

SUPPORT FORMS OF MOLDOVA'S AGRICULTURE AND RURAL DEVELOPMENT IN EUROPEAN INTEGRATION PERSPECTIVE

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Abstract

The main objective of the research is to analyze and highlight forms of support for agriculture and rural development used in Republic of Moldova and to underline their impact on agrifood competitiveness. For this purpose the main directions of the State agricultural subsidy program have been considered, as well as the programs financed by donor's community, including, European Union, World Bank, international Fund for Agricultural Development, United State Agency for International Development, Millennium Challenge Corporation and others. As result of this research had been established that Republic of Moldova has a number of sources of funding and support programs for agriculture and rural development, but their impact remains insufficient to ensure a good international competitiveness. In this context, during the process of the agricultural support policies and programs development, the priorities and needs of the sector have to be considered, and transparent and simple criteria have to be elaborated in such way to facilitate the access of farmers to existing sources of support.

Keywords: agriculture, rural development, subsidies, financing, competitiveness.

INTRODUCTION

In almost all market oriented countries Governments supports agriculture sector using divers forms of direct financing, including subsidies programs financed by state budget and/or indirect forms by supporting research program, special credit facilities etc.[1] Forms of aid are extremely diverse in time and space, and depend of Government policies, priorities and potential of development of agriculture.

It is known that the agriculture in Moldova has remained far behind the level of highly developed European countries, so that is why our country needs a combination of direct and indirect support programs to foster agricultural sector development in order to achieve a good level of the competitiveness on international markets.

MATERIAL AND METHOD

For the analysis and reflection about the Support forms of Moldova's agriculture and rural development we used the collected data set from the official statistical reports

registered in the period 2001-2011. There have been used data provided by National Bureau of Statistics, Ministry of Agriculture and Food Industry. Also, as sources of information there were used various studies prepared by World Bank, International Fund for Agricultural Development in Moldova and national experts.

RESULTS AND DISCUSSIONS

Currently, Moldova's agricultural sector is supported by using various ways, including national and international finance programs. One of the most important Government methods, for agricultural development, remains to be subsidy program.

As we can see in fig.1, the subsidy fund for agricultural sector had a tendency to growth, from 11 mln. lei in 2002 to 760 mln. lei in 2007. The biggest increase in year 2007 is explained by the fact that agriculture sector suffered in those year by a severe drought in the region and Government decided to increase the subsidy fund in order to ensure the food security of the country. But, after 2007 the subsidy fund has decreased

constantly, remaining for the last years at the level of 400 mln lei annually.

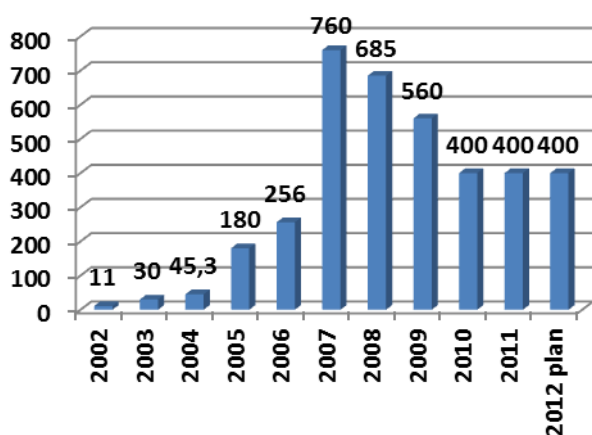


Fig. 1. Evolution of the agriculture subsidies in Moldova 2002-2012, mln lei [7]

Among the main direction of the subsidizing we can mention production of fruit-growing material and establishment of new fruit plantations, promotion and development of organic farming, risk insurance in agriculture, vegetable production on protected land and irrigation equipment procurement, procurement of equipment and machinery, revitalization of the livestock sector etc.

The subsidy fund does not cover all needs of agriculture sector, that's why Government contracted several international agriculture programs in order to cover all producers' requirements.

One of the agricultural programs financed by World Bank is Rural Investment and Services Project (RISP), managed by Consolidated Agriculture Project Management Unit (CAPMU).

The main project's objective is to foster post-privatization growth in the agricultural sector by improving access of new private farmers and rural businesses to what they need to succeed – legal ownership status, knowledge, know-how and finance, while building capacity of public and private institutions to ensure sustainability of activities [2].

The project activities are focused on:

- strengthening and expanding the rural advisory services;

- improving business skills of the to-be entrepreneurs and assisting with the legal registration of the new businesses;

- upgrading the financial sector environment through a range of risk management measures, such as supervision capacity building, and introduction of new lending instruments such as leasing;

- increase the commercial banking sector outreach into rural areas; and

- developing a practical approach to reducing transaction costs in land markets.

The project consists of **five components** to be implemented over four years plus support for project management:

1. Rural Advisory Services;
 - a. Draught Adaptation Services;
2. Rural Business Development Services;
3. Rural Finance;
 - b. Credit Line
 - c. Strengthening the SCA industry
4. Land Re-parceling Pilot Projects;
5. Project Management.

