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The agriculture of Republic of Moldova in the process of integration into the European Community

Abstract: *The intention of Republic of Moldova to integrate within EU and the phenomena that happens to the establishment of the competition economy enforce the application of the deep research of the processes of the most important sector of the national economy in order to avoid and or reduce the possible negative impact on it. This research is the main theme of the article below.*

Keywords: *Agriculture, Republic of Moldova, European Community, Integration, Policies*

Introduction

After obtaining the independence, the Republic of Moldova (RM) decided to consolidate its place among the democratic nations of the world and is currently hoping to join the large family of the European Community (EC), getting its national economy (agriculture included) in line with the EU structures.

The role of agriculture in national economy

The support to human being was and will be the strongest factor of the balanced economic development of any country; therefore agriculture is one of the most

Table 1. GDP structure evolution, %, 2001–2005

Economic sector	2001	2002	2003	2004	2005	2001–2005 (average)
Agriculture	22.4	21	18.3	18.2	18.3	19.64
Industry	18.7	17.3	17.6	16.4	15.8	17.16
Services	46.9	49	49.3	50.9	51.3	49.56
Net taxes per products & import	12	12.7	14.8	14.5	14.2	13.64
Nominal GDP	100	100	100	100	100	100

Source: National Office of Statistics, Republic of Moldova

important keys to success. For Moldova, agriculture is also the backbone of the national economy.

As we can see in table 1, agriculture is the second sector after services, even though its share in GDP dropped from 22.4% in 2001 to 18.3% in 2005.

The importance of this economic branch is also proved by the impressive share of the people employed in this sector, even though this share declined from 50.6% in 2000 to 40.7% in 2005 (table 2).

Table 2. Population employed in agriculture in RM

Specification	2000	2001	2002	2003	2004	2005
Total, '000	1515	1499	1505	1356	1316	1319
In agriculture inclusively	766	764	747	583	533	537
Share of people employed in agriculture, %	50.6	51.0	49.6	43.0	40.5	40.7

Source: National Office of Statistics, Republic of Moldova

The agri-food production is mainly oriented to the domestic market in almost all countries. Yet it should be mentioned that in Moldova, the *domestic agrifood market* is limited to only 3.6 million consumers and it is conditioned by their buying capacity. The monthly average income per household member in the third quarter of the year 2006 was 926.2 lei, which is below the subsistence minimum level. As a result, our country is forced to be an exporter to foreign markets.

Common Market and Republic of Moldova

The agri-food production represents about two-thirds in the total exports of the Republic of Moldova. It is worth mentioning that out of total exports of the Republic of Moldova, which totaled 1051.6 million \$ in the year 2006, 368.0 million \$, i.e. 35% went to the European Union. While the total exports in 2006 accounted for 133.1% compared to 2003, the exports to the EU increased 1.75 times in the same period.

The EU market became quite attractive for the Republic of Moldova, taking into consideration the following:

a. *Partnership & Cooperation agreement that stipulates:*

- Clause of the most favourite nation /Art. 10/;
- Free transit of goods (Art.11)
- prohibition of any import quantitative restrictions /Art.13/,

b. *EU/RM Action Plan*, which is a good opportunity to obtain additional resources of about 300 million EURO due to EU Neighbourhood Policy.

c. The *European Union imports from Central and Eastern Europe*, of which Moldova is also a part, pork and poultry products, live animals, fruit and vegeta-

bles, rapeseed, tobacco and wine. In fact, the European Union imports those products that represent our export “visit card”.

European Union agrifood policies

It is obvious that under these sufficiently beneficial conditions, efforts are also necessary from the part of our country. In this respect, it is extremely important for us to design and apply the agri-food market management policies and mechanisms that would be adequate to those practiced by the European Union, namely:

A. *The Intervention Policies* in the agri-food sector, which are effected through:

a. Regulations and restrictions through standards, both qualitative and quantitative, based upon the respect of at least two principles:

- “*mutual recognition*”, stipulating that the products that have been marketed on a legal basis by one of the Member States should be equally accepted and treated in the same way when they are exported by another Member State;
- “*proportionality*”, providing that the imported products are equivalent to the exported products

b. Support instruments, namely:

- *indicative price* or orientative price that is considered appropriate for producers and consumers;
- *intervention price* that triggers the community support mechanism to farmer incomes;
- *bottom price* represents the minimum level from which the imported products can have access to the EU market.

