.3	1.0	21.9
2019	74	8.04	40	4.9	238.8	40.5	45.4	8.7	9.3	135.3
2020	12	11.9	35	3.3	764.0	473.2	57.4	9.5	3.1	221.0
2021	15	19.1	65	8.1	511.6	63.3	96.0	25.1	2.3	324.9
2022	11	12.6	55	5.8	499.6	31.7	42.5	7.8	35.3	382.3

Source: based on data from the Agency of Interventions and Payments in Agriculture [2].

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**Management of the investment subsidy fund for the establishment, modernization and clearing of perennial plantations**

The fundamental objective of this subsidy submeasure is to increase the productivity and

competitiveness of the fruit, grape, apple tree and aromatic crops production sectors, such as the oil rose, lavender, hyssop, yarrow. The financial aid is granted for the clearing of plantations with an expired exploitation term, the implementation of advanced technologies for the establishment and maintenance of plantations, increasing the quality of production in accordance with international standards, equipping perennial plantations with anti-hail, anti-rain and anti-freeze systems.

Within this submeasure, in 2022, 46.1 million MDL were allocated for subsidizing 345 investment items, which constitutes 37.5% of the total number of requests. Of these, 208 requests for financial aid were submitted for subsidy, in the amount of 43.9 million MDL for the establishment of 963.2 ha of fruit plantations; 98 investment projects, in the amount of 19.7 million MDL, for the establishment of 315.7 ha of wine plantations. The dynamic analysis shows a continuous reduction of the financial aid granted under this submeasure, although the number of requests is increasing (Fig. 3).

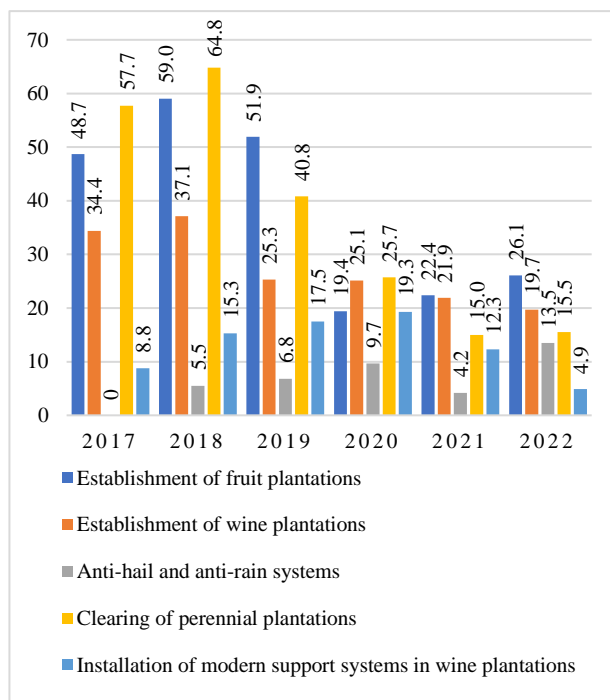


Fig. 3. The financial aid granted to stimulate investments in the establishment, modernization and clearing of perennial plantations, mil. MDL

Source: based on data from the Agency of Interventions and Payments in Agriculture [2].

### Management of the investment subsidy fund for the procurement of conventional agricultural machinery and equipment

By facilitating the access of agricultural producers to high-performance techniques and machinery, the productivity and competitiveness of the agricultural sector is increased. For this purpose, in 2022, 293.1 million MDL were disbursed to the account of agricultural producers, from which 4,097 units of agricultural machinery and equipment were purchased (Table 2).

Table 2. Financial aid granted for the procurement of conventional agricultural machinery and equipment

Years	Requests for financial support, applications submitted	Financial aid, mil. MDL	Purchased agricultural machinery and equipment, units
2017	2,073	222.0	3,921
2018	2,225	217.3	4,386
2019	2,054	211.8	3,628
2020	1,931	208.7	2,507
2021	2,414	297.4	3,938
2022	2,578	338.2	4,097

Source: based on data from the Agency of Interventions and Payments in Agriculture [2].

Starting from 2017 until 2020, the amount of financial aid granted for the procurement of conventional agricultural equipment and machinery shows a continuous decrease. In 2021, that amount increased by 42.5% compared to the previous year, after which in 2022 it shows a reduction by 1.4%.