During the year of 2011, the network consultants provided over 198 thousands advisory services for about 372, 4 thousands agricultural producers and rural entrepreneurs. In the structure of advisory services, technological services account for 53, 1% (105 146 services), followed by those related to agricultural marketing – 18, 1% (35 914 services), economic – 15, 5% (30 765 services) and legal services – 13, 2% (26 212 services).

In this period, the Regional Consultants specialized in Agricultural Marketing provided advisory services to over 4500 beneficiaries, while operational information was provided to the entire Rural Extension Service (RES) Network and those 40,5 thousand unique visitors registered with Agriculture Marketing Information System (AMIS).

Along with the provided services, AMIS ensured the creation of 157 informal seasonal marketing groups, mediation of agricultural products sales contracts amounting to about 32 255,3 thousand lei and procurement of production means of the total amount of 31 451,6 thousand lei, development and

placement of 26 bi-weekly studies on the agricultural marketing.

RES provided assistance to beneficiaries who produced field crops during the reference year on a surface of over 327,2 thousand ha, yielding multiannual plantations - 52,7 thousand ha, vegetables on about 13,9 thousand ha in the open field and 282 ha in protected areas and exploitation of 2595 family type farms.

Via the 604 formal and informal groups created with the support of RES Consultants, 287, 2 thousand *t* of agricultural products were sold and procurement of agricultural production means in amount of over 552 million lei was mediated, in the meantime creating 59 professional associations at local and regional levels.

With the support of RES consultants, about 28, 6 thousand agricultural producers and rural entrepreneurs benefited of loans from the SCA (Savings and Credit Associations) and commercial banks in an amount of 377 million lei, for which 442 business plans were built and 711 people benefitted from assistance for preparing sets of documents for accessing state subsidies in the amount of 99 million lei. Within the service area of the extension service 494 agricultural businesses and 161 non-agricultural businesses were established, which generated 2940 job placements.

ACSA (National Agency for Rural Development) network consultants provided assistance for over 12 300 transactions with a total area of over 56,8 thousand ha, launch of 7,9 thousand projects for agricultural land consolidation with a total surface of over 11,9 thousand ha and solving about 1645 land disputes with at surface of about 1740 ha [3],[4].

Activities aimed at building the knowledge of extension consultants and training of agricultural producers in the reference year were provided by ACSA within a national seminar and 7 programs of general and specialized training within which 535 persons were trained. The trainings aimed at increasing the knowledge, skills and new

advanced implementation technologies in the agricultural sector.

At the request of Ministry of Agriculture and Food Industry, ACSA was actively involved in implementing the Decision of the Government of Republic of Moldova on the modality of using the means of the agricultural producers' subsidy fund for 2011. ACSA activities were focused on information and training activities, publishing and distribution of information materials, assistance in development of business plans and preparation of sets of documents for submission to Agriculture Paying and Intervention Agency (AIPA).

Promotion activities have been held in 928 villages involving about 20689 people. Of the total number of operational business units, 607 loans were provided from RISP sources and 320 loans were provided by participating institutions. Twenty two businesses started operating from their own sources. The total investment made in 927 businesses that received loans amounts USD 29,293 million.

In 2011 the average interest rates for the RISP II loans in MDL constitute 14.26% and 6.46% for US Dollars. According to the NBM (National Bank of Moldova) reports, the average commercial interest rates for the same period constitute 13.89% for the loans granted to the enterprises in MDL and 8.8% in US Dollars. The RISP II interest rates for the beneficiaries for the loans in MDL are higher than the average market interest rates by 0.37% and lower by 2.34 % for the loans granted in US Dollars. The advantage of RISP II resources remains to be the long term maturity of the loans.

National extension network administrated by ACSA consist of 35 Service Providers and a total number of 425 consultants, of which: 350 local consultants and 75 regional consultants, including 5 marketing consultants. Advisory services provided by regional and local ACSA consultants are provided according with the minimal set of services stipulated in the standard contract and include the technological, economic, juridical and agricultural marketing domains. The advisory services provided by ACSA

consultants focus on satisfying the needs of agricultural producers and rural entrepreneurs in providing them with quality advisory services which allow solving existing problems and needs, as well as facilitate the sustainable development of agricultural households and increasing the incomes of the practiced activity. Consultancy and advisory services provided by ACSA network consultants during the activity period targeted and contributed largely to solving problems faced by agricultural producers and other categories of beneficiaries. The advice and recommendation received from consultants helped farmers improve qualitative and quantitative indicators of production, benefit of loans, market their production and procure required inputs, initiate and develop new businesses, both in agriculture and in the non-agricultural sector to increase their revenues from economic activity.

One of the most important crediting programs for agriculture producers remain to be those developed by International Fund for Agriculture Development (IFAD). Rural business development program is one of last project developed by this finance institution. The Rural Business Development Program (RBDP) concept was developed based on the Government's Economic Growth and Poverty Reduction Strategy Paper (EGPRSP), as well as two previous IFAD - funded projects, the "Rural Finance and Small Enterprise Development Project" (RFSEDP) implemented during 2001 and 2005, and the "Agricultural Revitalization Project" (ARP), which was implemented during 2005 - ongoing. RBDP has been succeeded by the "Rural Financial Services and Marketing Program" (RFSMP), which has been approved by the IFAD Board in December 2009 [5].

