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THE ROLE OF FINANCIAL SERVICES IN INCREASING THE COMPETITIVENESS OF THE HORTICULTURAL SECTOR OF THE REPUBLIC OF MOLDOVA

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Abstract. The role of financial services in increasing the competitiveness of the horticultural sector is very important because the modernization of the horticultural sector depends directly on the implemented financial services. This paper presents an analysis of the main financial services implemented in the horticultural sector of the Republic of Moldova, such as: credits, subsidies, insurances etc. Consideration is given to the problems the farmers encounter when accessing financial services and to the role of funding in increasing the competitiveness of the horticultural sector, and measures are proposed to facilitate farmers' access to financial resources. The research is based on data collected from the National Bureau of Statistics, National Bank of Moldova, Agency for Payments and Intervention in Agriculture etc.

Key words: Credits; Subsidies; Insurances in agriculture; Horticultural production.

Rezumat. Rolul serviciilor financiare în sporirea competitivității sectorului hortic este foarte mare pentru că de aplicarea acestora depinde modernizarea sectorului hortic. În acest articol sunt analizate serviciile financiare de bază prestate în sectorul hortic din Republica Moldova: creditele, subvențiile, asigurările și.a. Sunt examinate problemele cu care se confruntă fermierii la accesarea serviciilor financiare, rolul finanțelor în sporirea competitivității sectorului hortic și sunt propuse măsuri pentru facilitarea accesului fermierilor la resurse financiare. Pentru cercetare s-au utilizat date statistice colectate de la Biroul Național de Statistică, Banca Națională a Moldovei, AIPA etc.

Cuvinte cheie: Credite; Subvenții; Asigurări în agricultură; Producție hortică.

INTRODUCTION

The development of horticultural production has a crucial importance in the economic growth of the Republic of Moldova. The aim of this scientific research is to analyze the role and place of such financial services as credits, insurances and subsidies in order to increase the competitiveness of the horticultural production.

The major problems the agricultural producers are facing at present are connected with the access to financial support in developing the agricultural business. The basic objective of the present scientific research is to analyze the implementation of financial services (credits, subsidies, insurances etc.) in the horticultural sector of RM, which constitutes 33% of the total agricultural production, to analyze the constraints the agricultural enterprises are facing while developing high value added horticultural production, and to propose measures to eliminate the barriers between the agricultural producers and state/private financial institutions in the context of increasing the competitiveness of Moldova's horticultural products. The scientific research shows the weak points of the financial tools implemented in Moldova's horticultural sector and proposes measures to improve the allocation of financial resources in the horticultural sector.

MATERIALS AND METHODS

The scientific research is based on the secondary data from the National Bureau of Statistics, National Bank of Moldova and Ministry of Agriculture and Food Industry of the Republic of Moldova. Analyzing the allocation of financial resources in the agricultural sector, the following research methods were used: comparative, logical analysis, analysis and synthesis, induction, deduction, graphic method, grouping method etc. The following indicators were used: the share of the agricultural sector, hunting and forestry in GDP, the agricultural credits in total credits portfolio structure, the level of banking service penetration, the structure of subsidy allocation etc.

RESULTS AND DISCUSSIONS

Agriculture is the strategic economic branch of the Republic of Moldova. Its contribution to GDP in 2013 was 11,9%, i.e. by 1,0% more than in 2012 and the share of the employed population in 2013 in the agricultural sector was 24,3%, which is by 2,1% less than in 2012.

According to Figure 1, the share of agriculture, hunting and forestry in GDP of the Republic of Moldova from 2005 till 2013 decreased by 4,5%: from 16,4% to 11,9%. One of the factors which conducted to a decreased share of agriculture in GDP is the share of persons employed in agriculture which decreased significantly by 1,67 times, from 40,7% in 2005 to 24,3% employed population in agriculture in 2013 (BNS, 2013).

