

IMPROVEMENT OF THE INVESTMENT CLIMATE AS A MAIN CONDITION FOR THE ENHANCEMENT OF THE QUALITY OF LIFE IN RURAL AREAS

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Abstract

This work reflects results of the study on the improvement of the investment climate and the analysis of foreign direct investments in the economy of the Republic of Moldova. At present the basic priorities of the Ministry of Economy of the Republic of Moldova are the improvement of the investment climate in order to enhance the quality of life, the improvement of tools designed to attract foreign and local investors, as well as the promotion of local products in order to increase the competitiveness of economy. This is explained by the fact that investments increase the competitiveness of businesses, facilitate technology transfer, create new jobs and stimulate foreign trade, which are the basic elements in the process of development and implementation of policies aimed to attract investments and promote export.

Key words: entrepreneurs foreign capital investment, investment climate, rural areas

INTRODUCTION

Nowadays the national economy is characterized by macroeconomic and sectorial structural misbalance; therefore, investment policy must be a policy of national interest and a factor that improves economic performance and economic and social progress.

The investment climate is seen as an effective mechanism aimed to change people's attitude and behavior in order to increase social activism and community solidarity, as well as to improve the quality of life of both population and vulnerable groups by increasing the access to better social services[3].

Investment activity plays a central role in the economic life, both in the production of goods and services and in the sphere of consumption, being the factor that simultaneously influences both supply and demand. The statement is proved by the processes of training and multiplication of effects, which are generated by any investment project, regardless of the activity sector that is implemented. The realization of an investment project in the sphere of goods and services production results in increased and diversified supply and,

therefore, if it is validated by the market, increased incomes of economic agents. However, the degree of employment will be influenced directly or by means of a driving effect. Thus, the increased number of employees and / or their wages ultimately lead to the increased demand for goods and services. On the other hand, there will be increased both economy and available funds of economic agents, which look for more efficient structures according to investment options.

So, we can state that investments play a dual role within the national economic circuit:

➤ First, economic agents that trigger investment actions and implement various investment projects, increase the supply of goods and / or services by enhancing their productive capacity, creating additional revenues;

➤ Secondly, any investment project generates additional needs or demands in related sectors (suppliers of raw materials, utilities, etc.) or oval (distributors and / or consumers of goods and services that are offered). All economic agents that are involved will also experience an increase in the revenue chain. [1]

The realization of projects or investment

programs leads mainly to the increased fixed capital stock. Investments are the main tool to achieve economic modernization by establishing new improved structures in compliance with strategic options and future needs of the society.

From the social point of view, investments play the role of regulator / compensator in employment and improvement of the quality of life.

Implementation of investment projects or programs involves changes in the labor market, creating an increased demand for the workforce in the sectors, where investment beneficiaries exploit new production capacities. Investments may be also viewed as a bridge between generations, by creating new jobs for a younger generation and by "inheriting" fixed capital, which is received from previous generations. Not least, investments act as a material support for the promotion of the scientific and technical progress in various activity sectors. The implemented investment projects are the primary means to assess new technical and technological solutions, provided by the scientific research. [2]

The role of investment activities in solving major issues of the contemporary world is relevant too, as most problems are related to environmental protection and ecological balance where it was disturbed (most often because of ignorance).

If we analyze opportunities and efficiency, any investment project must also have an ecological component, and ecological criteria must be included in the system of criteria, based on which investment decisions can be made.

Our statement originates from a widely recognized assertion: "prevention is better than cure".

Therefore, it should be noted that many international financial investments set conditions on the nature's ecology, which have to be met by the projects or programs that are to be funded. Moreover, there is a need for investment efforts aimed at ensuring national security.

MATERIALS AND METHODS

The reflected researches were achieved on informational materials of the National Bureau of Statistics of the Republic, the National Bank, etc. There were used the following research methods: monographs, comparison, analysis, inference.

RESULTS AND DISCUSSIONS

In order to develop the private sector the Government of the Republic of Moldova receives funds from its development partners under favorable conditions. Taking advantage of this assistance (credit schemes, grants or subsidies), Moldovan entrepreneurs can develop their businesses, significantly increase the quality and export capacity of their products, thus, becoming more competitive and creating new jobs. Interest rates for these favorable funds are lower or do not exist in case of grants and subsidies. Moreover, the repayment period of loans is several times higher than in case of commercial loans, many of them have grace periods as well. [5]

Thus, we should mention that in recent years authorities have launched a series of investment programs and projects aimed at changing the quality of life in rural areas, bringing additional comfort and creating new development opportunities.

The total budget of international programs and projects that are eligible is 86.8 million USD; 340.3 million Euros and, respectively, 1,546.9 million MDL. (Table 1).