These programs were geared at the development of rural areas in Moldova, with different methods and approaches adjusted to the prevailing challenges and demands, but also with some similarities, and each building on the lessons learned from its predecessor(s) and reflecting the changes that occurred in society and the economy. Common elements underlying all three programs include, among

others: a) the advancement of rural finance; b) creating jobs; c) the support to new business opportunities; d) improved marketing and e) commercially derived infrastructure. The Agreement between the Government of Moldova and International Fund for Agricultural Development (IFAD) for financing RBDP was signed in February 2006.

The program achieved its objective of stimulating growth of strategic farming and rural business activities in which Moldova has a comparative advantage. This was accomplished through three components: Rural Enterprise Intermediation Services (REIS); Rural Financial Services (RFS) and Market Derived Infrastructure Investment (MDI).

REIS trained and accredited 7 Business Service Providers to assist program clients prepare business plans, linking clients with 9 Participating Financial Institutions (PFI) selected by the program and providing clients with technical advisory service.

Through this arrangement, a total of 152 clients received support in preparing business plans and 129 of these obtained investment loans from 7 PFIs which were refinanced by the program. In addition the program provided capacity support to 5 696 persons including technical advisory service, program awareness, agricultural loan risk management and collateral development and strengthening of value chains. Out of total participates women accounted for 2 632 or 46%.

RFS contributed to the program goal with the following outcomes: The 129 investment loans refinanced by the program created 1 348 jobs directly. The 1 348 direct jobs generated by the program represents 3.62% of all new jobs (37 2004) created in the country during the program implementation period. The 36 enterprises engaged in produce collection/marketing and in processing, acquired raw material worth USD 33.4447 million annually estimated to have created incremental markets from around 4 5938 small farmers. The 35 commercial farmers supported under the program rents 5 350 ha from 3565 smallholders of which half are pensioners. This development is of particular importance for the pensioners having limited

possibility to cultivate their land by themselves and in getting employment.

The 32 market derived infrastructure investments benefited 53 enterprises in receipt of refinance investment loans, 55 enterprises not benefiting from the RFS, 39 228 individual persons and 1 842 commercial small farmers.

The incremental returns from road, gas and water investments were mainly in the form of savings from reduced repair cost as a result of better roads, reduced cost of fuel by shifting to gas and reduced cost of using piped water compared to hoisting it from a well. The incremental return from rehabilitation of irrigation was from increase in yield and crop diversification resulting in incremental earnings of USD 650/ha or USD 1 365 per farmer (2.1 ha for each farmer).

The market derived infrastructure supported by the program was very successful, particularly the support to irrigation recorded several dimensions of successes: a) provide a tangible reason for 35 enterprises and 1 842 farmers cultivating 3 931 ha of irrigated land to strengthen their collaboration leading to collective investments and marketing arrangements; b) enable 35 enterprises and 1 842 farmers to diversify from low value field crops into high value vegetable crops resulting in net incremental return of USD 650/ha; and c) the improved economic opportunity created by the irrigation resulted in reduced migration and return of migrants.

One of the priorities of government and agriculture producers and processors has to be focused on alignment to the International Food Standards. The negative economic impact from the 2005 Russian embargo of agricultural produce from Moldova has shown the importance of reducing trade barriers to other countries particularly EU. In this respect the first action is to facilitate exporters of agriculture produce and processed food to comply with international food standards including Global GAP, HACCP/ISO certification. The program did encourage enterprises investing in food processing, on a voluntarily basis, to organize configuration of building and equipment in preparedness for

food standard certification. This effort resulted in 7 enterprises using the correct configurations of buildings and equipment in readiness for certification and 2 obtained HACCP registration and 3 obtained the local certification but are also prepared for HACCP certification.

Further IFAD programs should provide appropriated support to enterprises enabling them to comply with international standards. The investment in infrastructure improvements had a strong social impact in strengthening social relationships among rural communities creating additional joint communal developments e.g. expansion of land under irrigation, marketing arrangements, joint procurements, contract farming. Infrastructure investment in roads, which also included contribution from the local communities, represented a considerable improvement in accessibility and communications for local social services (schools, medical offices, postal offices, etc). Provision of water supply to rural households contributed to improvement of health aspect of household's members, and reduced the manual work in collecting water from the well.

CONCLUSIONS

Government should pay more attention to the needs of farmers, involving them in elaboration of the subsidy regulation, that would conduct to the elimination of the existing constrains in accessing of the state support.

Although the banking sector as well as that of the micro-crediting developed much during the last 10-12 years and it is now at an advanced level of operation, the demand for rural business support is still rather high.

The provided support to entrepreneurs that launch a business in form of technical assistance in conducting feasibility studies, development of business plans, as well thematic consultations represent an important service, therefore the sustainability of these services should be supported after the project completion.

The active involvement of financing institutions in crediting small and medium entrepreneurs needs to be encouraged in the future. Also, specialists from financial institutions should support start up investment projects in rural areas and minimize the reluctance degree against young entrepreneurs.

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