

THE ROLE OF FINANCING AGRICULTURE IN NATIONAL ECONOMY DEVELOPMENT

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Abstract

Besides the transition to market economy as a specific form of transformations for post socialistic countries, including the Republic of Moldova; besides the necessity to form a form model which would ensure energetic, alimentary and other kinds of vital securities needed by the country's population, it is also necessary to create the country's social/economic structure able to counteract all the existing and recent phenomena caused by the crisis affecting nowadays the world civilization, development of transmission mechanism of processes associated with the development of agriculture for the economic growth, in order to identify perspective strategies for agriculture in the Republic of Moldova; the development of funding policy in the context of strategies of development of enterprises; analysis of the funding policy effects on the capacity of agricultural enterprises in the Republic of Moldova; development and elaboration of a financial policy of agricultural value chain for agricultural enterprises in the Republic of Moldova; argumentation of the necessity and opportunity for the innovation promotion in the financial policy of agricultural enterprises in the Republic of Moldova.

Key words: agricultural enterprises, common agricultural policy, development strategy, funding policy, subvention

INTRODUCTION

The presented material addresses a multifaceted problem with multiple and diverse interdependencies between economic development strategies of agricultural entities and funding policies to ensure and encourage the implementation of these strategies when the role and place of the Moldovan agriculture in the formation of macroeconomic indicators are still very important, although it was reduced by 50% during the period 2000 - 2014. The importance of agriculture for the national economy is determined by at least the following argument: agriculture currently has a share of 27.5% in the total number of the employed people and 27.65% of GDP.

Meanwhile, in 2013 40% of the agricultural economic entities suffered losses. The reasons that explain this negative phenomenon are complex and numerous. The lack and failure to promote rational development strategies and some proper funding are among the most important and essential ones.

If development strategies are created and

implemented in the proper way, agricultural economic entities can benefit from their application. The most significant advantage is the perspective of agricultural enterprises to increase their income. Besides financial benefits, companies can enjoy other distinct assets [1]. Agricultural entities will have to solve two distinct problems in the context of development strategies: (i) the identification of the necessary development direction from various strategic alternatives, which can be hardly ever assessed; (ii) the concentration of efforts, including financial ones, in the selected direction.

Thus, the funding policy is of special significance, ensuring smooth implementation of development strategies. Both financial theory and practice show that the funding policy should be connected with both strategic project and organizational structure of the economic unit at the same time. It must be designed so that it doesn't compromise the value of the organizational capital, i.e. it does not produce discontinuities as to the contracts with customers, suppliers, the staff, the state

or local communities [11].

Based on the decisive role of agricultural economic entities in both economic and social destiny of every country, the financial dimension treatment of their activity is of the greatest interest and importance. Funds, promoted by the funding policy, ensure the required amount of resources necessary for the current use in economic entities as well as for their development in the long term.

MATERIALS AND METHODS

Investigations involve addressing a very complex problem with multiple and diverse interdependencies between economic development strategies of agricultural entities and their funding policy. From the scientific point of view, the research was conducted in the context of a complex and systematic approach to contemporary economic concepts [10]. The generalized experience of the developed countries and the ones with the low income per capita in agricultural entities funding and their development strategies is paid special attention in the paper. Taking into consideration the complexity of the presented material, there was applied an expanded arsenal of the scientific method based on the principles of dialectical determinism. Therefore, using scientific abstraction, we have considered the fact that the driving force of the development is internal contradictions of both phenomena and processes. We feel that both induction and deduction are not independent, isolated from each other research methods, but they are interrelated, being the parts that are necessary to study the economic reality. We considered it right to analyze every phenomenon and process and to complement our analysis with the synthesis.

