

## THE CREATION AND DEVELOPMENT OF MICRO-ENTERPRISES IN THE NON-AGRICULTURAL SECTOR IN MOLDOVA

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**Abstract:** The aim of this study is to analyse the encouraging of the business initiatives promoted by young people and women through accessing EAFRD grants through EAFRD, meant to promote the setting up of micro-enterprises and the development of the already existing ones in the non-agricultural sector of Moldova. According to the National Plan for Rural Development, the financing of these investments was made through Measure 312, which was included in Axis III - Improving the quality of life in rural areas and the diversification of the rural economy - and which had the general aim of supporting the sustainable development of rural economy in order to increase the number of jobs and additional income. The eligible rural areas according to Axis III and implicitly to this measure included all rural settlements as administrative units, together with their component villages, while peri-urban villages were not eligible. This analysis revealed numerous low living standard localities, in most cases their residents practicing a subsistence farming, working for their own household and not developing profit generating activities.

**Keywords:** *micro-enterprises, investments, rural economy, grants, beneficiaries*

### 1. Introduction

The concept of enterprise involves any form of organizing an economic activity, autonomous, patrimonial and authorized under the laws in force to make acts and deeds to trade in order to obtain profits through making material goods that provide services, from their sale on the market under the conditions of competition. (Pântea, 2002).

The European Commission adopted in 1996 a recommendation which established the first definition of Small and Medium Enterprises (SMEs). This definition was applied throughout the European Union. Seven years later, the Commission adopted a new recommendation, which came into force only on January 1st, 2005 and which was applied to all programs and measures initiated by the Commission for SMEs. In the case of micro enterprises, they were defined as companies whose object of activity was to achieve material goods and services on the internal market in the conditions of competition.

Romania's orientation towards the development of small and medium enterprises has materialized, in recent years, in the legislating microenterprises. According to the Romanian legislation, they are a special subclass of SMEs that, according to Ordinance No 27 of January 26th, 2006 on the stimulation of the creation and development of small and medium enterprises, the annual net turnover of a company should not exceed 50 million or the value of assets held by it must be less than 43 million euros.

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In previous regulations, the ceiling was of 8 million euros. The enactment takes in national law the European Commission Recommendation 2003/361/EC concerning the definition of micro, small and medium enterprises. In this respect, SMEs are classified not only by the medium number of employees, but also according to the net annual turnover or total assets that they hold.

According to Table No. 1, micro enterprises were defined as enterprises with up to 9 employees, which realize an annual net turnover and total assets of up to 2 million. For the Member States, the use of the definition is voluntary, but the Commission recommends it both to them and to the European Investment Bank and the European Investment Fund.

*Table No.1 - Classification of SMEs (Jimbală, 2007)*

<b>Company Category</b>	<b>Average number of employees</b>	<b>Turnover</b>	<b>Total assets</b>
<b>Medium</b>	< 250	≤ EUR 50 million (in 1996, 40 million euros)	≤ EUR 43 million (in 1996, 27 million euros)
<b>Small</b>	< 50	≤ EUR 10 million (in 1996, 7 million euros)	≤ EUR 43 million (in 1996, 5 million euros)
<b>Micro</b>	< 10	≤ EUR 2 million (undefined in the previous regulation)	≤ EUR 2 million (undefined in the previous regulation)

In Romania, the establishment of micro-enterprises has been possible through Measure 321 (*Support for the creation and development of micro-enterprises*), which was framed in Axis III of the National Rural Development Plan, and which was financed by the European Fund for Agriculture and Rural Development (EAFRD). Thus, at the national level, the public contribution to these measures was of 383.429.681 euros, out of which 20% was the contribution of the Government and 80% the contribution of the European Union.

The grants were awarded to beneficiaries for investments in non-agricultural activities (light industry, activities of industrial processing of wood products, machines assembly and so on), handicraft activities (iron processing, pottery, manufacture of traditional musical instruments and so on), services for the rural population (tailoring, hairdressing, shoemaking, Internet connecting and so on) and renewable energy production services.

Regarding the geographical area of research, it is represented by the administrative area of the 635 commons existing in historical region of Moldova, which reunite the rural population of the region, according to Law 2/1968 of the administrative-territorial organization. These communities are made up of one or more villages, with a total number of 2,915 villages, while in terms of territorial administration, there are 8 counties, which are the basic administrative units of the region.

## **2. Methodology and variables used**

In order to substantiate our own opinions, it was necessary to conduct a coherent statistical research which helped us obtain information which was further processed and interpreted. The database was conducted by consulting the lists of beneficiaries of EAFRD, Measure 312 on the site of the Paying Agency for Rural Development and Fisheries, an institution subordinated to the Ministry of Agriculture and Rural Development.

