

THE ECONOMIC GROWTH OF AGRICULTURAL SECTOR THROUGH INVESTMENT VALUES

Aurelia LITVIN, Svetlana PETRASCU

State Agrarian University from Moldova, 44 Mircesti Str., Chisinau, MD 2049, Phone: +37322432432, Emails: aurelia_litvin@mail.ru, s.sasu@uasm.md

Corresponding author: aurelia_litvin@mail.ru

Abstract

Any economic transformation, including the transformations in the agricultural sector, aims to develop the national economy. The market economy places the enterprise in the center of the economic activity of any branch of the economy. The obtained results, positive or negative, determine the entire national economy. The national economy is viable if it manages to stimulate the creation and development of a profitable business. Economic development, the increase of the population's living standards, investments attraction, exports promotion have become frequent subjects of primary interest for the agrarian sector of the Republic of Moldova. The reform process, implemented in the past decade, is difficult and has little progress. The results are mixed, and the tasks within the sector are huge, taking in consideration the challenges concerning EU accession.

Key words: credits, financial services, grants, investments, young farmers

INTRODUCTION

In the Republic of Moldova food sector has always been the basis of the national economy. At the time when this sector is going through a deep crisis, linked to domestic economic transformations, as well as the lack of sustainable sources of growth, the weight and impact of foreign investment sources emphasized. The research has shown that the most important part of foreign investment is allocated to this sector. Investments in agriculture should lead to larger capital stock, which will result in increased yields of the capital. It is obvious that, when the economy advances towards "steady state", investments give lower yields and growth rates remain constant. [10]

The need to increase investment in agriculture is dictated mainly by the growing demand for food and the need to develop sustainable agriculture. At the same time, these investments should not seek to promote industrial agriculture, but to use technologies that will promote environmental protection, resources, agro-ecological and social balance. The undertaken research and analysis have shown that investment plays a dominant role in the agricultural sector, particularly for the

Republic of Moldova, a country with low and middle incomes.

MATERIALS AND METHODS

The material used for the undertaken survey consisted in research, data analysis and specialty literature interpretation. There were used such research methods as: analysis, comparison, deduction, monographic method. The information was gathered from the sources published by the National Bureau of Statistics, National Agency for Employment, the reports of the program IFAD and others.

RESULTS AND DISCUSSIONS

In the economic life the investment activity has central place both in the production of goods and services sphere and in the sphere of consumption, being the factor that influences demand and supply simultaneously.

The rationale of this statement is given by the training processes and the multiplication of the effects that any investment project generates, regardless of the activity sector in which it is implemented.

Any investment project in the production of goods and services has the effect of increasing

and diversifying supply and, if this is validated on the market, increasing incomes of economic agents. Simultaneously, however, the level of labor employment growth will be influenced directly or through training effect. But the increase in the number of employees and / or their wage gains lead, ultimately, to the increase of the demand for goods and services. On the other hand, there will be an increase in household savings and in the available funds of economic agents that will lead to more efficient structures in line with the investment options.

Foreign investment has become the largest, most stable source of funding and implementation of a country's economic policies. International investment resources constitute important components of national economy restructuring, premises for relaunching production growth and social improvement. [1]

The problem of attracting foreign investments is not typical only for developing countries or for the countries in transition, such as Moldova, but also for developed countries. This leads to a competition among recipient countries, the factor of investment attractiveness of the country as an object for investments becoming increasingly important. The process of investments attraction in the economy of any country is a kind of a competitive game in order to offer more favorable conditions to foreign investors. [8]

The first element in attracting foreign investments is the legislation and basic economic investments. International experience has shown that to ensure minimal conditions for attracting foreign investors, investment and legislative sphere in economy should exist, function, and be transparent, stable and predictable. This is a necessary but not a sufficient condition. At the same time the capacity of attracting foreign capital is represented by the degree of economic openness to foreign investors, and the attitude of the population and political parties towards foreign investments.

A study made by the World Bank shows that foreign investment flows were directed towards those countries where there is a trade regime and a payment system according to

international standards, a system of liberal exchange, transparent and automatic incentive schemes, and favorable climate for business, where there are no barriers for investors. Foreign investment is discouraged in countries where the State plays the major role in the economy and in countries where corruption is high.

Attracting direct foreign investments involves the prior existence of political, economic, legislative conditions, without which any policies are meaningless.