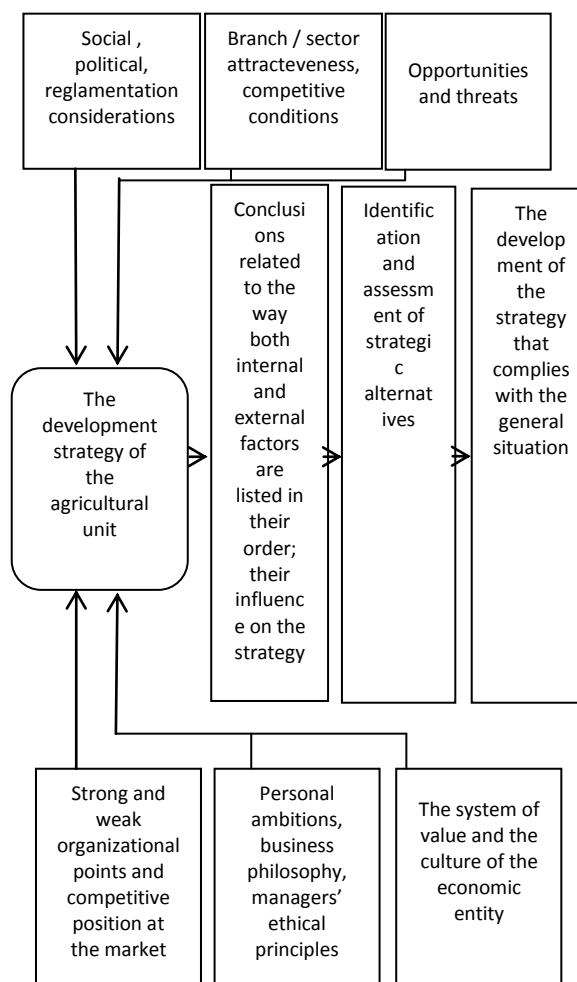
RESULTS AND DISCUSSIONS

The analysis of the most important scientific contributions in identifying the role of agriculture in sustainable development of the national economy made it possible to group them into the following subject issues:

-agriculture, economic growth and poverty reduction;

- agriculture and urbanization trend;
- green revolution, acceptance and acquisition of technologies;
- research & development in agriculture and adequate technologies;
- extension services (consultations) as a means to boost the acceptance and acquisition of new technologies;
- environmental challenges and the sustainability of agricultural systems;
- barriers to accept and acquire technologies in the agricultural sector;
- the size of the household and land tenure [7].

Fig. 1. Determinants of any development strategy of economic agricultural entities



Source: Developed by the authors.

The development of the strategy is influenced by many factors. Figure 1 is a simple model of primary factors that influence the strategy and of the way the strategy ultimately appears. The interaction of these factors is always specific to every economy branch or

sector. The development of the strategy is influenced by some aspects of the political situation [2]. Thus, the attitude of central and local legislative bodies and judicial organs to the business influences the following government actions: taxation of the economic agents, establishing tax reliefs and trade taxes, requirements to the process of hiring and promotion of national minority representatives, the legislation on consumer protection, security and environmental standards, price and wage control, etc. The factor of political stability is of great importance for the companies that operate or have outlets in other countries. Specific interest groups and lobbyists are another element of the political situation which can influence the strategy. We claim that agricultural entities, as far as they develop and implement their development strategies, should take into consideration the policies and legislation that regulate the agricultural sector activity, which is composed of the following key documents:

The National Strategy for the Sustainable Development of the Agribusiness Complex of the Republic of Moldova (2008-2015) is intended to be a document of strategic coordination at the national level of the main political, economic and social actions for the development of the agribusiness sector, combining the assessment of the adaptation level of the local food sector with the conditions and mechanisms of the market economy, main directions and instruments of the agricultural sector modernization, the role of the state as to the agri-food sector development at the post-privatization stage, the expected economic effects as well as the detailed information about the risks of its implementation.

The Sustainable Development Strategy of the agribusiness complex addresses the following policies: - the subsidy policy / supporting farmers, - the land market development and farm consolidation policy, - the trade policy, - the investment policy, - the innovation policy and the development of the agricultural science, - the policy of socio-economic development of rural areas, - the regulator, - the development of institutional abilities [8].

The Concept of the Subsidy System for Farmers for 2008-2015 has its objectives:

-to model a single subsidiary system for farmers, vital for the priorities stated in the agricultural policy documents, close to the needs of different groups of farmers in rural areas;

-to establish the sectors and main directions of agriculture, funded by the state, which allocates resources from the fund aimed to subsidize farmers and is annually approved by the State Budget Law;

-to rationally allocate financial resources from the fund aimed to subsidize farmers;

-to determine the basic criteria required to establish eligibility criteria for the beneficiaries from the agricultural sector regarding the state financial support;

-to create an institutional system to manage financial resources necessary to subsidize farmers, to monitor their distribution and to assess quantitatively and qualitatively the influence of the state's support measures [6].