Then there followed the systematization of the database through the geographical management of the lists of beneficiaries and an analysis based on indicators proper to the socio-economic assistance and situation, both at the regional and local level. Thus we used the *indicators of achievement*, which measure the direct effects produced by the activities under

Measure 312, quantifying its operational objectives, such as the number of projects approved or public contribution paid to the beneficiaries for the realization of the investment.

Finally, the geographic information management was achieved by creating a cartographical material consisting of several maps (using the proportional circle method) drawn up with Philcarto and Adobe Illustrator programs.

### 3. Analysis and results

If during the communist period Romania's economic policy pursued to completely use the agricultural potential and to achieve an intensive agriculture through important investments in setting up a technical infrastructure and an extended mechanization, thus eliminating the manual system of agricultural production, after the change of the political regime, the market economy has become an attribute of democratic countries. However, the Romanian agriculture still faces a number of problems related to the lack of funds, but also to the aging population working in this economic sector. Due to the lack of financial resources, most farmers do not have the possibility to purchase agricultural machinery, to use land reclamation, being forced to practice a subsistence agriculture, without appropriate agronomic means, the land being cultivated with rudimentary means, physical force and animal power still prevailing. This situation is felt in the degree of productivity of worked lands.

But, after Romania's accession to the European Union, the situation has improved with the financial support given under Measure 312, which had as main objective the sustainable development of the rural economy by encouraging non-farm activities in order to increase the number of jobs and additional income.

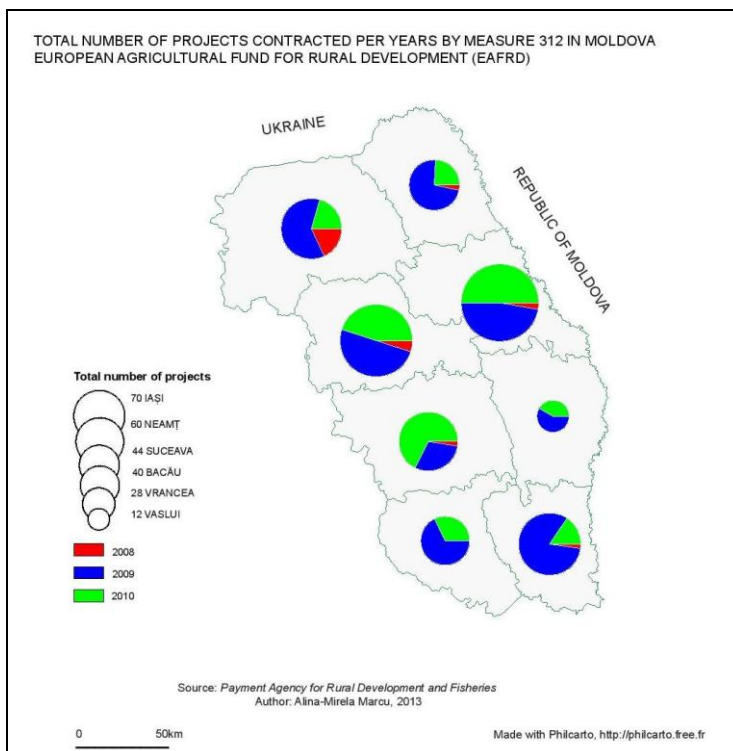


Figure 1: Territorial distribution of the total number of projects contracted by Measure 312 in Moldova

By analysing the contracted projects at the regional level, we found that during the sessions held in the period 2008-2010, in Moldova 334 projects were implemented under this measure, with a total eligible value of 47.04 million euros. Also, this cartographical representation highlights the fact that Iași county holds the first position (with the largest number of projects: 70), being followed by Neamț county (60 projects) and Suceava county (44 projects), while Vaslui ranks last (with 12 projects).

As regards the number of projects contracted per year, the Figure 2 indicates a high number of investments in the period 2009-2010, particularly in the counties of Galați, Iași, Neamț and Suceava, as well as an increase in the number of projects implemented in Bacău, unlike Vaslui county, where their number is very low due to its very high agricultural potential, which makes this county a traditionally underdeveloped region.

As regards the regional distribution of interventions, the financial resources have been concentrated mainly in Neamț and Iași counties, these ones accumulating the highest financial values, but recent developments indicate an increase in investments in 2009 in Galați county, from 2 million euros to over 6 million euros, a positive situation being also encountered in Iași, Neamț and Suceava counties, where the number of people employed in the non-agricultural sector increased.