We can mention that, for the year 2022, some changes related to this submeasure were made, which brought dissatisfaction among farmers in the country, especially those who bought large-capacity agricultural machinery. Thus, the beneficiaries of the financial aid were the farmers who purchased tractors with a capacity of up to 200 horsepower and combines with a power of up to 260 horsepower [6].

### Management of the investment subsidy fund for the use and technological renovation of animal farms

The livestock sector is an important branch of agriculture, having an important contribution to the formation of the agricultural GDP.

During the last years, various variations of the livestock have been recorded. Thus, the number of cattle increased in 2022 compared to 2017 by 42.6%, and of pigs – by 13%. The goat population showed a significant increase, increasing 5.3 times in 2022 compared to 2017.

At the same time, there is a reduction in the number of sheep by 2.1%, of horses – by 75%, of domestic rabbits – by 14.9%, of poultry – by 23.6% [15].

In the last 2-3 years, the activity of the animal husbandry sector has been negatively affected by multiple causes, in particular, the exorbitant increase in the price of energy resources, the increase in the price of fodder and their shortage, the increase in interest on loans. In order to stimulate the organization and technological modernization of livestock farms, the Government of the Republic of Moldova grants subsidies to offset the cost of new technological equipment purchased by farmers, provided that it has been fully paid for, including the construction or reconstruction of animal farms (Fig. 4).

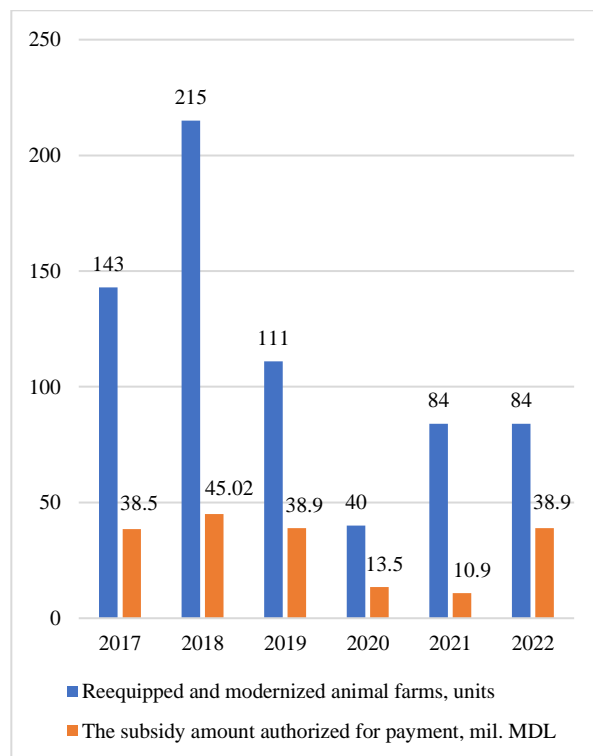


Fig. 4. Financial aid granted for the use and technological renovation of animal farms

Source: based on data from the Agency of Interventions and Payments in Agriculture [2]

During the period under analysis, there is a reduction in the number of animal farms repurposed and modernized on account of subsidies granted from 143 to 84 units (by 41.3%), although the number of requests for financial support is continuously increasing, with 395 requests being submitted in the year 2022. Thus, the share of authorized requests in the last year constituting 21.3% of the total number of requests.

### Management of the investment subsidy fund for the procurement of breeding animals and the maintenance of their genetic background

Currently, in the Republic of Moldova, 49 animal farms are certified in the breeding category, of which cattle – 21, pigs – 1, sheep – 11, goats – 1, horses – 1, poultry – 1, beekeepers – 13 [12].

The breeding category (farm animal, with breed certificate, used for breeding) constitutes a performance, which offers advantages to the brood stock owner, including subsidies. The financial aid is granted to improve the herd of animals by partially compensating the investments in the procurement of breeding animals.

Table 3. The financial aid granted for the procurement of breeding animals

Years	Financial aid, mil. MDL	Livestock, heads					
		Cattle	Pigs	Sheep and goats	Rabbits	Poultry	Bees
2017	10.1	318	1,212	557	-	-	2,488
2018	12.	10	8	12	-	-	38
2019	9.5	656	462	944	-	-	3,335
2020	7.5	867	454	454	-	94,448	16,652
2021	13.0	701	100	671	1,228	51,664	1,771
2022	22.1	905	998	816	92	73,028	3,159

Source: based on data from the Agency of Interventions and Payments in Agriculture [2].

