

## DEVELOPMENT OF THE AGRICULTURAL SECTOR FROM MOLDOVA THROUGH AGRICULTURE LOANS

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### **Abstract**

*Financial institutions present on the market become more attentive when they have to give loans to the agriculture sector. The lack of necessary guarantees the low profit registered in agricultural district, economy instability and other things had and continue to have a negative impact on the evolution of agricultural sector, this being seen as one with a high level of risk. Commercial banks use less own funds for lending to agriculture and especially when the loans are guaranteed from various funds, programs or foreign donor agencies. Farmers find it difficult to bank loans because of collateral amount required is too high. However, commercial banks in Moldova provide agricultural loans, thus increasing the economic efficiency of agriculture.*

**Key words:** agricultural loans, economic effects, economic efficiency, investment decision

### **INTRODUCTION**

Recognizing the large productive potential of the agricultural sector and the short, medium and long-term development needs of the agrorural population, the banks assigns attention and support to efforts to accelerate development in this sector.

At the moment we need a national policy to improve the focus on the development of the agricultural sector through bank loans (including livestock) and to provide support for development of sound agricultural policies and effective national strategies, as well as sectoral planning, long-term national and regional planning, the increased flow of coordinated resources directed to agricultural development and the generation of adequate levels of savings to support the sector's capital formation.

### **MATERIALS AND METHODS**

As informative sources in the process of investigation that has been made, there have been used some information from Agriculture Ministry and Food Industry, Intervention Agency and Payments for Agriculture, Financial Ministry, financial reports of National Bank, commercial banks

and other economical- financial structures from the country and abroad. The base methods of research are analyses and synthesis, economical comparison and statistic method.

### **RESULTS AND DISCUSSIONS**

Bank loan is like a system of relations between banks and economic agents where the money accounts that are temporarily available in bank, and of the financial banking system, become loan sources, in the meaning that they are given by the banks through loans to different branches of national economy. The value of given credits to agricultural sector constitutes only 16% of total credits offered, because the small income and low financial power make agriculture less attractive sphere for commercial banks.

To contribute to the growth of efficiency of agricultural sector, there were implemented the definition of agriculture credits offered by commercial banks from Republic of Moldova. Credits are given to the agriculture manufactures with the purpose of keeping the development of agriculture.

The aim of giving these credits for agriculture is to invest for a longer period in utilities with good performance, irrigation equipment, in

building of special places for animal grown in keeping plantations in provisions with food and others, the purpose being to enlarge the production.

Agriculture manufactures receive credits from commercial banks together with financial institutes and state subventions. With the help of AIPA, agricultural sector can receive financial support from commercial banks.

In 2011 the Rule made the credit agriculture to get closer to commercial banks and organizations, microfinance, economic and borrow institutions, but in 2012 by financial institutes. In this context, there were 535 financial agriculture companies in 2012 who receives compensation on the size of interest to the contract credits and were returned during the period 2011-2012, afferent subventions with number of 25, 5 million lei.

**The most frequent obstacles in the way of efficient agribusiness lending:**

-A lot of manufactures prove a low level in accounting of economic activity, harvest marketing evidence products on the marketing evidence, establishment of business plans on medium and long term viability.

-The bookkeeping of state subventions are wrong by agriculture manufactures, sooner it is like an income source anticipated more than under covered source of investment expenditures.

-The pledge guarantee scheme is poor and doesn't work very fine, so most of they propose guarantee with high level of liquidity appropriate for received credits.

-Very few of the farmers assure their cultivated territory (only 2,5 % of the Republic of Moldova agricultural fields so as to minimize the risk of the harvest lost.

-The lock of a functional institutional from work for use of certificated deposit as pledge instrument. [3]

It is very difficult to find of all those 15 banks one that is strongly established in the rural zone, the industry and trade distract their attention from the agricultural sector. And even if according to bank reports, 12 of the 15 banks have given credits for agriculture yet it is difficult to find out now many of those credits went directly to the agricultural producer. The data shows that in 2012 were

credited in the national currency approximately 700 projects and the number of currency loans is five times smaller.

Table 1. The information of agriculture activity (2012)

Loans granted for agriculture	The number of granted loans		The sum of granted loans (in thousands)		Average interest rate	
	In lei	euro	lei	euro	In lei	euro
Moldova Agroindbank S.A	375	19	212,5	56,7	12,89	7,18
Banca de Economii S.A	14	5	2928,5	1435,1	15,66	9,37
Victoriabank S.A	22	27	24,1	196,5	11,69	6,61
Eximbank S.A	21	2	169,7	14,8	13,58	7,97
Energbank S.A	52	16	567,8	259,7	12,5	5,96
FinComBank S.A	97	11	55,9	19,8	10,57	8,9

Source: It's elaborated by author on the basis of information of credit activity

Note: The sums of credits in foreign currency are calculated on the basis of official course National Bank.

Despite the fact that there is a strong competition in the banking sector between banks to gain some market quotas as large as possible, streets that only Moldova AgroindBank sees the agricultural business as potential source of growth for their operations. Moldova AgroindBank is a leader with 19,7 % of total credits in lei and 23,2% of the total foreign currency granted to given sector.

The conditions for giving credits in agricultural flexibility vary from one bank to another. But the goals are capital formation and financing it. The investment activity includes:

- Soil, seeds, forage preparations;
- Cultivation of fruits, growth of animals and birds;
- Harvest gathering , products receiving and processing;
- Buying of mechanism , transport, equipment and other that deal with their business;
- Construction repairing or purchasing of the spaces.

Although banks offers diversify the number of formers remain small even the companies farmers which have good results and profits don't have pledge that correspond with the

banks requirements. Few farmers have the financial possibility to invest money, the work that has been taken into account banks.