The European Bank for Reconstruction and Development (EBRD) is among the most important funders of investment projects in rural areas. [2]

By the end of 2013 the Bank signed 105 investment projects in the country that cover energy, transport, agricultural economic activities, industry and banking sectors with the aggregate value of 818 million EUR back to the initialization of its operation in the Republic of Moldova in 1991.

The total value of these projects, including the funding provided by the Bank, equalled 1.65 billion EUR. Cumulative payments amounted to 447 million EUR. 43% of the Bank's funds

were directed to the financial sector, 32% – to corporation sector and 6% - to the energy the infrastructure sector, 19% - to the sector.

Table 1. International programs and projects started in the economy of the Republic of Moldova

Program Name	Funded by	Budget
Inclusive rural economic & climate resilience programme for young entrepreneurs (ifad vi)	International Fund for Agricultural Development (IFAD)	12.7 mln USD
Programme on the development of small-scale irrigation systems	European Union	24.9 mln MDL
Irrigated high value agriculture 2kr hire-purchase program	US Government	4.6 mln USD
The moldova energy and biomass project (pccf / pebm-undp)	UNDP Moldova, European Union	0.4 mln EUR
Food security project for underprivileged farmers	Government of Japan	157.9 mln MDL
Second competitiveness enhancement project: cep ii (part of co-financing grants)	International Development Association (IDA)	3.0 mln USD
Moldova agriculture competitiveness project (mac-p): "enhancing land productivity through sustainable land management (slm)"	World Bank, Global Environment Fund	3.0 mln USD
Program for purchasing biomass boilers	European Union	
Innovative business development for local sustainable economic growth	Ministry of Foreign Affairs of Norway	1.6 mln USD
Competitiveness enhancement project ii (cep 2), line of credit	World Bank	29.4 mln USD
Inclusive rural economic & climate resilience programme (ifad vi) - infrastructure	International Fund for Agricultural Development (IFAD)	3.8 mln USD
Inclusive rural economic & climate resilience programme (ifad vi) – for sme	International Fund for Agricultural Development (IFAD), Government of the Republic of Moldova	4.8 mln USD
Inclusive rural economic & climate resilience programme (ifad vi) – rural inclusive financing	International Fund for Agricultural Development (IFAD)	3.7 mln USD
Inclusive rural economic & climate resilience programme (ifad vi) - conservative agriculture and value chains	International Fund for Agricultural Development (IFAD), Global Environment Fund (GEF)	4.6 mln USD
The european union programme horizon 2020	European Union	80.0 mln EUR
The european union programme cosme	European Union	2.3 mln EUR
Small business support project in moldova	Government of Sweden, European Union	
Public-private business partnership programme	Austrian Development Agency	
Moldova agriculture competitiveness project, horticultural sector	World Bank, Government of Sweden	7.0 mln USD
Moldova agriculture competitiveness project, conservative practices	Global Environment Fund, World Bank	3.0 mln USD
Wine sector restructuring programme "filiera vinului"	European Investment Bank	75.0 mln EUR
Programme on attracting remittances into the economy - pare 1 + 1	National Public Budget, European Union	85.6 mln EUR
Credit guarantee fund	National Public Budget, European Union	47.8 mln MDL
Line of funding for energy efficiency in the republic of moldova	European Bank for Reconstruction and Development, European Union	42.0 mln EUR
Energy efficiency financing facility in the residential sector of the republic of moldova	European Bank for Reconstruction and Development, European Union, Government of Sweden	35.0 mln EUR

Source: based on the data provided by the National Bank of Moldova

The EBRD is also engaged in the dialogue with the authorities on public policies to address the key challenges of the transition period.

The International Fund for Agricultural Development (IFAD) is an important funder of investment projects in rural areas, later there was established the Project Implementation Unit (PIU) by the

Government Decision no. 980 of September 25, 2000.

Basic IFAD objectives are oriented towards resource mobilization, providing the poor in rural areas with new opportunities to improve nutrition and increase the production of agricultural products and incomes. IFAD provides direct financing by arranging loans and grants on favourable conditions, as well

as attracts co-financing resources for the realization of projects and programs initiated by IFAD. IFAD cooperates with many organizations, including the World Bank, regional development banks, other financial regional institutions, as well as agencies of the UN family, most of which jointly co-finance projects IFAD.

Thus, 411 loans were granted to the total of 2,170 beneficiaries (founders of credited companies) with the total value of 9,926 thousand US dollars within the Rural Financing and Small Enterprise Development Project (IFAD I). As the result of financed investment projects there were created 6,171 new jobs, 3,490 of which are permanent and 2,691 - seasonal ones; there were credited 5,700 members from 27 savings and loan associations, the total amount of loans equals 1,170 thousand US dollars. However, there were created 16 savings and loan associations within the project, which later benefited from technical assistance and advisory services that were provided in order to strengthen them.

