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PUBLIC-PRIVATE PARTNERSHIPS – FINANCING INSTRUMENT OF THE MECHANISM OF ECONOMIC GROWTH AND DEVELOPMENT OF THE AGRICULTURAL SECTOR

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Abstract

In economic science, economic growth represented a prime topic because by solving the problems in this area it was hoped to achieve the strengthening of the state and increase of its wealth and welfare. All this led to the establishment in the economic field, of an important segment of research, namely, the theory of economic growth that is required to develop rules for optimal use of limited resources, as well as means of achieving nation's welfare. As in other sectors of the national economy, a series of indicators are present in agriculture that directs the economic growth of the sector, but that can not be monitored in order to ensure a stable economic growth. The state can control such factors as the volume of investments in agriculture, subsidies, customs duties on agricultural products and bank interest, while parameters of external agricultural markets and climatic natural conditions can neither be controlled nor directed by the authorities. But in spite of this, there are a number of important factors by which the state can contribute to the economic growth of the agricultural sector and the country as a whole.

Key words: *agricultural sector, economic growth, economic mechanism, investment, productivity*

INTRODUCTION

Economic development is a concept that characterizes all direct and indirect economic effects, which propagates to the level of a national economy as a result of quantitative, structural and qualitative changes taking place in the economic life of a country in a given period of time under the conjugated influence of a system of factors. Economic development is associated with industrialization of the country and modernization of the agricultural sector.

Between the economic growth and economic development there are some differences that distinguish them and justify their use in current scientific theoretical system.

Economic growth is a quantitative and positive change, meaning an increase in production, at any reference level, based solely on quantitative change of direct or primary production factors. Economic development, in turn, is the qualitative change of direct factors, with or without production increase, transformation being performed through economic progress.

Economic growth is a quantitative process and economic development is predominantly qualitative. The processes of economic growth and development occur simultaneously, so they are studied at the same time. Both growth and economic development are aimed at increasing the living standards of population.

The role of agriculture in the national economic development and economic growth of the state is fundamentally through the participation of agriculture in the GDP growth, through agricultural production itself, through its participation in the market exchanges and in the mechanism of economic functioning of the state. The economic mechanism is a set of processes, techniques, and tools for regulating social and economic activity. The economic mechanism with all methods and economic levers act on farmers in order to motivate the production and investment activity. The main elements of the economic mechanism are: investment, subsidies, taxes, loans, insurance, export, etc. As an economic category, economic mechanism is: the process of organizing social production through relationships, forms and methods of influence on the production and management of the organizational structure, occurring from the market relations [8].

The purpose of this research is to argue for inclusion in the mechanism of funding and stimulating economic growth of the agricultural sector the use of financial flows from public-private partnerships (PPP) and identification of their possible benefits.

MATERIALS AND METHODS

The data of the Ministry of Agriculture, Agency for Payments and Intervention in Agriculture, Ministry of Finance and other financial and economic structures in the country and abroad have been used as information sources in the performed analysis.

The basic methods of research are analysis and synthesis, comparison, graphical method.

RESULTS AND DISCUSSIONS

The close relationship between the financial development and the economic growth is well grounded in the literature and in practice. 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.[3]

Agricultural enterprises and farms difficulties in conducting and one of the major obstacles that slow development of the agricultural sector continues to be the lack of access to finance.

The share of investment in agriculture requires limited additional pressure on long-term competitiveness of the agricultural sector. Although the share of agricultural investments in Moldova total investments increased lately, this capital increase is not enough to stem the depreciation of agricultural assets. The share of foreign capital in the total investment remains constant, indicating that only national resources attract investment (Figure 1).

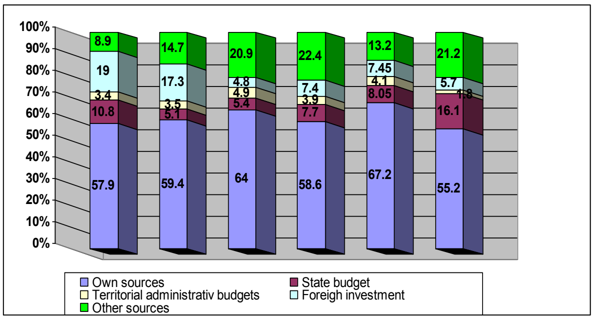

Fig. 1. The sources of fixed capital investment, source of funding for the period 2009-2014,%

Source: authors based on data from annual reports of NBM

The data presented in Figure 1 demonstrates that the means of economic agents and the population is at 57.9% - 67.2% or increased by 9.3% and in 2009-2013, but decreased by 12% respectively compared to 2013 by 2.7% compared to 2009.