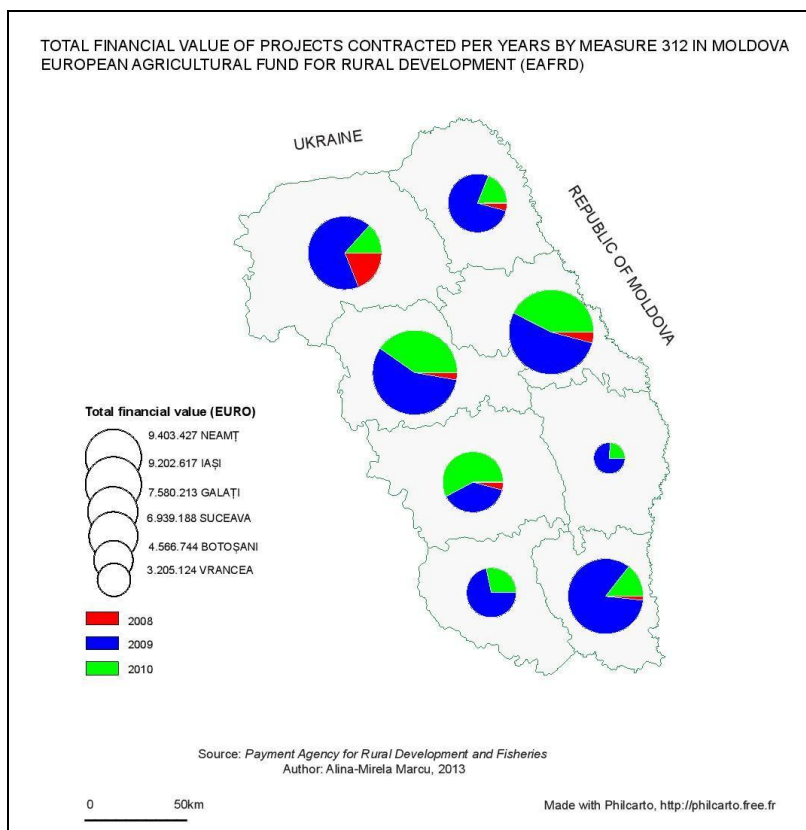


Figure 2: Territorial distribution of total financial value contracted by Measure 312 in Moldova

A possible explanation for this distribution may be related to the fact that the physical-geographical elements imposed the profile of the economic activities practiced by the farmers in this rural area. It is known that in the ancient times the presence of drinking water sources supported the sources of life of the human communities, and represented a

prerequisite for the population and for the existence of settlements, homes being sometimes located on unfavourable lands, because they provided the water needed for food, animal husbandry, fisheries, irrigation and so on.

The specific way in which the waters have shown the influence on the countryside in Moldova lies in the fact that in ancient times the Siret River had a commercial function, facilitating the transit of goods from the Baltic Sea to the mouth of the Danube and the Black Sea, highlighting the resources of the valley and even a large part of the resources of Moldova. Thus, the Valley of the Siret River is the most representative and most important valley in the Moldavian Plateau, creating favourable conditions for agriculture, while the emergence of certain cities in major confluences and intersections represented the premises of the population's concentration along this valley.

As it can be seen, the ones previously mentioned are validated by Figure 3, where the vast majority of the European projects have been implemented along the Siret River. We can also add another important element in locating rural settlements and investments, represented by the position in relation to the water resources.