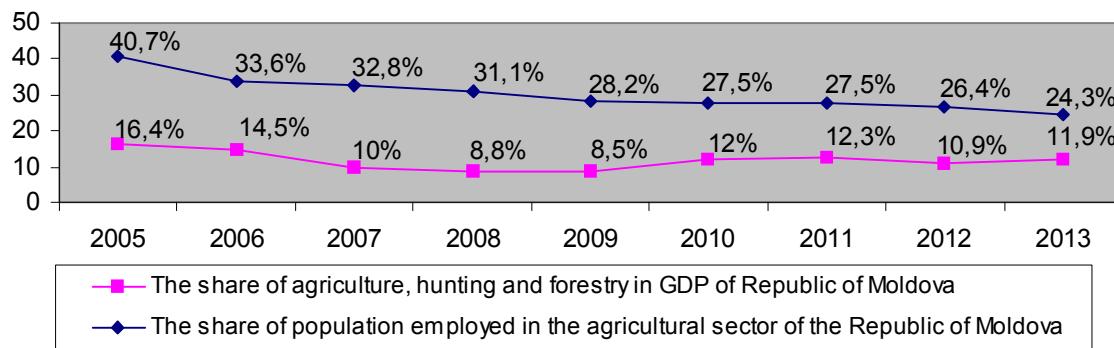


Figure 1. The dynamics of share of the agricultural sector; hunting and forestry in GDP and the share of population employed in agriculture in the Republic of Moldova during 2005-2013

Source: Elaborated by the author based on the data from National Bureau of Statistics of the Republic of Moldova

Agriculture has a great importance at the national level; on the one hand, because it ensures food security and on the other hand, because it produces for export.

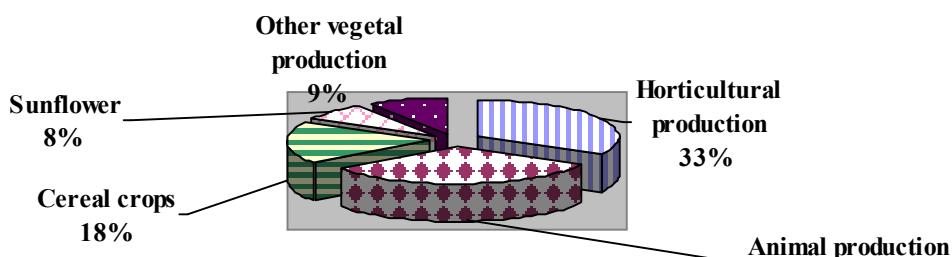


Figure 2. Agricultural production structure, in all categories of households (2013)

Source: Elaborated by the author based on the data from "The horticultural development program for 2013-2020"

The horticultural production plays an important role in the economy of the Republic of Moldova. In the last 10 years the export value of the horticultural sector products increased approximately by 4,3 times (MAIA, 2013).

In 2013, the horticultural production constituted one third (33%) of the total agricultural production (see Fig.2), out of which: the production of grapes constituted 14%, the production of vegetable and melon cultures - 8%, the production of potatoes – 6% and the production of fruits, walnuts and berries – 5%.

323 persons were employed in the horticultural sector, which represent 28% of the occupied population employed in agriculture.

The horticultural sector is also important for the economy of the Republic of Moldova because it generates the demand and stimulates the creation of added value in other branches of the national economy like trade, financial services, constructions, etc.

The problem of increasing the competitiveness of high value added horticultural products depends very much on the allocated financial resources.

According to the World Bank study made on Moldova Country Profile for 2013 (Fig. 3), there were identified many business constraints for firms in the Republic of Moldova, the main ones being: corruption, political instability, inadequate educated workforce, access to finance etc., which have a negative influence on the competitiveness of firms of the Republic of Moldova (World Bank Enterprises Survey 2013).