Although, during the analyzed period, investments in livestock and poultry vary from year to year, we still observe an increasing trend. Starting from 2020, subsidies are granted for partridges, which in 2022 decreased by 22.7% compared to 2020,

but increased by 41.4% compared to 2021. In 2021, for the first time financial aid was granted for procurement of gilt rabbits, which decreased drastically in the following year – by 92.5% (Table 3).

Compared to previous years, in the last year of analysis, the amount of subsidies granted to stimulate investments in the purchase of breeding animals increased significantly, which indicates the increased interest of farmers in the development of the respective sector.

### Management of the investment subsidy fund for the development of post-harvest and processing infrastructure

For the development of the post-harvest and processing infrastructure, investments in the procurement and modernization of fruit and vegetable storage refrigerators are subsidized; machinery for processing, drying and freezing fruits, vegetables, cereals, oilseeds, sunflowers, etc.; equipment for primary processing, refrigeration, packaging and storage of meat and milk.

The financial aid granted to agricultural producers for the development of post-harvest and processing infrastructure is carried out in the form of compensation and is determined as a percentage rate of the investment value [6].

The development of the post-harvest and processing infrastructure is the most requested area of investment, the value of the requested subsidies totaling 444.3 million lei in 2022. The compensated amount, however, constituted only 92.8%. In the period of 2020-2022, there is a significant reduction in the financial aid granted, which is on average 57.9% lower than that granted in the period of 2017-2019 (Fig. 5).

Analyzing the types of investments made by agricultural producers for the development of the post-harvest and processing infrastructure, we can state that the largest share in the total number of equipment purchased belongs to refrigerators (about 26.7%) and grain processing equipment (about 39%).

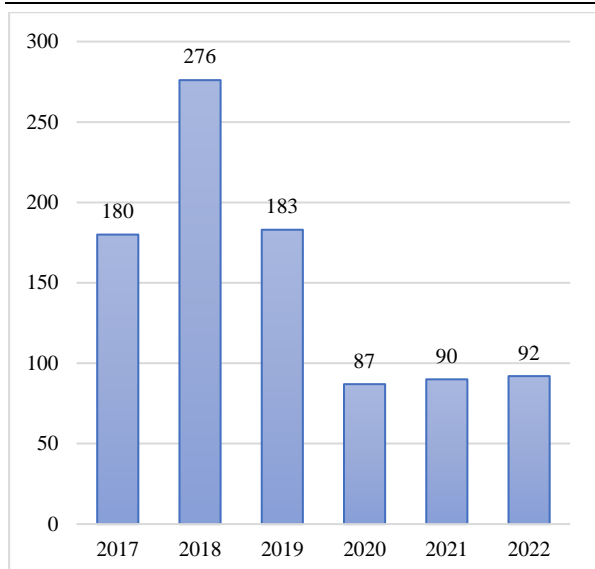


Fig. 5. Financial aid granted for the development of post-harvest and processing infrastructure, mil. MDL  
Source: based on data from the Agency of Interventions and Payments in Agriculture [2].

### Management of the subsidy fund for crediting agricultural producers by commercial banks and non-bank lending organizations

Agriculture is a complex branch that involves multiple expenses and investments, which agricultural producers do not have according to their needs. To ensure an uninterrupted activity, they often resort to credit. Thus, the submeasure in question is intended to ensure the access of agricultural producers to financial resources by crediting them from commercial banks and non-bank lending organizations registered on the territory of the Republic of Moldova.

The credits accessed by farmers are used for seeds and planting material; fuel and lubricants; fertilizers and protective means; greenhouse modules and other materials for the construction or reconstruction of greenhouses, solariums and tunnels; agricultural machinery and equipment; anti-hail and anti-rain equipment; technological equipment for equipping and renovating the entity; domesticated animals and birds; the construction and technological equipment of agro-tourism guesthouses, etc.

16.6 million MDL were disbursed on the account of agricultural producers in 2022, which is 76.4% less than in 2017. The highest

amount authorized for payment was in 2018, amounting to 91.0 million MDL, and the lower one in 2020, being only 12.2 million MDL, although the number of subsidy requests was quite high (2501 files in the amount of 133.3 million MDL).