The Land Consolidation Program. The consolidation of agricultural land includes resolving a wide range of issues – from the rational land use to the revival of rural communities. They will achieve this goal (the revival of rural communities) through land consolidation in accordance with the land consolidation program, encouraging land markets, reducing transaction costs, using mortgage, etc.

The Law on the organization and functioning of agricultural food markets nr. 257 of July 27, 2006, establishes the legal framework for the organization of agricultural food markets by the individuals and businesses that produce, store, process and/or sell these products at the national level or within the production area, on internal and/or external markets, and the functioning of these markets. By law, the activity of agricultural food markets is regulated by the Ministry of Agriculture and Food Industry (MAFI) and the Council on the product chain. The MAFI develops a market strategy and agricultural policies as well as ensures the implementation of the legal framework and specific regulations, collaborating with the Council partnership organizations.

The close relationship between the financial development and the economic growth is well grounded in the literature and in practice [4]. In recent years, debates have expanded to include the notion of financial "exclusion" which is a barrier to the economic development and points to the need to develop inclusive financial systems. Recent empirical evidence that has used the databases on households shows that the access to basic financial services such as savings, payments and credits can be a significant contribution to improve poor people's lives. The access to funds is often the main obstacle to the growth of economic agricultural entities, and individual farms, small and medium-sized enterprises in particular.

In our opinion, access to funds is the individuals' possibility, as well as the chance of households and firms to benefit from financial products and services. The access to funds shows who benefits from the offered products and services and at what price. The limited access to financial services reduces the welfare and slows down the growth of any economic entity. Moreover, this may increase the risk of financial instability because the poor try to develop their own means of informal access [3].

The access to funds for agricultural entities is more limited than it should be because of informational frictions, distorted incentives, and disproportionately high transaction costs. Some of these can be mitigated by means of political actions, and some may be worsened by the side effects of incorrect policies. The access issue is viewed differently depending on the user's or supplier's opinion. The implementation of financial products and services that meet participants' needs of both demand and supply may be the way to improve access to funding.

The access to funds involves the following three dimensions (Fig. 2): funding recipients, financial products and services and funding providers.

Funding recipients. The access has many dimensions: services should be available when they are required, the products must be adapted to specific needs; prices for these services must be affordable, and, the most

important, it must be meaningful for finance providers, transforming into their profit, and, therefore, being available on a continuous basis.

Products. The lack of access to funding means exclusion from products and services that help individuals, households and firms face risk, accumulate savings, manage cash flows, etc.

Providers. However, recent experience shows that funding providers can overcome these obstacles and reach small, isolated or disadvantaged customers by promoting innovative design and customer-driven products developed in order to minimize unit costs. There is a range of financial service and product providers all over the world, helping to fulfill these tasks. The types of providers range from banks and large international insurance companies (by means of national, regional and local savings banks, as well as national and regional credit unions or cooperatives), specialized microfinance companies, money transfer agencies and – for some services.

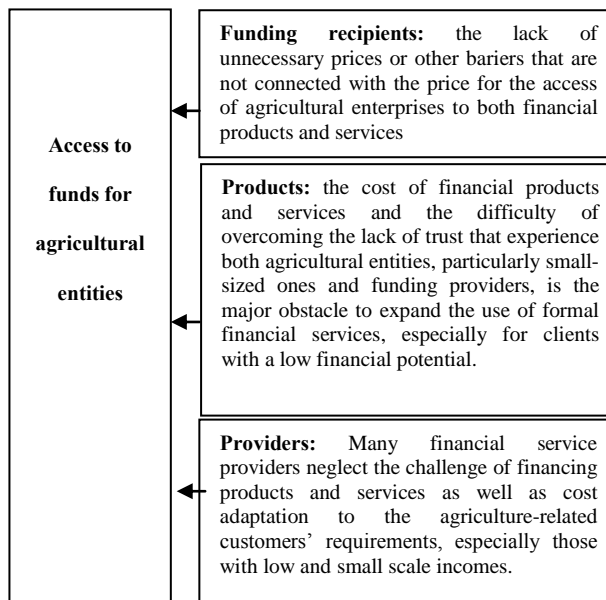


Fig. 2. Access determinants to finance agricultural entities and related critical issues

Source: Developed by the authors

Taking into consideration the lack of an integrated methodology for assessment and monitoring of funding access for agricultural entities at the level of specialized authorities in the Republic of Moldova, we propose the following system of indicators that should be

used to periodically study the way it evolves [5].