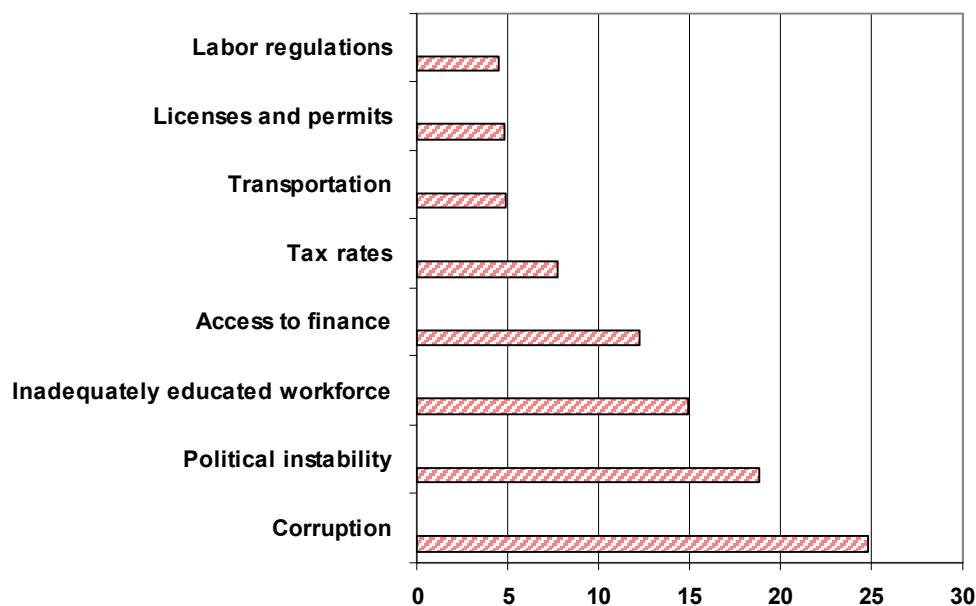


Figure 3. Business constraints for firms in the Republic of Moldova, % of companies interviewed

Source: Adjusted by the author based on information from IFC and World Bank (2013). Moldova Country Profile 2013: Enterprise Surveys, the World Bank Group

Access to finance is the fourth major constraint which has a very negative influence on the competitiveness of high value added horticultural sector because the process of getting credits by farmers is very difficult and the interest rate of credits is too high. The seasonal character of the agricultural production determined the agricultural credits to have a longer period of capital regeneration, this required the fixation of a longer period of credit reimbursement by farmers and also, this situation determined the commercial banks to avoid crediting the agricultural sector because of the farmers' problems connected with honoring their obligations towards commercial banks.

The analysis of the credit portfolio structure of the Republic of Moldova banking system during 2012-2013, revealed that trade credits have the biggest share out of all credits of the banking system, which constituted in 2013, about 40%, which is by 3,3% more than in 2012, when this indicator was 36,7%. The credits for agriculture in 2013 constituted 5,3%, which is by 0,9% less than in 2012 (NBM 2013).