There has also been an increase of 0.7% from the budgets of the territorial administrative sources and other sources with 4.3 p.p account in 2009-2013, but which shrinks by 2.3% to 2013.

In the analyzed period there has been a steady increase other sources of investment financing. These changes are the result of political situation is precarious Moldova lately. Situation has reduced the volume of investments for the agricultural sector of Moldova.

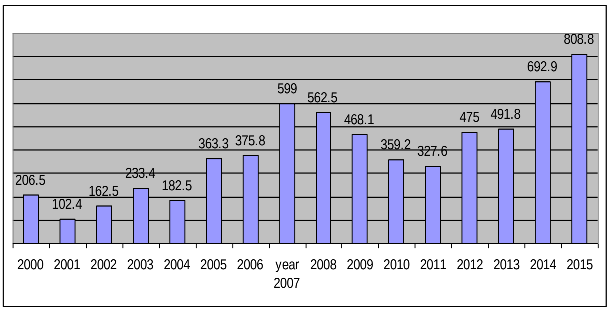

Fig. 2. Costs for the agricultural sector of the Republic of Moldova during 2000-2015, Million lei in current prices

Source: [9, 11]

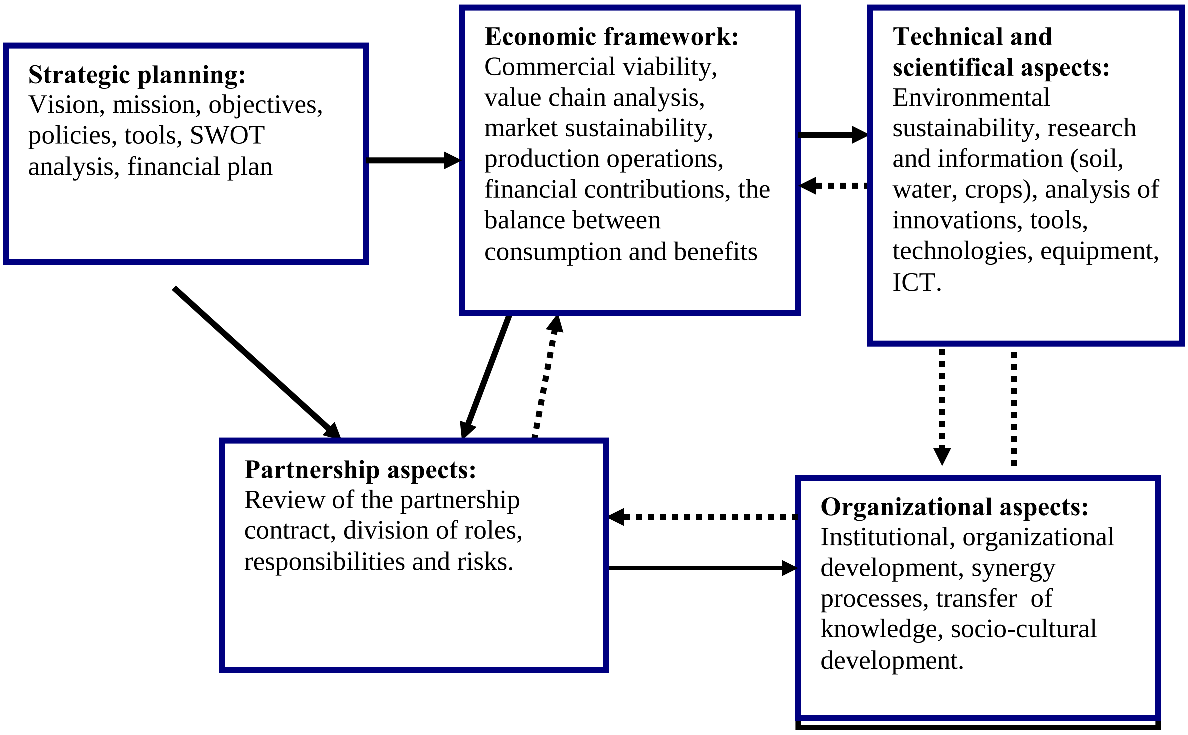

Fig. 3. Relationship strategy within a PPP
Source: [4]
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During the period 2000 - 2015 costs of agriculture in Moldova amounted to 6,411.3 million lei in real values, of which 2,652.8 million lei (2010-2015) constituted state subsidies. Costs related to agriculture increased by 602.3 million lei in 2015 compared to the same period of 2000.