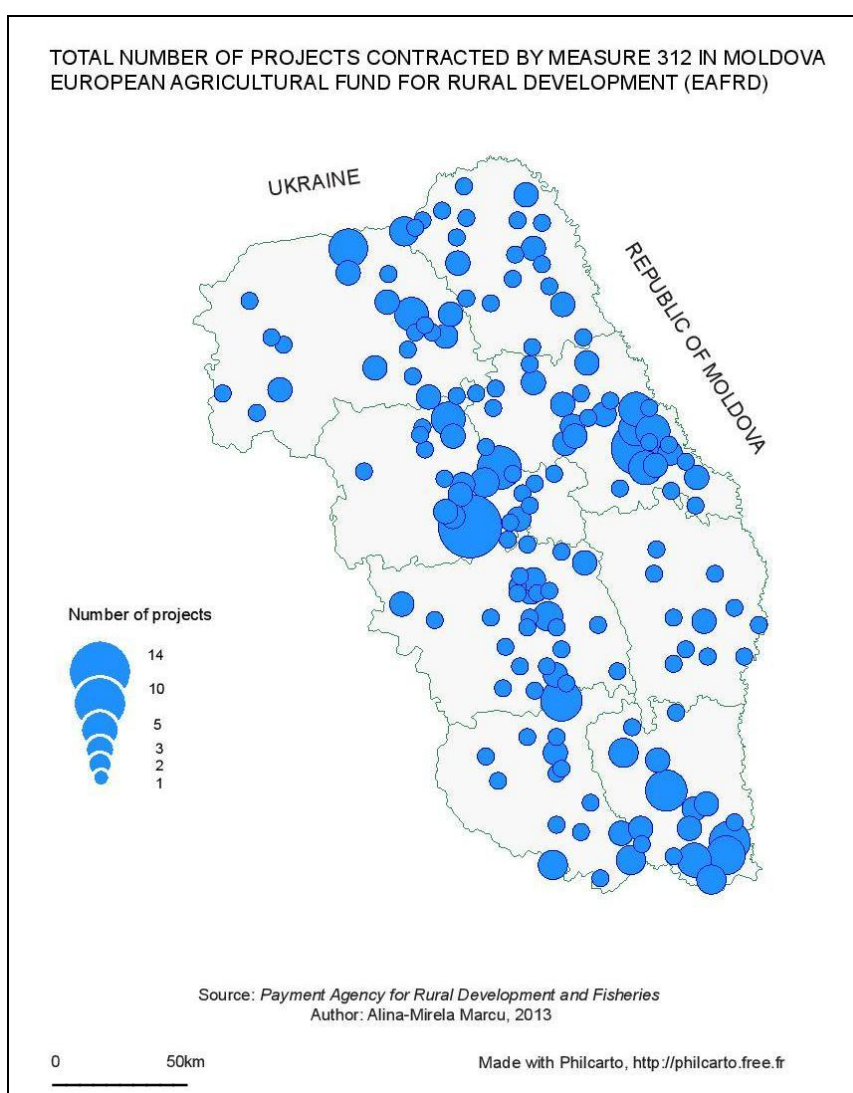


Figure 3: Local distribution of total number of projects contacted by Measure 312 in Moldova

Thus we see a strong concentration of contracted projects in the southern part of Moldova, in the county of Galați, at the confluence of the Siret and Danube. This is explained by the fact that this area has always enjoyed a special position because it is known that the junction points are points of convergence to the neighbouring areas or remote places, being remarkable places of polarization to habitat.

Over time, the Moldovian Subcarpathians also played the part of a binder in the humanization of the space. Thus, the natural resources, the favourable geographical conditions and the position of contact to the mountain area and the Moldavian Plateau explain the strong concentration of investments in Neamț County, as well as the fact that the Moldovian Subcarpathians are today one of the most well populated areas of Romania. We can thus distinguish the settlements located on the terraces of the Bistrița and Trotuș rivers, which are also endowed with the main ways of communication, followed by the rural settlements in depressions, some of them distributed at the contact to the mountains or the subcarpathian hills.

In the mountain area, human activities are closely related to the existence of large areas of grassland, the villages in this area being specialized in dairy and meat cattle and sheep. But the existence of different physico-geographical conditions determined the diversification of the vegetation cover. The wood, the main product of the forest has favoured the development of micro-enterprises in the industrial processing of wood products, starting with the sawn wood.

The premises of the appearance and localization of investments in the development of handicraft and other non-agricultural activities with a local specific are mainly due to the factors that favoured which determined the development of rural tourism, respectively: accessible landforms, a climate favourable for the practice of tourism throughout the whole year, the hydrographic potential, rich fauna and flora, historical and architectural heritage, national traditions and folk customs. The mapping reveals that the development of tourism activities in the hills and mountains of Moldova has grown considerably in recent years, especially in Suceava and Neamț counties enshrined in practicing these forms of tourism. The local actors involved have accessed European funds to increase the attractiveness of the rural areas because they considered that the existing tourism potential was insufficiently exploited.

#### **4. Conclusions**

Finally, the results of the analysis indicate that the implementation of the Measure 3.1.2. in Moldova has had primarily a social impact at the regional level by increasing the standard of living of the local people and creating new jobs, but also an economic one resulting from the diversification of non-agricultural activities, which generated an additional financial value to the financial value created by agriculture.

Also researches show that in Moldova there is a need of the rural population for information services and training, given the fact that the poor have the capacity to develop economic activities. In this context, in the Moldavian rural space there is a need of a structural reform in order to help overcome the existing difficulties, such as the excessive fragmentation of agricultural properties, low technical modernization, low level of training of the population and so on.

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