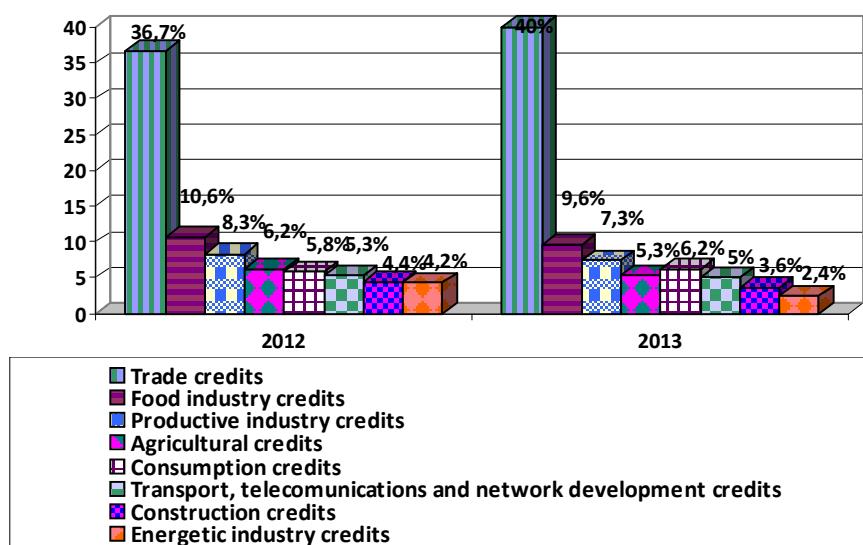


Figure 4. The analysis of the credit portfolio structure of the Republic of Moldova banking system of the major destination investment operations during 2012-2013

Source: Elaborated by the author based on the data from National Bank of Moldova

Thus, according to data presented in the figure 4 and figure 5 we may conclude that during the last years, out of the total credits, the credits granted to agriculture have a decreasing trend from 6,2% in 2012 to 5,3% in 2013 and the major sources of the agricultural sector funding are internal sources of companies – 80%, while bank funding constituted in 2013 – 8%.

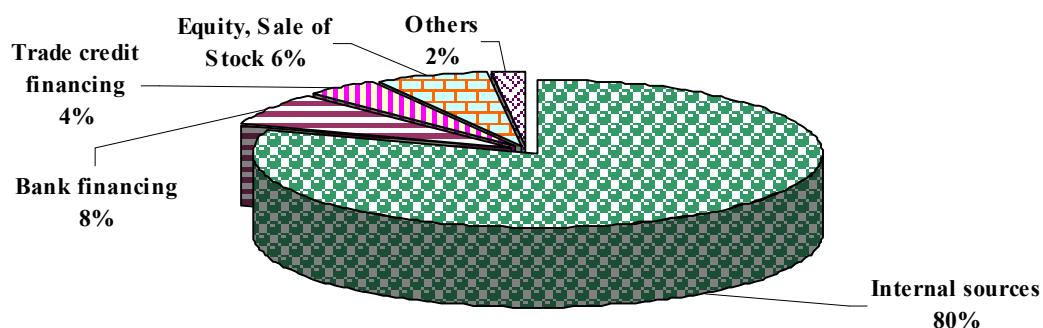


Figure 5. Enterprise funding sources for investment, 2013 (%)

Source: Elaborated by the author based on information from IFC and World Bank (2013). Moldova Country Profile 2013: Enterprise Surveys, the World Bank Group

The farmers from the rural areas say that the major problems they face when accessing a credit are the following:

- a) Very high interest rates;
- b) Inadequate lending terms and unreal schedule of payment of loans;
- c) The procedures to access a credit are very complicated and need a lot of time;

On the other hand, the commercial banks mention that the main problems they face when granting a credit to businessmen from rural areas are the following:

- a) Crediting the agricultural sector represents a very high risk because the agricultural sector depends much of the climatic conditions like spring frosts, droughts etc.;
- b) The loans are not big enough but the operational expenses are very high;
- c) Inadequate management of farms and difficulties regarding the accounting of farms.

Therefore, crediting the agricultural sector is very risky for commercial banks on the one hand, and on the other hand, there are very few viable projects of funding businesses in the rural areas.

All this factors influence in a negative way the access of farmers to credit resources and finally the competitiveness of agricultural sector because farmers have insufficient resources to implement advanced technologies and scientific know-how in the process of production.

Also according to the study elaborated by the World Bank, based on the World Development Indicators, regarding the level of penetration of the banking services, at the beginning of 2010, the Republic of Moldova was situated on the one of the last places in the region among countries with common past, exceeding only those countries with large territories like Russian Federation and Ukraine and countries from Central Asia.

According to the table 1, the number of commercial bank branches to 100 thousands adults in Moldova was 9, 57. As for the penetration level of banking services in the rural areas, Moldova is situated on the last place among the analyzed countries, even after countries from Central Asia, with only 0, 20 branches to 100 thousands adults (Tab. 1).