The public authorities provide support through:

- taking the surplus products from the farmers, in order to stock them;
- selling of stocks in the most proper time according to the market demand.

c. Custom duties that are applied in EU only for the imports of food products, ranging from 0% to more than 200%.

B. The current *Structural Policies* are stipulated in the Agenda 2000. The reform reduced the technical assistance objectives from 7 to 3, so that 70% of funds may be directed to the less developed regions. All resources are placed into 4 funds:

a. the European Regional Development Fund – for investments in infrastructure and small business;

b. the European Social Fund – for professional training and employment support;

c. the European Agricultural Guidance and Guarantee Fund – providing assistance to rural development and improvement of agricultural structures.

d. the Cohesion Fund that continues to assist Greece, Ireland, Portugal and Spain whose GDP per capita is less than 90% of the EU average. For the period 2000/06, the allocations under this fund reached 18 billion EURO.

C. *The subsidy policies* have the following forms:

- a. Support to setting up and investments;
- b. Support to organic farming;
- c. Support to afforestation of agricultural land;
- d. Support to farming in less-favoured areas;
- e. Support to pre-retirement;
- f. Support to vocational training.

The integration of the agri-food sector of RM into the EU structures asks for adjusting the national agricultural policies to the above-mentioned policies, but it must be also based on national priorities.

Land – private ownership in our country

The main direction of the national agricultural policy was, is and still remains the demonopolization of the state ownership and change of the land ownership form.

The private ownership upon land results in an increased number of decision-making persons, while increasing the freedom of farmers and agricultural managers, yet considerably increasing the risks.

According to the situation on January 1, 2006, only 40% or 702,000 ha from the land areas considered for privatization got the private ownership status. The average area of a land plot given into private ownership was 1.8 hectares. The size of household farms presented in table 3 is characteristic for all the districts (“raions”).

If we compare the farm size in our country to the farm size in France, for example, as it results from tables 3 and 4, we find out that the share of holdings with

Table 3. Size and number of agricultural units from north of RM on 01.01.05

Name of raion	Number of units in raion	Size of agricultural plots, ha arable land						
		< 10	10.1–50	51–100	101–150	151–200	201–250	> 250
Făleşti	109	6	12	3	2	2	9	78
Donduşeni	120	5	13	17	11	8	7	59
Ocnîţa	160	66	16	8	12	13	6	39
Briceni	155	38	23	16	6	9	8	55

Source: Statistical information from the listed raions

Table 4. Evolution of agricultural units in France ('000)

Years	Units	1955	1970	1984	2003
1–50 ha	Farms	2103	1421	882	411.7
	<i>in %</i>	95.7	92.2	84.9	73.1
>50 ha	Farms	95.1	120.4	157	202.3
	<i>in %</i>	4.3	7.8	15.1	32.9
Total units		2198.1	1541.4	1039	614.0

Source: Agriculture in the European Union, statistical and economic information, European Union, Directorate-General for Agriculture and Development, February 2005

more than 50 hectares is incomparably higher than that in France, even though in France this share grew from 4.3% in 1955 to 32.9% in 2003.

If we compare the situation from the Republic of Moldova with that in the EU countries, we find out that we are in a favourable situation. In the year 2004, in Great Britain an agricultural unit had 67.9 hectares on the average, in Denmark 34.7, in Sweden 33.7, in Luxemburg 32.4, in France 28.4, in Ireland 26.1, in Germany 17.9, in Netherlands 16.2, in Belgium 15.9, in Spain 15.8, in Finland 12.8, in Austria 12.2, in Portugal 6.9, in Italy 5.6, in Greece 4.2 hectares.

One of the most important strategic issues that resulted from agricultural land privatization is the enlargement of the area of agricultural holdings up to a reasonable size for the application efficient technologies.

Out of this reason we are absolutely in favour of agricultural land consolidation, on the condition it takes place in conformity with the market economy requirements.

The European Union/Republic of Moldova plan of action includes “the continuation of the voluntary reparcelling and consolidation of agricultural land on the basis of land market”.

In RM as well as in EU the increase of the average area of a peasant household farm is based upon inheritance, land lease, land buying – selling agreements or association based on free market principles.