In an agricultural financial system we can find the same elements as in the general financial system that comprises: institutions, instruments, markets and regulations. Agricultural financial mechanism can be treated as a sub-mechanism of the financial system of the state economy as a whole. Of course, it has its own characteristics, which are individual for agricultural production, agrarian structure, ownership rights, etc.

Agricultural financial mechanism includes financial intermediaries such as: the state budget, international financial institutions, microfinance entities, banks which grant loans but also participate in the investment process as partners for co-financing and are also responsible for the distribution of foreign investments and state agencies that direct subsidies to agriculture.

From the above mentioned, we have structured the financing and stimulating mechanism of the agricultural sector from the Republic of Moldova (Figure 4) based on:

-existing funding sources to date: (state budget, international financial institutions, microfinance organizations, commercial banks, leasing companies), where we propose to include public-private partnerships;

-investments for the modernization of the agricultural sector (quality inputs, technical and modern technologies, information technologies (ICT), E-Agriculture, staff qualifications)[9, 10]

Parallel to the existing mechanism, we propose the use of financial flows from Public Private Partnerships. Parallel to the guarantee given by the Credit Guarantee State Fund, other alternative forms of lending and guarantees must be developed which are now particularly important to increase the volume of loans in the agricultural sector. Thus, we consider it necessary to introduce special credit lines for agricultural enterprises, which will be aimed at developing alternative forms of credit and other guarantees, for example through Public Private Partnerships.

There are various definitions of public-private partnerships (PPP) in literature dealing with this subject, because a single definition of the public-private partnership, i.e. the cooperation between the public and private sector in public services provision, is not easy to formulate for many reasons.[6]

Public-private partnership (PPP) is a viable way of interaction Institutional between the state and the business sector, the introducing private management

public services, including through links long-term contract between an operator Private and public authority. partnership ensure public-private fundamentally, achieving all or part of the service designed public, calling on the know-how and private-sector resources.[1]

Through these instruments the indirect supply of financial resources for investments are being aimed, especially encouraging the participation of private investors among the public ones.

The objective of the usage of the innovative financing instruments is to attract private investments in domains considered risky by them. [12]

PPP goal is to use complementary assets with a maximum advantage. Partners need to agree objectives, roles, responsibilities and incentives. They will also have to work closely to achieve a greater productivity.

Why do PPP become important? Public investment in strengthening the agriculture is declining in many countries in the world and private investments continues to grow.

This trend opens up new partnerships opportunities that bring together property of investors and farmers.

The small number of financing instruments available to financing institutions of the state fails do not meet the extensive and diverse requirements of the agricultural sector, thus taking into account other types of instruments through public-private partnerships (PPP), which should be regarded as an innovative tool in investment financing. PPP is a way that will allow utilization of financial resources of various domestic or foreign companies as investments in the agricultural sector (Figure 3).