Thus, analyzing the agricultural credit as a financial instrument for agricultural development, we may conclude that in the last time, there was registered a decreasing trend of crediting the agricultural sector, because of high risks related to this sector, the low level of banking service penetration in the rural areas and because of the lack of viable projects from rural businessmen.

Another financial instrument which influences the competitiveness of high value added agricultural production of the Republic of Moldova is the allocation of subsidies. The subject of subsidizing the agricultural sector is a very sensitive one, in conditions when the Republic of Moldova declared the European Union Integration Vector (Timofti, E. 2009).

Nowadays, the approaches and the subsidizing policies of the Republic of Moldova differ considerably

Table 1. The level of banking service penetration (the number of commercial bank branches to 100 thousands adults), 2010

Country	Total	Urban	Rural
1	2	3	4
Romania	35,00	29,43	5,56
Poland	32,21	-	-
Lithuania	25,90	-	-
Macedonia	25,69	25,45	0,24
Estonia	18,68	17,81	0,88
Georgia	18,57	15,25	3,32
Hungary	18,31	17,80	0,52
Latvia	14,64	-	-
Moldova	9,57	9,37	0,20
Azerbaijan	9,57	4,97	4,60
Uzbekistan	4,25	1,51	2,73
Tajikistan	3,91	1,29	2,62
Ukraine	2,74	-	-
Russian Federation	2,62	-	-

Source: Elaborated by the author based on the World Development Indicators, the World Bank

from the existing EU policies. This is caused by many factors, among them the most important is the insignificance of the subsidizing policy of the Republic of Moldova and the lack of necessary financial resources for the European subsidizing policies implementation.

In 2013, there were authorized 3952 subsidizing files in the total amount of 454,03 mln MDL, which represents an increase by 54,03 mln MDL in comparison with 2012.

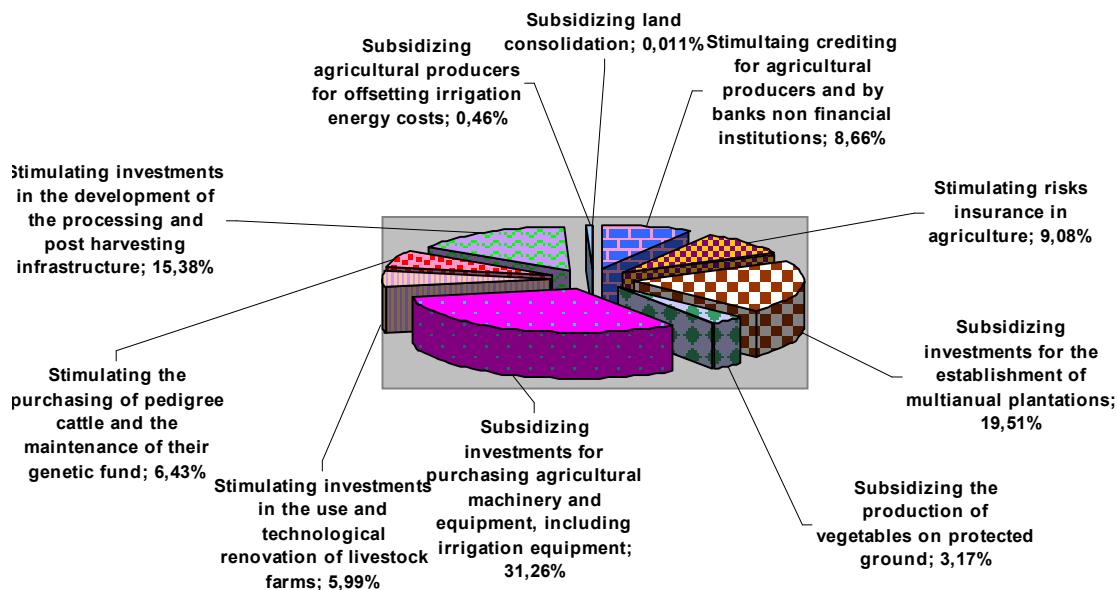


Figure 6. The structure of subsidies allocation in 2013, %

Source: Elaborated by the author based on data from the Agency of Interventions and Payments in Agriculture