The first element is represented by the basic legislation and economic investment: it is necessary to assure at least a minimal framework concerning companies, competition, bankruptcy, insurance, accounting system and others. The existence of these regulations is a necessary, but not a sufficient condition. [4]

The complementary aspect refers to the degree of effective implementation of the law and how economic institutions function in the market economy. International experience has shown that only the countries that have created a functional framework of the market economy were attractive to foreign investors.

So, to ensure minimal conditions to attract foreign investors, the institutional and legislative framework in economy must exist, operate, and be transparent, stable and predictable.

The second aspect of the capacity of attracting foreign capital is the degree of economic openness to foreign investors. It's absolutely natural that the countries, that fully opened their economy, allowed with the compliance with technical regulations, environmental protection, etc., access to investors in all fields, have attracted more foreign investors. On the other hand, the countries that excluded from the access area considerable strategic branches, or those that have allowed the privatization of public utilities (telecommunications, energy, water) had lower levels of foreign investment. [7]

Another general issue is the attitude of the population and political parties towards foreign investments. It is obvious that if there exists the manifestation of a hostile and xenophobic attitude to foreign investors,

among the population and at the level of political parties, foreign investors will be discouraged and will avoid to act on that market.

In general, the factors influencing investment decisions are of 3 types:

a – factors specific to the investing firm

b - locational factors;

c – political-administrative and legislative factors. [9]

To adjust the Republic of Moldova to EU standards related to phytosanitary requirements, product quality, environmental protection, competition issues, public procurement, and markets, besides financial resources, knowledge is needed. [11]

A large number of investment programs and projects help farmers in rural areas. In our opinion, the increase of investments in agriculture is due primarily to the fact that the private land area of agricultural destination constitutes over 86% and secondly, the number of landowners, who want to develop a business namely in this section, grows.

Also, there is increased lending to farmers by commercial banks with financial institutions and state subsidies.

At the same time, these programs and projects mobilize resources, providing opportunities for rural entrepreneurs to start and manage their own businesses.

The aid is mainly offered to young people aged between 18 and 35 years old who want to start or expand a business, to develop entrepreneurial skills.

In order to solve the problems in financing young entrepreneurs the Ministry of Agriculture and Food Industry negotiates with a number of external bodies.

According to the information on Investment Projects, from the beginning of Investment Projects Implementation for the development of small and medium enterprises there were financed about 6,773 sub-projects of beneficiaries, mostly in rural areas, totally amounting MDL 2,113.2 million, USD 88.96 million USD and Euro 38.08 million (or the equivalent of about MDL 3.82 Billion). [3]

In 2007-2013 there were invested in agriculture Lei 19,900 million lei from various investment sources and global agricultural production was obtained Lei 81,738.11 Million worth (Table 1).

Table 1. The investments value in agriculture in 2007-2013

	National Programs	State Subventions	Loans from Commercial banks	Foreign Investments	Total
Investments value, Lei Million	371.11	3,600	12,200	3,820	19,990
Investments value per 1 ha of agricultural land, Lei thousand/ha (2007-2013)	185.2	1,797.1	6,090.2	1,906.9	9,934.1
Investments value per 1 farmer, Lei/pers.	7,422.2	72,000	244,000	76,400	398,000
Investments value per 1 leu of Agricultural production (2007-2013) Lei	0.0045	0.044	0.15	0.046	0.24

Source: Elaborated on the basis of the information from AIPA, MF and commercial banks.

The main source of investment for the agricultural sector were loans obtained from commercial banks amounting to MDL 12.200 Million.

The fewer investments were made from the National Program, their value being of MDL 185,200 per 1 hectare of agricultural land in 2007-2013.

The data from Table 2 show that the largest number of loans in agriculture was offered by Moldova Agroindbank worth USD 961.7

Million.

Currently the most important international programs and projects in agriculture are:

Portfolio of International Fund for Agricultural Development (IFAD, Program for Rural Financial Services and Marketing (IFAD-IV), Project for Rural Financial Services and Agribusiness Development (IFAD-V), Program for Rural Economico - Climatic Inclusive Resilience (IFAD VI); So far, with the help of this fund there were

conducted 133 training courses attended by over 50,000 young entrepreneurs; there were organized 72 days of field involving over 460 young farmers; there were made 16 study visits abroad involving 120 farmers; assistance was offered for the participation in specialized exhibition "Farmer", FruitLogisitca-2010 Berries of Ukraine, INDAGRO Interagro, Agro Animal Show Competitive Agriculture Pproject - MAC P Sponsor: World Bank IDA AIDS; The first grant program on facilitating access to markets is conducted by MAIA and has a budget of about \$ 7 mln. The second grant on increasing productivity through sustainable management of soil will have a budget of 3 million dollars. The beneficiaries of these projects can receive grants of 50% of total investment (up to 350 thousand US dollars) for the purchase of technological equipment and post-harvest equipment (sorting, washing, grading, packing, drying lines etc.). The sources are available through the AIPA.