Most credits were accessed by agricultural producers from C.B. Moldova Agroindbank S.A. – 34% on average over the analyzed period (Fig. 6).

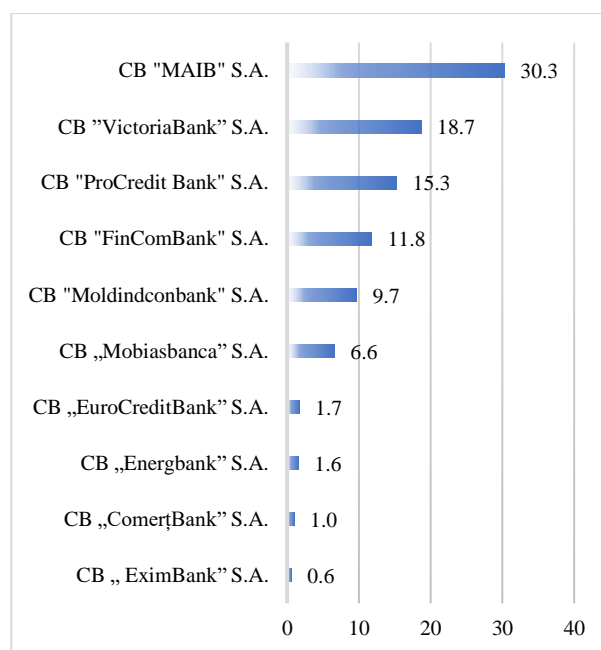


Fig. 6. The share of credits accessed by agricultural producers applying for subsidies in the year 2022, %  
Source: based on data from the Agency of Interventions and Payments in Agriculture [2].

Crediting in agriculture is negatively influenced by a number of specific factors, which generate potential financial risks. An objective factor is that the activity of many agricultural producers is characterized by an increased instability of the financial situation, being seen by credit companies as vulnerable debtors. Another reason would be the low attractiveness of agricultural crediting, given the fact that, as a rule, bank transactions with agricultural loans are less profitable. In the Republic of Moldova, a behavior of indulgence of the banks towards the farmers, who are often in a precarious financial situation, has emerged, with the banks often yielding little to the interest rate or commissions. Considering the duration of the

economic circuit in agriculture, which is essentially extended due to the particularities of the production cycle in phytotechnics and animal husbandry, we can conclude that the term of agricultural credit is relatively extended. All these factors generate a decrease in banks' profits, a fact that determines their financial behavior [16, p. 69]. A factor generating risk is the guarantee of loans in agriculture. Many farmers, especially small farmers, have few highly liquid assets, which makes banks reluctant to grant loans.

#### **Management of the subsidy fund for the risk insurance in agriculture**

Agricultural insurance is treated as a specific category of property insurance, providing insured protection against a specific set of risks. Any risk event has a negative impact on the activities of agricultural producers from a financial point of view. Within the agricultural insurance contract, the insurer provides financing against total or partial destruction caused by various natural calamities, diseases, injuries and other damages provided by the insurance conditions [14, p. 173].

The purpose of granting subsidies for the insurance of risks in agriculture is to stimulate agricultural producers to insure their assets against various risks specific to agricultural activities. The object of insurance in agriculture is [9]:

- agricultural crops harvest – financial losses as a result of obtaining a harvest of agricultural crops below the planned level, due to torrential rains, floods, early frosts, hail, excessive drought, burning of cereal crops, attack by harmful organisms, etc.;
- the quality of agricultural crops harvest – financial losses as a result of the decrease in the quality of the harvest of agricultural crops, due to torrential rains, floods, early frosts, hail, excessive drought, attack by harmful organisms, etc.;
- animals, poultry, fish, bees – financial loss as a result of the destruction or slaughter of animals, their illness, accidents, dangerous meteorological phenomena, fires, intoxication, asphyxiation, etc.

The financial aid provided for the insurance of risks in agriculture is granted in the form of subsidizing the insurance premiums of agricultural producers, based on contracts for insurance of production risks in agriculture [6].

In recent years, the amount of subsidies for the insurance of risks in agriculture has increased significantly. Thus, in the years 2017-2020, the value of subsidies for the insurance of risks in agriculture reached about 6.35 million MDL per year, and in the last two years this increased to 50-60 million MDL (Fig. 7).