Analyzing the structure of subsidies allocation in 2013, we can mention that for stimulating crediting for agricultural producers and by non banks financial institutions were allocated only 8,66% of financial resources. The investments subsidies for the establishment of multiannual plantations constituted 19,51%. Also for the development of the horticultural sector very important are technologies used in the process of production, thus 31,26% of subsidies were allocated as investments for purchasing agricultural machinery and equipment, including irrigation equipment; 15,38% of subsidies were investments in the

development of the processing and post harvesting infrastructure (The subsidies lists of beneficiaries during 2010 -2013).

Analyzing the sum of subsidies allocation of EU member states and the subsidies fund from the Republic of Moldova we can state that we have the least subsidies in the region. For example, in 2013, in Hungary, there were allocated 1904 mil. EUR (approximately 450 EUR/ha), in Romania, there were allocated 2620 mil EUR (approximately 191 EUR/ha), which is considerably much more than in Republic of Moldova, where the subsidizing fund is 454,03 mil. MDL (approximately 24,67 mil. Euro or 20 EUR per ha). In these conditions the agricultural producers are not competitive on the region's markets. Production costs are too high and the lack of financial resources creates difficulties in increasing the competitiveness of high value added agricultural products (Reform the CAP 2013).

Also, according to the figure 7, we can state that the allocation of subsidizing fund by regions is very unbalanced. In 2010 the most subsidies were allocated to the Central region - 400163 thousand MDL, then to the South region – approximately 126698 thousand MDL and to the North region – 78523 thousand MDL. The lowest level of subsidies were allocated to ATU of Gagauzia – 10042 thousand MDL and to Chisinau – 6476 thousand MDL.

The territorial distribution of subsidies reveals that the discrepancy between the received subsidies volume by regions is very high. This fact would not be a problem, if there were defined the disadvantaged regions and the financial resources were allocated to them. Also, in order to ensure a uniform development of the rural areas and to ensure equity in this sense, the executive power must elaborate special development policies for disadvantaged rural areas.

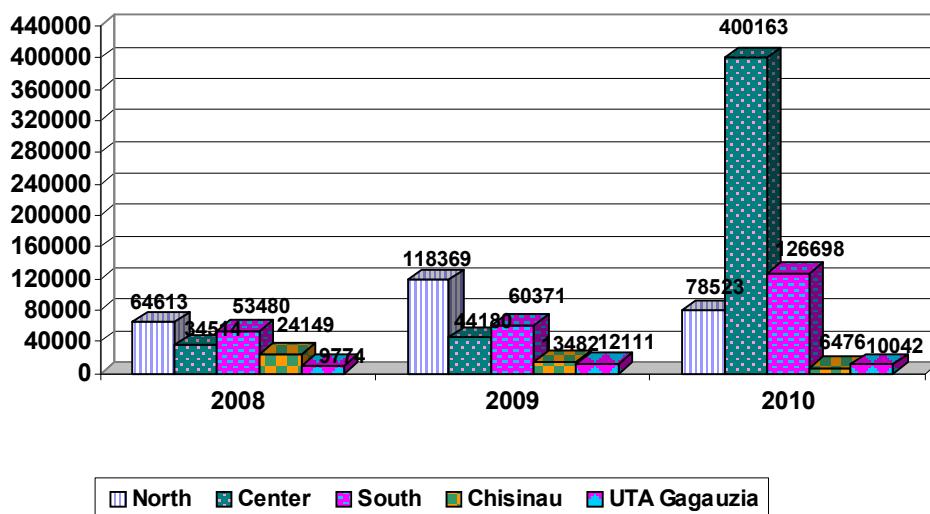


Figure 7. The allocated amount of subsidies for crop production to corporate farms, by regions, thousand MDL

Source: Elaborated by the author based on the data from AIPA

One important financial instrument which also influences the competitiveness of high value added agricultural products are agricultural land insurances.