33 municipalities have received financial support for the village development plan within the Agriculture Recovery Project (IFAD II) (2006-2013); as a result, 103 of them were funded. Over 400 people, including rural entrepreneurs, employees of commercial banks, representatives of consulting companies and the Ministry of Agriculture and Food Industry were trained during the whole period of activity in order to develop institutional skills of the partners that are involved in the project implementation. There were granted 214 loans to 549 beneficiaries with the total amount of 14,180 thousand US dollars for the SME development. Loans were disbursed through 8 commercial banks in 30 districts of the country.

There were created 3,888 new jobs as a result of funded investment projects. 152 rural entrepreneurs have benefited from the support provided by 7 companies specialized in the development of business plans within the Rural Business Development Programme (IFAD III) (2006-2011). Moreover, 5,696 rural entrepreneurs were provided with advice. There were granted 131 loans to 359

beneficiaries with the total value of 10,816 thousand US dollars for the SME development; loans were disbursed through 7 commercial banks. 1,700 new jobs were created as a result of funded investment projects in order to develop SMEs. There were funded 32 investment projects in infrastructure, including 12 projects on construction / rehabilitation of roads with the total length of 12.4 km, three water pipes with the total length of 10.1 km, two gas pipelines with the total length of 4.6 km and 15 projects to rehabilitate irrigation systems for the total area of 3.9 hectares of farmland. 108 businesses, 1,842 farms and 39,228 individuals benefited from the implementation of these projects.

Rural Financial Services and Marketing Program (IFAD IV) (February 2009 - March 2014) helped the population with a range of activities regarding the development of the chain of value. There were trained 3,497 people at 146 local training seminars, 11 international study tours and 7 visits of international experts. There were granted 207 loans to 268 beneficiaries with the total amount of 3.5 million US dollars for the SME development. Loans were disbursed by means of five commercial banks and the Rural Finance Corporation. There were created 279 new jobs as a result of financed investment projects for the development of SMEs. There were organized 19 training sessions for the development of institutional skills of financial institutions; the training sessions were attended by 18 loan officers – representatives of 8 financial institutions and 222 employees of savings and loan associations. There were awarded grants with the total value of 2.3 million US dollars to finance 25 investment projects in infrastructure; 23,474 individuals, 2,535 SMEs / small farmers and 23 local public authorities benefited from these grants. 9.39 km of roads, 34.95 km of water pipelines and 8.20 km of irrigation systems for 649.47 ha were rehabilitated and/or constructed by means of these funded projects.

The following projects are currently carried out: Rural Financial Services and Agribusiness Development Project (IFAD V) and Inclusive Rural Economic & Climate

Resilience Programme (IFAD VI), which are also to help the rural population with the following objectives: to enable poor rural entrepreneurs to increase their revenues and strengthen resilience; to improve the farmers' ability to adapt to climate changes; to increase the rural population's access to credits by providing appropriate and affordable financial products; to increase productivity and

competitiveness, to increase investments and to improve access to the market. [10]

Virtually all governments stipulate the need to attract foreign investments in their programmes. Foreign investors' contributions, even if increased from \$ 25.9 million in 1995 (Table 2) to \$ 353.1 million in 2014 (a 13.6 times increase) remains far too low and does not meet the existing demand.

Table 2. The analysis of foreign direct investments of the Republic of Moldova as compared to other countries, million US dollars

	1995	2000	2005	2010	2011	2012	2013	2014
Estonia	201	387	3,127	2,053	511	1,592	884	1,597
Latvia	180	412	812	433	1,502	1,076	990	782
Lithuania	73	379	1,189	865	1,538	576	708	375
Romania	419	1,037	6,866	3,204	2,557	2,629	4,108	-
Moldova	25.9	127.5	190.7	212.0	301.4	204.9	249.0	353.1
Ukraine	267	595	7,808	6,451	7,207	8,175	4,509	847
Russian Federation	20,650	27,142	15,508	43,168	55,084	50,588	69,219	20,958

Source: developed by the author based on the information provided by <http://data.worldbank.org/indicator>

Table 3. Investments in fixed capital, per types of economic activities, billion lei