To obtain a functional system we have stated the following criteria which should be met by developed indicators:

Usefulness: The indicators should be a proper instrument to measure whether agricultural economic entities access easily or hard the funding and to help policy makers to formulate or adjust their policies and programs in order to expand the access of agricultural enterprises to funds.

Availability: The data for the development of indicators should be available not to impose new burdens on government authorities and businesses.

Feasibility: If the information for the development of indicators is not publicly available, it should be feasible to make it available at the lowest price or to get it when practicing routine data collection or surveys.

Timeliness: The information should be collected in a timely manner, so that the evolution of access conditions for agricultural enterprises can be monitored. Annual data are and can be available more easily, though taking into consideration specific seasonal agricultural activities. We believe that they should be supplemented with quarterly data, where possible, in order to better capture variability of financing indicators and describe the turning points.

Comparability: The indicators should be relatively uniform in all the regions of the country in terms of the population surveyed, content, methods and frequency of data collection or timeliness [9].

Having applied these criteria, we obtained the following system of indicators that may be useful in assessing and monitoring the access of agricultural entities to funding:

The indicators that measure access of agricultural economic entities to funding:

- the institutions that provide funding to agricultural economic entities (categories of institutions, the name of the institution);
- financial products and services offered to agricultural entities by funding institutions: the name, the volume, the cost, access conditions, the average time to obtain access

to the product / service required;

-loans provided to agricultural economic entities / the total of the loans provided to the enterprise sector;

-short-term loans granted to agricultural economic entities / the total of the loans provided to agricultural economic entities;

-loans granted to agricultural economic entities according to their categories (micro, small, medium, large-sized enterprises; depending on the organizational and legal form) / the total of the loans provided to agricultural economic entities;

-government guarantees granted to the agricultural entities which borrow money;

-government loans granted to agricultural economic entities;

-authorized loans / the loans requested by agricultural economic entities;

-the loans used by agricultural economic entities / authorized loans;

-bad loans granted to agricultural economic entities / the total of the loans provided to agricultural economic entities;

-interest rates on loans to agricultural economic entities;

-the difference between the interest rates to other sectors and the interest rates on loans to the agricultural sector;

-the percentage of agricultural economic entities which were required collaterally for the loan;

-arrears at the level of agricultural economic entities;

-bankruptcies at the level of agricultural economic entities;

-the access of agricultural economic entities to subsidies.

At the same time, the expanded access of agricultural entities to funding should be a major concern of the Ministry of Agriculture and Food Industry of the Republic of Moldova addressed by promoting some specific policies.

CONCLUSIONS

According to the authors, the following thematic groups have the most important scientific contributions in identifying the role of agriculture in the sustainable development

of national economies: agriculture, economic growth and poverty reduction; agriculture and urbanization; green revolution, acceptance and implementation of technologies; research & development in agriculture and adequate technologies; extension services (consultations) as a means to boost the acceptance and implementation of new technologies; environmental challenges and the issue of agricultural systems sustainability; barriers to acceptance and implementation of technologies in agriculture; the size of the household and land tenure.

Funding structures are always mixed (debts and equity), regardless the form of organization, with a predominance of debts and highlight the role of specialized financial creditors (bankers, bond holders, etc.) to provide a monitoring role which benefits all agency contractors.

The decision to finance is a private transaction in which the degree of the asset specificity plays a central role.

The development strategy based on intangible assets in highly volatile activities will require equity financing with a strict control of shareholders.

According to the authors, the funding policy must be connected with the strategic project and organizational structure at the same time.

The funding policy should be designed so as not to compromise the value of organizational capital; it does not produce discontinuities as to the contracts with customers, suppliers, the staff, the state or local communities.

The strategy of an agricultural economic entity implies all the objectives that the agricultural entity management proposes to achieve, the actions to be taken and the way resources are allocated to ensure its future competitiveness and development.

The strategies can be classified by their extension within agricultural enterprises into corporate, business and functional strategies.

The development of the strategy is influenced by many factors, and namely: political, social, regulatory and civil considerations; the attractiveness of the sector and competitive conditions; specific opportunities and threats; strong and weak points of the agricultural enterprise, its competitive potential; personal

ambitions, business philosophies and managers' ethical beliefs; the influence of values and corporate culture on the strategy.

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