Donation and inheritance. This process can be encouraged only through the diminution of the notary authentication fees in relation to inheritance and donation.

Rent. A bottom price and registration of each contract at the public authority office are required.

Buying – selling agreements. In this case the state should play a most important role. In our vision, the state should must buy land plots at the highest price from sellers and sell it to buyers at the lowest possible price to those wishing to get involved in agricultural business, mainly to young people.

This form of land area increase has to be encouraged for all the categories of farms, through the establishment of a special fund in the public budget to cover

the interest rate of commercial banks that provide credits on about 10 years for the purpose to buy agricultural land.

Association & Cooperation. Practically, the farmers and family farms throughout the world get associated or co-operate for a most efficient use of production means and of natural, human and financial resources. In the Republic of Moldova as well, the main tendency in the period of transition to the market economy is the organization of crop and livestock production along association or co-operation principles, which can take place by applying one of the following two well-known models:

- Soviet model, a component part of which our agriculture used to be, where this land consolidation process took place under the pressure of the dictatorship system, which finally turned the peasant into an employee of the Kolkhoz or sovkhoz units;
- Western (European) model, in which the association and co-operation of small production units into large capitalist farms takes place on a free basis.

We consider that the *association and co-operation* are welcome for land consolidation purposes in order to create large-sized units, to establish and consolidate the organizational-legal units for the sale of agricultural production and farmers' supply with production inputs, having as main targets quality and timely agricultural works at reasonable prices, cost reduction, common budgeting, marketing, legal assistance, design of business plans, feasibility studies, etc. The only and the main condition for association and cooperation are to have the private farmers joined together on a willingly base.

In this respect, we would like to mention the importance of the state in order to assure the proper legal base and equal conditions for each form mentioned above, to provide fiscal facilities and financial support.

The EU-RM Action Plan for 2007 for agriculture stipulates the need to create the Service Center for agricultural machinery and equipment. 62 specialized machinery centers and 85 agro-stores were established in the period 2000–2004 and in the year 2005 other 38 machinery centers were organized.

Extremely important for RM from the strategic point of view is the initiation of pilot projects in other two fields, such as organic farming development and the rational utilization and irrigation of soils, wet zone protection included; this is in fact what the EU/RM plan of action envisages.

The utilization of the EU's agricultural policies in Republic of Moldova

The Common Agricultural Market, as we have already mentioned before, applies Rules and Restrictions through qualitative & quantitative standards. Starting from this, we propose:

- acceleration of the process of national legislation harmonization to the EU standards and norms with regard to the agricultural and agri-food products;

- renovation and equipment with highly performant devices of the certification laboratories;
- population protection by supplying the consumers with safe food products.

The support to the agri-food sector also plays a significant role. As we can see in table 5, the special fund providing support to the agri-food sector increased almost five times in the last three years.

Table 5. The special fund utilization (mln.MDL)

Total per years	2004	2005	2006
		45.5	60.0
Credit subsidies and stimulation	21.2	30.0	–
Stimulating the establishment of technological machinery stations	9.0	18.0	20.0
Subsidies to autumn mechanization works (ploughing)	15.3	–	–
Support to the fruit farming sector	–	10.0	15.0
Endowment of veterinarian offices	–	2.0	–
Subsidies to sugar beet farmers	–	–	20.0
Subsidies to the users of phyto-sanitary products (pesticides) & chemical fertilizers	–	–	50.0
Support to the livestock sector	–	–	15.0
VAT reimbursement	–	–	100.0

Source: Ministry of Agriculture and Food Industry

The structure of subsidies is interesting. In the years 2000 and 2004, 19.8 mln. Lei were allocated to viticulture development, 13.1 mln. Lei inclusively in 2004. For the year 2005, the allocations reached 65.0 mln. Lei.

Through I.S. “Moldresurse” the agricultural producers received fuels and fertilizers at low prices. Thus, in the year 2003–2004 they benefited from a price by 10–12% lower than the market price.

The RM state budget for 2006 allocated 220,0 mln. MDL for the agrarian sector, which were distributed as follows:

1. Support to the fruit farming sector – 15.0 mln. MDL

These funds had to be used for the partial coverage of expenses for:

- Production/procurement of multiplication materials and planting stock for nurseries;
- Procurement of planting stock used for fruit-tree plantations establishment.