Table 2. Credits value in agriculture

Bank name	Amount , MDL	Amount , USD	Total, USD
Moldova Agroindbank	782.5	179.2	961.7
Moldinconbank	250.4	158.7	409.1
Victoriabank	74.6	252.1	326.7
ProCredit Bank	282.3	20.0	302.3
Energbank	113.6	57.1	170.7
Eximbank-Gruppo Veneto Banca			
Banca Socială	111.8	20.6	132.4
Fincombank	117.7	8.5	126.2
BCR Chişinău	8.0	82.8	90.8
Banca de Economii	70.5	2.0	72.5
Mobiasbanca- Groupe Societe Generale	9.3	40.0	49.3
Unibank	27.5	0	27.5
EuroCredit Bak	6.3	4.0	10,3
Comerţbank	5.0	1.1	6.1
TOTAL			2,852.2

Source: prepared by the author based on the raports of the NBM.

The portfolio of the projects financed by the Japanese Government constitutes: Assistance Project for unprivileged farmers 2KR, which has been taking place since 2000. The

program for the development of small-scale irrigation system, which has been taking place since 2006. The project "Efficient use of solid fuel from biomass", which has been implemented since 2013 under the Grant Agreement, drawn up by an exchange of notes between the Government of the Republic of Moldova and the Government of Japan. The overall objective of these projects is to increase food production in Moldova by reducing crop loss and improving the quality of basic measures in the preparation of the soil.

Assistance for the General Agricultural Census, donor: the Government of Romania; TCP Facility, the Land Code of the Republic of Moldova. Donor: United Nations Organization for Food and Agriculture; Twinning Project "Support to Moldova in the field of food safety rules and standards for products of plant origin," Funder: European Commission.

Wine Sector Restructuring Program. Funder: European Investment Bank; Loans amounting to minimum 25 thousand euros (for any viticultural and vinicultural activity) and maximum 5 mln. euros (for upgrading the enterprise). EIB financing sources is 50% of the investment project, the rest 50% of the investment project in the form of cash and / or material goods.

Project "Orchards of Moldova". Funder: European Investment Bank.

At the same time agriculture is very actively financed by Poland in 2014-2015, Poland's Government has granted a loan of 100 ml. euros, the same amount was received from the European Investment Bank for the development of vegetable and fruit growing.

The main goal of these projects is to modernize agriculture and increase agricultural production quality up to European standards, and also to improve the quality of life in rural areas. External assistance is focused on four aspects: institutional development, policy development in agriculture, improving competitiveness of agriculture and the implementation of quality standards, and also increasing the access of farmers to financial resources to develop all types of agricultural business.

With the signing of the agreement on the liberalization of trade with the European Union, domestic farmers begin to face a very strong competition with the farmers from the European Union and will have to comply with new requirements regarding business development in agriculture. At European level, in terms of the technologies used in agriculture and current agricultural production, Moldova is far exceeded. In order to industrialize agricultural production and to increase the share of processed raw materials of the quality required on international markets it is necessary re-equip agricultural units with modern technique and equipment, and to change traditional methods of farming methods and agricultural raw materials. This is possible only having considerable investments. At the same time for the development and improvement of entrepreneurship skills there are organized training courses for young entrepreneurs, supported by the Ministry of Agriculture and a number of other bodies.

The main reasons for young entrepreneurs who start their own business, are the challenge to control their own destiny and to put ideas into practice, but not financial gains. Successful young entrepreneurs have talent in identifying the issues that will contribute to business success and willingness to take business niches that other entrepreneurs have ignored or they were sceptical about. The interest and potential of young people to become entrepreneurs should be supported strongly by encouraging entrepreneurial mind-sets and attitudes in education and training systems

Thus, during the years 2012-2015 within investment projects "Rural Financing and Small Enterprises Development," "Revitalising agriculture", "Development of rural business", "Rural Financial Services and Business Development" of the International Fund for Agricultural Development (IFAD) there were trained about 500 attendees in the initiation and development of business in agriculture. Free courses were organized by the Centre for Education and Rural Development. [2] The groups were each formed of 25 people aged 18-30. The main

condition was that all those participating in the courses should be from rural areas. Analyzing the data in Figure 1 we can mention that coverage area is varied from practically all districts of the Republic of Moldova.