Commercial banks from Republic of Moldova can serve as intermediary between different funds or international financial programs that provide loans to the agricultural sector and farmers. So the PNAET program is used for youth, that want to develop their entrepreneurial abilities to launch or to extend an own business in rural zones in agricultural or production domains. Eight local intermediary banks are working on this project that assumes all the risks connected to credit at lending the funds to beneficiaries: Moldova Agroindbank, Fincombank, MoldinCombank, MobiasBanca, Banca de Economii, Energbank, Eximbank, Victoriabank.

Moldova Agroindbank is the most active IFP, accepting and assuming the risks of credit for 425 as-borrowings of youth from rural areas of the country, or 59,5% followed by the Moldincombank with 145 as-borrowings or 20,3% from the total number.

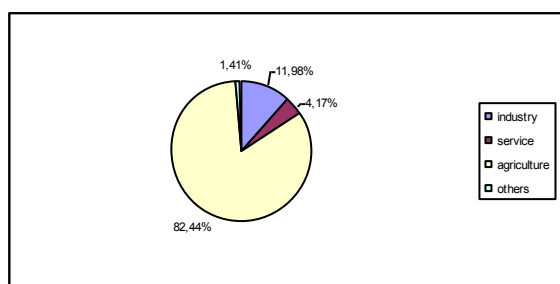


Fig 1. Distribution of loans disbursed by branches of the national economy PNAET

Source: <http://mts.gov.md/docs/2010/Raport-PNAET.pdf>

So 82,44% from provided credits were placed in agricultural industry and food industry. The solution was granted to the beneficiaries for purchasing the modern equipment, were 537 sub-project(75,21%) was provided to the new companies, 177 sub- projects(24,79%) for development of exiting business.

Due to PNAET were purchased: 395 tractors, 312 things used as agricultural equipment, another technical equipment. [1]

European Bank of Investment (BEY) through the Social Bank also finances the wine

industry through the restructure program of wine industry “Filiera Vinului” of Republic Moldova. Credits in minimum amount of 25.000 EURO and maximum of 5 million EURO, it is accorded for a period of 10 years with a use period of 4 years. Beneficiaries can use these credits for reutilization, modernization of equipment of wine companies, expansion of existing business activities by installing bottling lines, growing mechanization process, installing irrigation systems and other protection systems for vine creating, creating small ventures in rural areas and other activities what contribute to the wine sector.

These credits can't be used to finance buying agricultural field financing recoverable feels and planting vines, thus rising discontent among farmers and those who would like to start a business in agriculture.

In February of 2009 started a program of rural financial services and marketing, the fourth program IFAD IV from Republic of Moldova, but in July 2011 IFAD V. The projects have a national character and will be implemented until March 2014 and June 2016.

Table2. The budget structure program of IFAD

	IFAD IV (mln dollars SUA)	IFAD V (mln dollars SUA)
<b>The budget of the program includes:</b>	<b>18,9</b>	<b>34,8</b>
- The sources of IFAD	13,2	19,8(includes 0,5 granted millions)
-The sources of the Government of Republic of Moldova	1,4	1,5
- The contribution of the beneficiary of the program	2,7	11,7
- The financial institutions that participate as a co-financing of the projects of investments in IMM	1,5	1,8
- The given grants from the Ministry of External Affairs of the Denmark Kingdom	-	4,5

Source: It's elaborated by author on the basis of information <http://www.ifad.md>

The program IFAD IV is directed for financing rural enterprises specialized in producing, processing and marketing of horticultural products .

IFAD IV program is directed by loans to finance agricultural enterprises in rural areas.

The both programs are focused on giving competitive grants for financing the construction of objects linked to economic infrastructure. Compared to the program IFAD V, the program IFAD V offers financial support also for other activities with agricultural profile:

1. Production, harvesting, storing of: fruits, berry cultures, vegetables on protected areas and open fields, of aromatic and medical plants, grapes field and technical cultures (with the exception of technical types, tobacco, forest cultures and plants that are used in the arrangement of the area);
2. Production, harvesting and storing the seeds and the material used in planting;
3. The production of products of animal origin, inclusively the buying of breeding animals and of the equipment and the outfit.[4]

Thus in the period 2009 -2011 through these programs for development was granted 207 loans to a number of 268 beneficiaries, totaling \$ 3.5 million. Projects IFAD loans are issued by financial institutions participating in the implementation of projects such as: Moldova Agroindbank, Energbank, Social Bank, Moldindconbank, Victoriabank and Mobiasbanca-Groupe Societe Generale. [4]

## CONCLUSIONS

We can mention that the lack of own financial resources is the most important problem for the majority of agricultural industrial units. The loans that were granted to the agricultural sector from Moldova in majority of cases from two zones of village crediting: the commercial banks and financial nonbanking institution. The difficulties of the legal concluding of the foreign investment in the conditions of economical and political instability let us suppose that in future, a decisive role will be played by the internal sources, indifferently of the activating allocation of foreign capital in the last year.

The credit of the agricultural business is characterized through very big interest and difficult processes and the requirements of commercial banks besides the pledge are exaggerated. In these conditions, the enough

financial support that will be suitable to the requirements of the developing the business. The state institutions must be more active in the drawing the external, technical assistance, because the technical assistance of external donators could be on important factor of impassioning of the modernizing of the agro-feeding and of the structured organization sector of the most important valor chain.

Besides of all the registered success of the banking system, the agriculture remains yet, unattractive for the banks. The banking sector manifests restraints in granting loans to economical agents from agriculture and from the investments wade don't highlight a strong competition between banks towards offering this bank product.

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