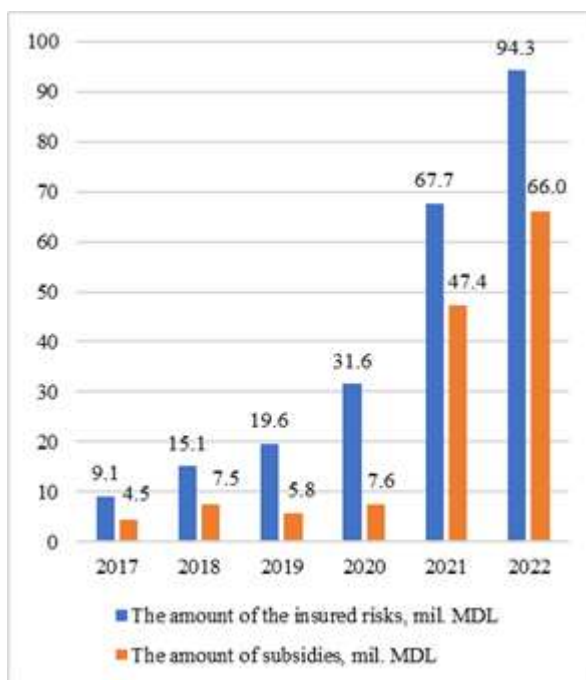


Fig. 7. The financial aid granted for the stimulation of the risk insurance mechanism in agriculture

Source: based on data from the Agency of Interventions and Payments in Agriculture [2].

The increase in the amount of subsidies to stimulate the risk insurance mechanism in the agricultural sector denotes the awareness of agricultural producers of the importance of agricultural production insurance, as well as the willingness of insurance companies to guarantee risks in agriculture.

#### **Management of the subsidy fund for the establishment and operation of groups of agricultural producers**

A group of producers is any legal person, with the exception of non-commercial



organizations, made up of agricultural producers, whose main purpose is the joint marketing of the agricultural products of the group members [11].

The group of producers is a convenient development platform through which small farmers can acquire new opportunities and skills for the development of their own business, and their individual assertion and bargaining power increase with the formation or joining of a producer group, which consists of farmers with similar activities, have the same problems and pursue common development goals [13].

The creation of groups of agricultural producers opens new opportunities for economic development by attracting local, zonal or regional advantages and which allows the integration of agriculture in the demands of the competitive market and makes national agriculture competitive on a European level [17, p. 88].

The presence of the competition between individual agricultural producers should also be taken into account. World experience shows that cooperatives have much more opportunities to establish cooperation with consumers, intermediaries, processing and marketing enterprises than individual farmers. The same applies to joint ownership of expensive equipment and machinery, which is a great difficulty for individual farms [3, p. 123].

That's why, the association movement of agricultural producers through the formation of producer groups is significantly favored by the state through several certain instruments, among which we highlight the granting of subsidies.

The fundamental objective of this subsidy direction is to strengthen cooperation and association between agricultural producers, which will have the effect of increasing the income obtained from agricultural activities, sustainable growth of the economic performance and competitiveness of agricultural production, reducing production costs, increasing exports of agricultural and agri-food products. We specify that the financial support is granted only for the first

five years of activity of the group of producers, starting from the date of recognition of the respective group [6] and is calculated based on the value of the production sold annually by the group of producers [11].

In 2017, subsidies were granted for 2 groups of producers in the amount of 371.8 thousand MDL. In the following years, the amount of subsidies has been much more modest, even if the number of groups of agricultural producers who obtained financial support has been increasing. Thus, in 2018 the amount of subsidies was substantially reduced, amounting to only 1.2 million MDL. Subsequently, it shows an increase of up to 3.9 million MDL in 2022, i.e. 3.25 times (Fig. 8).