	Year							
	1995	2000	2005	2010	2011	2012	2013	2014
Investments in fixed capital	0.84	1.76	7.80	13.80	16.45	17.15	19.13	20.85
in: agriculture, hunting and forestry	0.09	0.06	0.46	1.05	1.82	1.66	1.85	2.30
processing industry	0.16	0.26	1.14	1.43	2.11	2.31	2.87	2.31
construction	0.02	0.03	0.20	0.42	0.46	0.48	2.12	2.35
wholesale and retail trade	0.04	0.16	0.79	1.52	1.99	2.12	2.22	2.47
transport and communications	0.08	0.77	1.66	3.47	3.60	3.63	2.16	2.39
higher education	0.012	0.037	0.11	0.36	0.46	0.52	0.63	0.91
health care	0.013	0.006	0.08	0.65	0.69	0.81	0.91	1.28

Source: developed by the author based on NBS statistical yearbooks

It should be noted that in 2014 foreign direct investments in our country increased 13.6 times as compared to 1995, in Estonia - 7.9 times, in Latvia - 4.3 times, in Lithuania - 5.1 times, in Romania - 9.8 times, in Ukraine - 3.2 times. Even if foreign direct investments have greatly increased in our country, in 2014 they were 4.52 times lower than in Estonia, 2.2 times lower than in Latvia, 2.4 times lower than in Ukraine and 11.6 times lower than in Romania.

Investments are undoubtedly a decisive factor in the improvement of the technical and material basis, promotion of efficient technologies, environment protection, professional training, etc. However, investments should be first directed towards regeneration or purchase of equipment,

installations and machines in order to achieve the desired outcome.

Investments unquestionably make a direct contribution to the maintenance and / or development of the national economy branches as the whole. In 1995-2014 increased investments in fixed capital were registered in all the branches of the national economy. For instance, investments increased from 0.09 billion lei in 1995 (Table 3) to 2.3 billion lei in 2014 (a 26.5 times increase) in agriculture, hunting and forestry, in processing industry there was a 14.4 times increase, in transport and communications – a 29.9 times increase, in wholesale and retail trade – a 61.7 times increase, in higher education - a 75.8 times increase, in health care – a 98.5 times increase.

If in 1995 investments in agriculture, hunting and forestry were 10.7%, in processing industry - 19%, in construction - 22.2%, wholesale and retail trade - 4.8%, in higher education - 1.4% and in health care - 1.5%; then in 2014 they equaled respectively 11.0%, 11.1%, 11.3%, 11.8%, 4.4% and 6.1%. Investment dynamics and value influenced the situation in the national economy, including economy values in rural areas of our country.

However, in recent years the countryside has experienced a remarkable development, investments in infrastructure, drinking water pipelines, the sewage system, modernization of schools, kindergartens, clinics, improvement of parks, gyms - these are just some of the projects implemented in rural areas that have radically changed people's lives and prospects for the development of the region.

Although there are still some serious social problems, such as lack of jobs, poverty, unemployment. Every authority tries to propose a solution, but they will be probably able to overcome these problems only if they develop an entire system and offer everyone equal opportunities. The best way to find a solution is obviously to make various social actors (a city hall, schools, local businesses, churches, etc.) contribute to this process.

However, the Moldovan economy remains unattractive for investors. The investment climate is not Moldova's advantage, the fact that shows both Moldova's position in international ratings and direct comparison of macroeconomic and performance indices regarding FDI attraction among countries. FDI inflows generally decreased since 2008.

Investment flows directed towards the national economy fell sharply as a result of the global crisis. The economic and financial crisis has sharply reduced foreign investors' confidence in the ability to revive economies in transition; the Republic of Moldova is among them. Many investment projects were abandoned or postponed.

According to experts who participated in debates, at present corruption, political instability and inefficient government keep investors far from the Moldovan economy. Other constraints that reduce investment

attractiveness of our country are related to workforce qualification, rigid labour legislation, infrastructure, weak institutional and legal framework, inefficiency of investor protection mechanisms.

Adrian Lupusor, the director of Independent Analytical Centre Expert-Grup, said: "Customs and Treasury institutional approaches are directed against investors that are focused only on fines and penalties, and the plan of fines and financial penalties is still a source of income for the national budget. These constraints significantly reduce investment attractiveness. The examples are the following: increased energy prices, administrative obstacles for attracting investments, increased regional competition, fierce competition in external commodity markets, processes of labour migration in the region".[6]

These are some of the reasons why in the past four years we missed the entry of several large investors in the Republic of Moldova

CONCLUSIONS

Foreign direct investments have become vital for its economic growth and development. Investments directly contribute to the replenishment of resources and the development of competitive factors of production. Although one needs to create favorable investment climate to benefit from these investments, which involves economic and legal stability, appropriate fiscal policy, human capital adjustment, developed business infrastructure, etc.

Mayors' and vice-mayors' points of view regarding the difficulties encountered in recent years are varied and they pay special attention to bureaucratic problems that authorities face while developing investment projects. Another fundamental problem is the bureaucracy that is very well illustrated by the activity of various institutions and organizations that are related to investment projects.

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