

FINANCIAL MECHANISMS OF THE DEVELOPMENT OF THE AGRARIAN SECTOR IN THE REPUBLIC OF MOLDOVA

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Abstract

This paper presents a research in the operation and development areas of the agricultural sector of Moldova. The mechanisms used to achieve the objectives of agricultural policies applied in the Republic of Moldova combine a set of specific agricultural tools and mechanisms traditionally applied in the developing countries. De facto, this combination of agricultural policy mechanisms directs important financial resources for transitory objectives fulfilled in order to promote a lasting development of the agricultural sector. The purpose of this paper is to investigate the structure of the financing mechanism of the agricultural sector in Moldova. The basic methods of the research is analysis and synthesis of the data of the Ministry of Agriculture, Agency for Interventions and Payments for Agriculture, Ministry of Finance, National Bank's and commercial Banks reports. With the signing of trade liberalization with the EU, local farmers begin to face strong competition with farmers from the European Union and will have to invest more in agricultural machinery and technology to achieve competitive production. This thing will be more difficult to achieve as long as loans to the agricultural sector in Moldova come mainly from two sources: commercial banks and non-bank financial institutions that are not accessible to all farmers.

Key words: agricultural policy, banking, financial flows, financial institutions, funding mechanism

INTRODUCTION

The financial mechanism is a part of the functional structure of the economic mechanism and shows the organization and circulation of financial flows and due to the mobilization, allocation and usage of financial funds are realised which are set up within the national economy. The functionality of the financial mechanism lies in its ability to provide technically the normal circulation of the financial flows without difficulties, and at the same time it allows and stimulates the economical activity carried out by economical agents regardless their form of ownership [6].

The financial mechanism is a functional component of the economic mechanism. Financial mechanism focuses on the adjusting processes, techniques and instruments of the financial activity which is reflected by operations and financial flows that take place in the context of economic and social activity as a whole. [8]

Agricultural enterprises and farms meet difficulties in their activity, and one of the

biggest obstacles that slows down the development of the agricultural sector is the lack of financial access. The financing of the agricultural sector ensures the cash flow that can be achieved with the own sources (self-financing), state budget subsidies, bank loans, repayable external funds granted by various projects and NGOs in the form of loans and microcredits, and external financing incentives granted in the form of grants, community support through various programs, etc.

In Moldova, agricultural financing is achieved mainly from the bank loans, the own sources of the agricultural enterprises and farms followed by state support in the form of grants, external grants and other sources.

MATERIALS AND METHODS

Data of the Ministry of Agriculture, Agency for Interventions and Payments for Agriculture, Ministry of Finance, National Bank's financial reports, commercial banks and other financial and economic structures of the country and abroad were used as information sources in the analysis performed.

The basic methods of the research are analysis and synthesis, graphic and table method, economical comparison, time series method etc.

RESULTS AND DISCUSSIONS

Agriculture is one of the most important branches in the Moldovan Agriculture, it is designed to contribute significantly to the renewed growth of our country. It is necessary to provide fundamental changes in the agricultural structure, material and technical equipment, the organization and re-organization of the agricultural enterprises that will guarantee a modern agriculture reported to the market economy. However, to ensure this modern agriculture special efforts are required to create a favorable investment climate, as the main source of the agricultural sector development. The macroeconomic context that favors the attractions of the investment, called "investment climate" is a very complex notion, determined by a mix of co-dependent elements which contain:

- lasting political and macro-economic stability;
- proper and non-discriminatory rules in the economic activity (the default investment);
- business development, including financial and judicial service, access to markets and resources (human, technological, etc.);
- transparency in the activity of state organizations regarding regulation and control, etc.

Table 1. Evaluation of the financial sources for investment in the agricultural sector of Moldova (in %)

Finding sources	Belarus	Georgia	Moldova	Ukraine	EU countries
Private sources	37.8	27.9	28.7	44.1	5
Commercial banks	23.1	23.5	26.5	28.5	22
Relatives and friends	12.8	12.8	12.7	10.1	-
Public institutions	11.5	10.1	13.8	10.1	15
International grants	3.8	11.7	11.7	10.6	8
National Financial Institutions	3.2	7.3	7.3	0	4
Other sources	7.7	6.7	6.7	3.4	-
Credit cooperatives in agricult	-	-	-	-	46

Source: [3]

Access to finance is essential for daily operations of agricultural enterprises, and even more, when it is necessary to use

investments in agriculture. According to a study conducted by Eurochambers about the primary sources of funding in Moldova, respondents rather use public funding schemes than from relatives and friends. [3]

Analyzing the rating we can notice that those who want to invest in agriculture of Moldova prefer to invest money obtained from different public or international institutions - 32.8%, which became available to farmers from Moldova, followed by own resources 28,7% accumulated mostly on account of remittances, unlike EU countries where 46% of sources are obtained from credit cooperatives in agriculture. This form of banking was launched in Europe in the nineteenth century by FW Raiffeisen. The model of the loan is currently available in all major European countries such as Austria, Belgium, Finland, France, Germany, Italy, Netherlands, Spain and Switzerland.

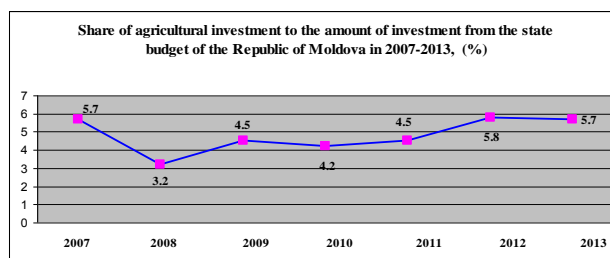


Fig. 1. Share of agricultural investments to the amount of investment from the state budget of the Republic of Moldova in 2007-2013

Source: Own calculation in base source [4, 10, 11]

The results show that in 2007-2013 there were changes in the share of agricultural investments executed from the state budget of the Republic of Moldova. Thus, in 2008 this proportion decreased by 2.5 percentage points compared with 2007, followed by an increase of 1.3 percentage points in 2009, reaching 5.7% of the total state budget expenditures for 2013.