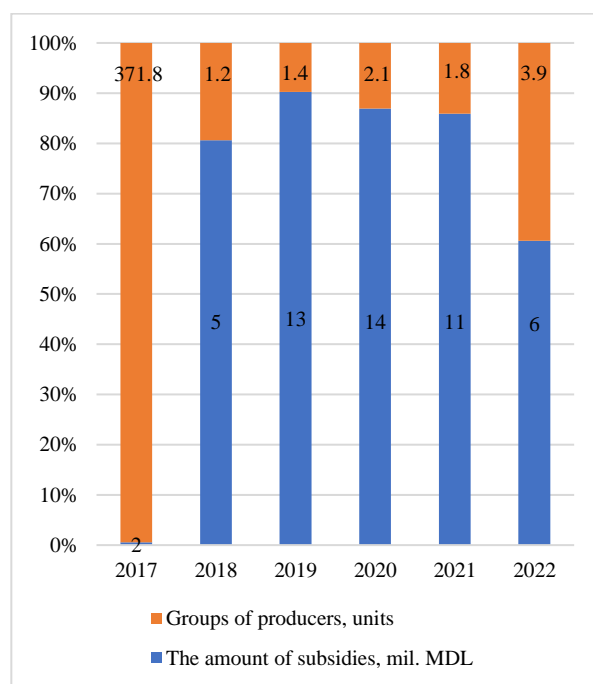


Fig. 8. The financial aid granted to stimulate the establishment and operation of groups of agricultural producers

Source: based on data from the Agency of Interventions and Payments in Agriculture [2].

Generalizing the presented information, we can say that in the audited period 2017-2022, the financial aid granted to agricultural producers registers various oscillations, caused both by the interest of farmers towards certain subsidizing directions, and by the available amount of budget funds and those

disbursed by development partners. In 2022, 2,663 subsidy applications were received and paid in the amount of 434,162.40 thousand MDL. From the total number of subsidy requests, the largest share belongs to those related to investments for the procurement of conventional agricultural machinery and equipment – 47.2% in the amount of 162,855.20 thousand MDL. Investments in the establishment and operation of groups of agricultural producers have the lowest share, constituting 0.9% of the amount of 3,891.60 thousand MDL, a fact caused by the small number of requests (Table 4).

Table 4. The financial aid granted to increase the competitiveness of the agri-food sector through restructuring and modernization, 2022

Subsidy directions	Number of subsidized requests	Amount of subsidy paid, thousand MDL
Production of vegetables, fruits, aromatic, seasoning and medicinal plants on protected land	52	5,695.00
Establishment, modernization and clearing of perennial plantations	345	46,080.20
Procurement of conventional agricultural equipment and machinery	1,257	162,855.20
Equipment and technological renovation of animal farms	103	38,927.10
Procurement of breeding animals and maintaining their genetic background	34	22,045.90
Development of post-harvest and processing infrastructure	225	82,764.30
Crediting of agricultural producers	150	16,620.60
Risk insurance in agriculture	491	55,282.50
Establishment and operation of groups of agricultural producers	6	3,891.60
<b>TOTAL</b>	<b>2,663</b>	<b>434,162.40</b>

Source: based on data from the Agency of Interventions and Payments in Agriculture [2].

The subsidy activity contributes to the implementation, monitoring, control and evaluation of agricultural development policies. Only the synthesis of subsequent evaluations of the management of the subsidy fund is able to demonstrate the contribution of the state's financial support to the fulfillment of the general objectives of the agrarian policies.

## CONCLUSIONS

The efficient allocation of subsidy funds is a precondition for increasing the performance of the agricultural sector.

The rigorous operation of the agricultural subsidy mechanism leads to the stimulation and encouragement of investments in this field, to the creation of jobs, the reduction of poverty, the mitigation of migration from the rural to the urban environment, but also abroad, as well as to the increase of food safety and security.

The state's financial aid to the agricultural sector is timely and must be developed by identifying and diversifying additional sources of allocation. It is necessary to direct subsidy policies towards the development of sectors with added value.

Most of the subsidy fund in the period 2017-2022 was used for technical capacity building activities. At the same time, the balance between the different types of financial aid has changed. Subsidy budgets have remained relatively stable in absolute terms.

In order to stimulate insurance in agriculture, it is necessary to offer attractive service packages for agricultural producers, thus stimulating them to insure their investment objects. At the same time, there is a need to create and develop a risk management culture in agriculture.

Cooperation and association of agricultural producers is hindered, in particular, by mentality, lack of mutual trust between members, difficulties in coordinating joint activities, lack of management skills.

## ACKNOWLEDGEMENTS

This work was carried out within the institutional project "Evolution of audit activity in the Republic of Moldova and its relevance within the entity" is made in the period 2020-2023 within the Department of Accounting and Economic Informatics, Moldova State University.

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