The maximum value of subsidies per hectare should not exceed 25 mln. MDL for nurseries and 10 mln. MDL for fruit-tree plantations.

2. Subsidies to sugar beet producers – 20.0 mln. MDL

These funds were allocated to the producers who maintained or increased the areas under sugar beet. The value of subsidy was up to 20 MDL per ton of sweet roots delivered to the processing units, with a yield of at least 25 tons/ha.

3. Subsidies to users of phyto-sanitary products (pesticides) and fertilizers – 50.0 mln. MDL

The value of subsidy was determined according to the VAT value paid at the procurement of these materials. The subsidy beneficiaries were the economic operators who bought and used phyto-sanitary products and fertilizers.

4. Support to the livestock sector – 15.0 mln. MDL

This financial support had to be used along two directions:

- The establishment and development of high-class livestock farms, multiplication and hybridation of national importance – 5.0 mln. Lei (design, construction, reconstruction and repair of premises (buildings), territory, farm infrastructure, procurement of equipment, machinery, installations and technological instruments;
 - Subsidies to the procurement of breeding stock (parent stock) – 10.0 mln. MDL, by compensating the price difference between the commodity-meat weight and the weight of the breeding animal. The legal entities or individual farmers who owned or established farms with breeding stock that amounted to at least 5 female bovines or 30 female pigs received the subsidy.
5. Stimulating the establishment of technological machinery stations – 20.0 mln. MDL

These funds were considered as technical credit provided by the state, as non-interest loans, for a 4-year period. The credit was repaid into equal tranches, starting from the second year.

6. Subsidies to agricultural production delivery throughout the country – 100.0 mln. MDL

The beneficiaries were only the agricultural economic entities registered as VAT payers. Thus, we should not be misled by the sharp rise of subsidies in the year 2006.

Besides the Direct Subsidy Fund to farmers, the state also covers operational expenses for agricultural support (indirect subsidies) that in the year 2006 represented 116.7 mln.MDL (175% increase compared to 2005).

The EU-RM Action Plan for 2007 for agriculture asks for the “Optimization of agricultural subsidies” (allocation of financial means mainly to investments).

For this purpose we consider it necessary to:

- replace the existing compensation system for the agri-food sector and creating the conditions for the implementation and development of a private insurance system;

- establish budgetary and extra budgetary funds from the activities of the agri-food sector for getting credits from commercial banks and financial support strictly oriented to certain agricultural activities and processing the agricultural raw materials;
- stimulate agri-food exports by ensuring the best possible exchange rates compared to the existing ones;
- ensure the transparency of state expenditures for agriculture;
- cancel VAT for the agricultural raw material producers and VAT differentiation for food producers;
- the size of payments to budget to be established on turnover basis and not on the plot size basis;
- give up *ex ante* support/before obtaining the production, which is generally inefficient, and *ex post* state intervention/after the production was obtained. Or even better after the production was obtained, stimulating farmers to produce those products demanded on the market, mainly on the foreign market.

The *ex post* support can be provided through two mechanisms:

- *First*: The state subsidizes part of the market price covering the production expenses;
- *Second*: The state buys the production at the negotiated price, but at a price higher than the cost. The production is sold afterwards, to the processing industry as well, at a price that can be lower than that paid to the farmers so as not to affect the population's purchasing power.

By its specificity, agriculture needs both short-term and long-term credits so as to ensure the highest efficiency. As we can see from table 6, the value of credits provided to the economic operators from the agrarian sector increased from 176.8 mln. MDL in 2000 to 1220 mln. MDL in 2005, or by almost 7 times.

The agricultural producers benefit from credits through:

- Rural Investment & Services Project (RISP – World Bank) in the amount of 20 mln. \$;
- International Fund for Agricultural Development (IFAD) in the amount of 8 mln. \$;

The state budget contribution to the implementation of these projects was 6.3 mln. MDL in 2004 and 7.6 mln. MDL in 2005.

The idea of credit cooperative development been very insistently promoted in RM for the last 5–6 years. Practically all indices from table 7 experienced a significant growth.