Also, the share of state budget expenditures for agriculture and forestry in 2010-2013 increased by 60.3%. The increase occurred mainly due to the increase in external sources of financing projects in the agricultural sector with 543.8 million. lei and special means with 45.7%.

Table 2. Performance of state budget expenditures for agriculture and forestry in Moldova

Name	2007	2008	2009	2010	2011	2012	2013
Agriculture and forestry (mln. lei), including:	820.3	516.7	830	843	829	1,254	1,360
Core components	797.9	492.0	612.0	614.2	613.1	702.8	730.9
Projects funded from external sources	-	45.6	76.2	191.0	180.1	510.4	589.4
Special sources	18.1	20.2	28.1	37.8	35.8	40.6	39.6

Source: Own calculation based on the source data[10]

Although the stock of FDI in 2013 amounted to 3,668.27 million. Euro increased with 6.4% compared to 2012, but the agricultural sector remains unattractive for FDI. This is partly because of the required long term investments and political and economic stability. The purpose of granting loans for agriculture is to provide long-term investments in modern equipment, irrigation equipment, building suitable breeding areas for animals growth, supplying with food and more, everything is designed to increase production. To investigate the lending of the agricultural sector we will analyze the information about the lending activity offered by the commercial banks in the country.

Table 3. Agricultural loans provided by commercial banks of the Republic of Moldova (2012-2013)

Granted credits for agriculture	Number of credits				The amount of money, mln. lei			
	2012		2013		2012		2013	
	lei	€	lei	€	lei	€	lei	€
Moldova Agroindbank	375	19	339	23	212.5	56.7	442.6	69.1
Banca de Economii	14	5	6	0	2,928	143.5	98.1	0
Victoriabank	22	27	20	3	24.1	196.4	37.3	79.5
Eximbank	21	2	38	2	169.7	14.8	2,706	106.9
Energbank	52	16	21	4	567.9	259.7	716.9	20.5
FinComBank	94	11	99	6	56	19.8	566.3	54.5

Source: [7]

Analyzing the data in the table above we can conclude that in 2013 only 1 banks increased their modest number of credits for agriculture - Eximbank-17 agreements. In general there is a tendency to reduce the number of conventions, but increased the amounts of credit. Thus, Moldova AgroindbankSA increased its agricultural loan amount with 230.156 lei and 149.056 lei Energbank SA in 2013 compared to 2012, but the amounts are too small compared to the needs of the sector. The most spectacular increase had Eximbank SA 2,536,452 lei during 1 year.

Although in the banking sector there is stiff competition for winning a bigger share of the

market, just few banks see this kind of business as a potential source of growth for their operations. Moldova-Agroindbank is the leader with 26.8% of total loans in lei, respectively, 23.2% of those in foreign currency followed by "Moldindconbank" SA (11%) and BC " ProCredit Bank "JSC (19%).

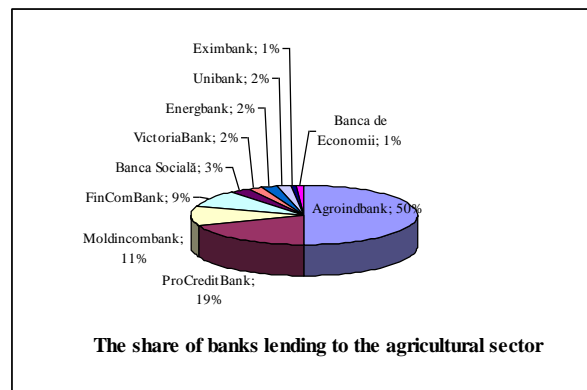


Fig. 2. Share of correspondent banks in the credit AIPA MAIA and agriculture

Source: [2, 7, 12]

Income limits are relatively low in agriculture with changeable weather conditions, banks cover their additional risk with a generous margin added to reference indices. Thus, in terms of amount, maturity and currency identical credit for investment in agriculture would be about 2% higher than for the one investment in the industry. According to a study prepared under the National Economic Research Institute, about the trends in the national economy, Moldova is placed on the second position in the rating of the most expensive loans, number one is held by Georgia with 29%. In Romania a loan can be offered with an interest rate of 10% and 5% in Poland. This may explain why European countries, agricultural enterprises can expand their business by applying sophisticated technologies that not only increase the yield per hectare and allow the obtaining of the qualitative products, competent on the market, but also improve the working conditions of the farmers, thus leading to the growth of their standard of living.

CONCLUSIONS

Lack of own financial resources is the primary problem for most local agricultural enterprises.

Loans to the agricultural sector in Moldova come mostly from two sources: commercial banks and non-bank financial institutions.

With the signing of trade liberalization with the EU, local farmers begin to face strong competition with farmers from the European Union and will need to comply with new requirements regarding business development in agriculture. At European level, in terms of technologies used in agriculture and current agricultural production, Moldova is far exceeded.

In order to industrialize the agricultural production and increase the share of raw materials processed it is necessary to equip the agricultural units with technical and modern equipment, but also changing the traditional methods of processing the earth and agricultural raw materials. This is not possible without considerable investment as investments are firing mechanism of all businesses.

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