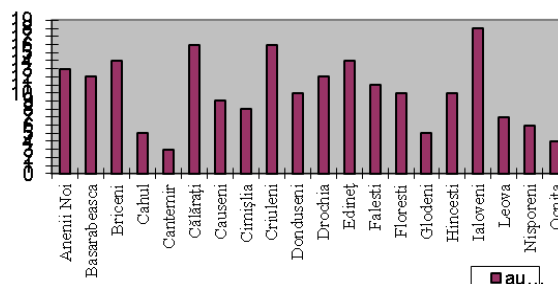


Fig. 1. Number of courses attendees by geographical area.

Source: Own calculation.

It is a good fact that in order to enhance entrepreneurship the entrepreneurs who have already established businesses are also very active. According to data in Figure 2 we can see that 55% are entrepreneurs with legal form of peasant households; 28% - joint-stock companies and only 17% haven't founded businesses.

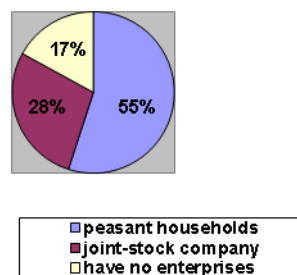


Fig.2 Organizational – legal form of the businesses that attended training courses

Source: Own calculation.

According to the information presented in the figure above, we can see that most entrepreneurs have registered peasant households.

The training courses are based more on the study of practical material. Trainees were able to develop a business plan by themselves, applying the database received from experts. The training program allowed young entrepreneurs to gain knowledge in the following areas:

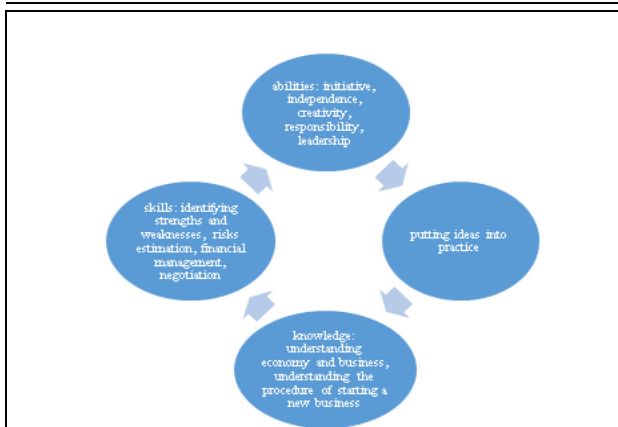


Fig.3. Skills formed after attending training courses.

Source: Own calculation.

Figure 3 illustrates the skills, knowledge and abilities, which were obtained after training courses.

CONCLUSIONS

Agriculture in the economy of the Republic of Moldova is one of the branches of great importance, designed to contribute significantly to relaunch of the economic development of the country. It is necessary to carry out fundamental changes in agrarian structure, on the material and technical basis, in organizing and reorganizing agricultural enterprises, which would provide a modern agriculture oriented to market economy. But to ensure modern agriculture special efforts are needed in order to create a favorable investment climate as investments are the main source of economic growth. Attracting foreign investments in the Moldovan economy is a major requirement of the time and it is needed to relaunch entrepreneurial activity until own market mechanisms will begin to operate well and domestic investors will appear. Thus for the successful implementation of a strategy promoting investments the support of an effective institutional framework is necessary. Many countries have created institutions - national investment promotion agencies - with a mandate to attract foreign investments and to place the country opportunities to foreign investors.

The process of investments attraction in the economy of any country is a competitive

game led to offer more favorable conditions to foreign investors. (The strategy of the Republic of Moldova for attracting investments and promoting exports approved by the Government Decision no. 234 of 13.10.2006. Published in: the Official Gazette of the Republic of Moldova nr.43-45 of 30.10.2006)

So, in order to choose the country, in which the investor will place his investments, he will consider not only the investment legal framework, but also a number of factors such as the degree of infrastructure development and of the financial system, criminality, etc.

The achievements of our country are already recognized and appreciated abroad concerning the economy reforming, especially creating the legal and economic framework, the privatization of the State heritage, economic liberalization and creating favorable conditions for the development of entrepreneurship, attracting foreign investments. Financial stabilization has been reached, inflation decreased, efforts are being made to return to sustainable economic growth.

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