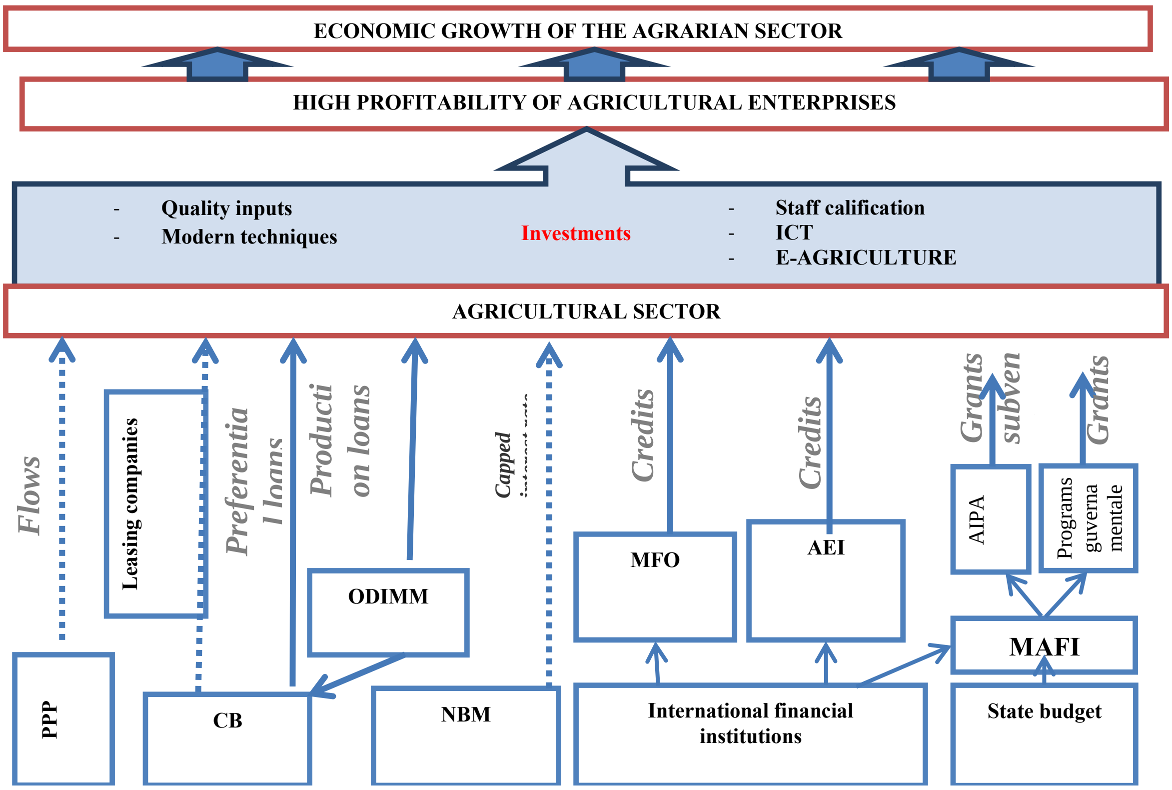

Fig. 4. The funding and stimulation mechanism of economic growth of the agricultural sector in the Republic of Moldova

Source: Developed by authors.

Public-private partnerships are essential to the development of agriculture to meet the challenges of global food security.

They broaden access to technology and markets. By combining strengths, partners can achieve any progress better than on their own. This tool will allow the entry of private foreign capital, but also of Moldovan migrants in the Moldovan agricultural sector.

According to a market survey, 40% of Moldovan migrants are ready to invest in long term in their community through private sector partnership.

Among the priority investment sectors, agriculture occupies a prominent place.

Possible opportunities of PPP:

-Minimized risk – risk sharing occurs between members of PPP;

-Increases the volume of cash flow;

-Allows to form customers chains with high purchase potential;

-Increased Competitiveness through creation of brands;

-Allows creating links with value chain - suppliers, vendors and distributors;

-Lower rates for cost of capital when financing or guarantees are needed [4].

Another proposal is linked to interest rate ceilings for preferential agricultural loans by the National Bank to prevent the establishment of excessively high rates for credits provided to the agricultural sector.

It is also important to develop a rural financial system by expanding lending offices in rural areas, which is essential for sustaining growth and development of the agricultural sector. These offices should employ specialist consultants to facilitate the writing of business plans and forecasts required for bank loans.

CONCLUSIONS

Economic growth of the agricultural sector is not possible without the development of institutional, financial, technological and social mechanisms that would insure an increase. These mechanisms will allow sufficient and efficient funding of agricultural enterprises, increasing their competitiveness and profitability, diversifying production and increasing production volume sold domestically and increasing exports.

Modernization and economic improvement of the agricultural sector in Moldova by attracting additional investment is one of the main directions of increasing efficiency, productivity and creating jobs in rural areas. Economy sector, considered as separate system, is influenced by a multitude of restrictions, conditions of indigenous and political (external) origin. Currently, very important in the process of making efficient the agricultural sector is the knowledge factors, changes and their rational use in the growth processes of the final product of agrarian sector.

PPP are necessary for agricultural development to meet the challenges of global food security. They serve to broaden access to advanced technologies and new markets. Partners can achieve any progress better than on their own by combining strengths. PPP will also allow entry of private foreign capital, but also of Moldovan migrants in the Moldovan agricultural sector.

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