Despite the fact that the subsidy volume reaches (depending on agricultural crops), in different periods of time, 50-80 percent of the total insurance contribution value, in 2011, the ensured agricultural land in the Republic of Moldova constituted only 19 613 ha (Fig. 8), compared to about 57 thousand ha in 2008 (MAIA 2011).

Thus, in 2011, out of the total ensured subsidized agricultural surface of 19 613 ha, 95,3% of ensured subsidized cases were against hail (Fig. 8).

The agricultural insurance potential in the Republic of Moldova still remains unexploited, and in 2013, according to the report of National Commission of Financial Market only 3,3% of the total agricultural land were ensured.

Hail represents a risk for the competitiveness of firms and it can cause the loss of the entire

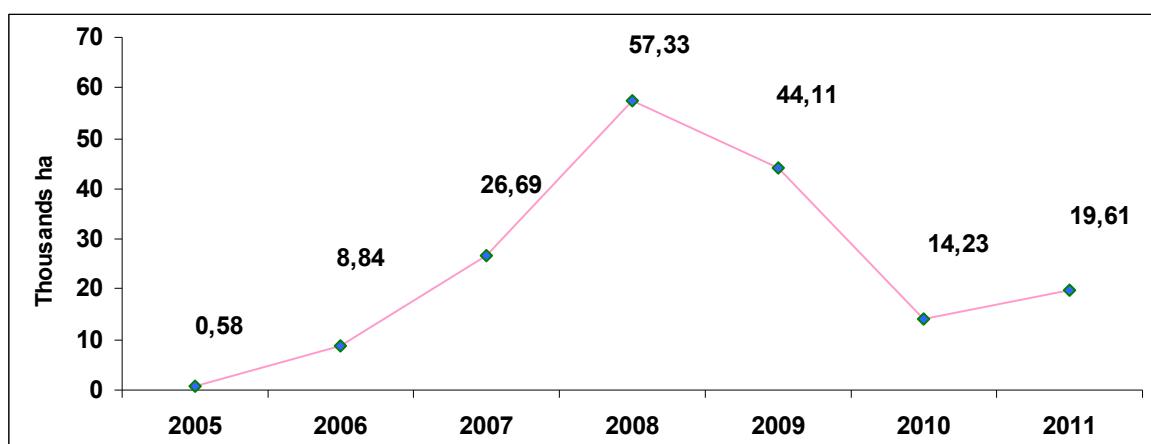


Figure 8. The ensured subsidized agricultural lands, thousand ha

Source: Elaborated by the author based on data from the Ministry of Agriculture and Food Industry of the Republic of Moldova

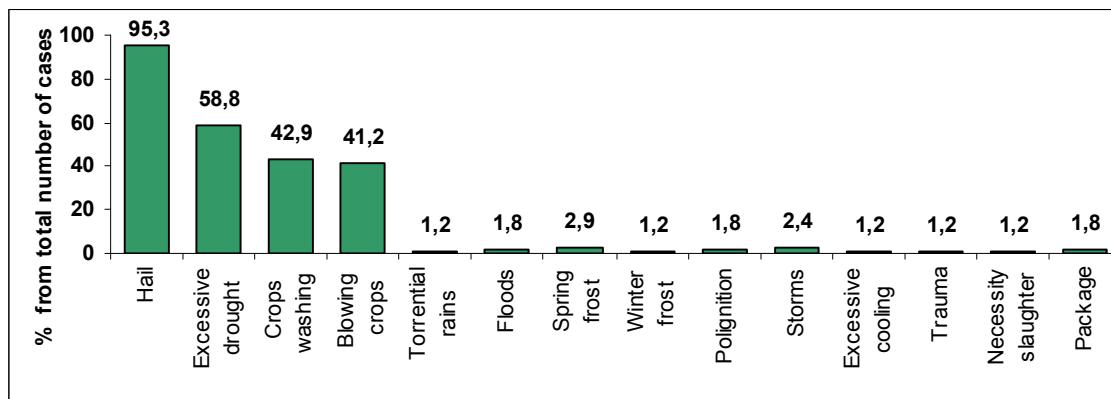


Figure 9. The frequency of types of ensured cases in agriculture, % out of the total ensured subsidized cases, 2011

Source: Elaborated by the author based on data from AIPA

harvest. Besides this risk, the agricultural producers also ensured in case of excessive drought – 59%, crops washing – 42,9%, crops blowing – 41,2%, spring frost – 2,9%, etc. (AIPA, 2011).

The share of the ensured agricultural surfaces of the total ensured cases is very low (5% -7%), because farmers do not trust the insurance system and also the insurance costs are very high and farmers don't have sufficient financial resources. Many farmers are not enough informed about the system of insurance in agriculture.

The horticultural sector of the Republic of Moldova faces many problems regarding the implementation of financial instruments, which influences in a negative way the competitiveness of the horticultural sector, and finally the modernization and development of the branch.

The results and discussions revealed that the major problems related to the implementation of financial resources in the horticultural sector, in order to increase the competitiveness, are the following:

- bad financial intermediation;
- low level of banking service penetration in the rural areas;
- low level of agricultural subsidy allocation in the Republic of Moldova in comparison with the EU countries;
- the decreasing trend of agricultural land insurance;
- low level of informing the agricultural producers about the way of elaborating business plans in order to apply to different financial programmes for horticultural sector development.

CONCLUSIONS

The allocation of financial resources to the agricultural sector, in the context of increasing the competitiveness of agricultural production, is very difficult because of the complex procedures related

to crediting, subsidizing and ensuring the agricultural sector. In the Republic of Moldova credits are very expensive, and the share of the agricultural credits out of the total credits of the banking system is very low (approximately 5% - 6%). The main problem is the lack of farmers' financial resources in order take credits and the lack of viable investment projects to develop the agricultural sector.

Regarding the subsidizing of the agricultural sector we can state that the Republic of Moldova is not competitive in comparison with the EU countries. For example, in Romania there were allocated 191 EUR/ha, in Hungary – 450 EUR/ha, but in the Republic of Moldova, there were allocated only 20 EUR/ha. In these conditions, the agricultural producers are not competitive on the region's markets because the costs of production are too high and the subsidies too low.

The insurances in the agricultural sector still remain to be not very popular among agricultural producers. The share of the ensured agricultural surfaces from total ensured cases is very low (5% -7%), because farmers do not trust the insurance system and also the costs of insurance primes are very high and farmers don't have sufficient financial resources.

In order to improve the implementation of financial instruments in the context of increasing the competitiveness of high value added horticultural products the following measures must be taken:

- Informing the farmers about the way of elaborating business plans in order to have access to financial resources of local banks and also of the international credit lines;
- Analyzing at state level the problems the farmers are facing while accessing subsidies and simplifying the process of obtaining subsidies from the state;
- Stimulating the local and foreign investments in the development of the post-harvest infrastructure and processing technologies in horticulture;
- Improving the subsidy policy in order to develop high value added agricultural production (for example: planting intensive orchards by using high quality planting materials, investments in post-harvest infrastructure, etc.)
- Continuing credit guarantee funds capitalization in case of the lack or insufficiency of the necessary mortgage for contracting a sub-loan;
- Initiating promoting campaigns among agricultural producers of high value added horticultural production regarding the importance of insurances in agriculture;
- It must be taken measures, at state level, to improve the legal framework of the Republic of Moldova in the field of crediting, subsidizing and ensuring the agricultural production in order to be in compliance with the EU requirements.

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