Table 6. Dynamics of credits provided to the agri-food sector in RM

Indicators	2000	2001	2002	2003	2004	2005
Total credits (mln.MDL)	176.8	184.7	930.6	646.3	830.5	1220.0
Average interest rate (%)	30–32	27–28	24–26	19–21	21–22	21–26

Source: Ministry of Agriculture and Food Industry

Table 7. SCA network development in RM, 2001–2005

Specification	2001	2002	2003	2004	30.11.2005
Number of SCAs	369	475	532	535	535
Number of SCAs members	37 776	52 028	63 222	85 099	96 686
Number of credit beneficiaries	33 458	39 633	48 788	60 435	63 071
Total credits disbursed (thousand MDL)	71 000	110 130	210 000	253 590	330 258

Source: National Federation of SCAs

By September 30, 2005, the total credit portfolio provided by SCA amounted to over 330.25 mln. MDL, out of which 92% were credits with agricultural destination. Although the object of SCA crediting is not only agriculture, but also non-agricultural activities, most of SCA members (about 80%) are farmers.

There are also some other steps to be taken that might contribute to the surmounting of the difficult situation in the agri-food sector, to increase agribusiness efficiency, to increase the competitiveness of agrifood products and to develop the export sector:

- participation to fairs and specialized exhibitions and learning from the experience of food marketing activities;
- setting up chambers of commerce and commercial representations in the EU countries;
- encouraging the development of package industry for the market of raw materials and food products in order to ensure competitiveness;
- modernization and technical adjustment of the processing industry capacities;
- establishment of joint ventures with the support of companies from the EU countries.

Agrofood sectors Managers

Participatory management is characteristic for agriculture, thus each manager has to have special education besides the inborn talent. In this respect we present the level of farmers' education in table 8.

Nowadays the managers in the agri-food sector are recruited from the university graduates. At present, the higher education graduates in agriculture, as seen in Table 8, represent only 6.12%, and the special vocational school graduates 16.67 of the total persons with the respective schooling. The higher economic education should contribute to the training of competent and competitive farmers and managers with abilities and skills that are adequate to the contemporary economy requirements. In other words, the training of staff with a new mentality is required, adequate to the competition economy. In this respect, the harmonization of university curriculae with the market economy requirements is needed, taking into consideration the sector specificity.

Table 8. Level of education, 2005

Level of education	Total	Agriculture	Share %
Higher (university)	223.8	13.7	6.12
Special vocational	194.3	32.4	16.67
Secondary vocational	331.2	129.1	38.97
High school	294.9	158.4	53.71
Gymnasium	235.0	166.6	70.89
Primary education, or no schooling	39.5	35.4	89.62

Source: National Office of Statistics, Republic of Moldova

A significant role in the change of mentality could be played, as in the EU countries, by the consultancy services and the specialized magazines. The agricultural magazines, for example, could provide on a weekly or monthly basis, a large part of the necessary juridical, economic, and technical and technological information for making the farmers' activity profitable. Practically the same information is provided via radio or TV programs. The farmers also get the necessary information from the agriculture-related institutions, from banks and credit institutions, from exhibitions and other sources.

The integrated application of the above-mentioned proposals will speed up the integration process of the RM agri-food sector into the EU structures.

The change of mentality is imperiously necessary for the integration of the agri-food sector into the Common Market, and in the first place the change of mentality in the people involved in this sector of the national economy.

The change of mentality represents a complex activity. To a large extent, the mentality is the product of the society political structure. What is, for example, the link between the politics and the managerial career? None, as it would be stated in many countries of the world. But in our country, in the absence of any "political support", the appointment into an executive management position or into an administration board is quite a problem. Most often, substitutes are used for the managerial abilities necessary for the respective job. Furthermore, the farmer or manager must make their way through the very complicated administrative formalities, must get subsidies, organize the financial circuit, etc., which is quite difficult as long as the old mentality is preserved.

It is worth mentioning here that the participatory management is characteristic for agriculture, and hence each land owner, each farm manager must have certain skills and experience, talent and special training completed. In other words, the activity in the agri-food sector is dependent upon the farmer and/or manager's competence.

According to Boettinger, the competence is acquired through "methods transmitted from professor to student..." Many farmers are farmers' sons and their necessary competence is acquired through the practice accumulated and trans-

mitted by previous generations, which undoubtedly contributes to conservatism. Furthermore, the formula “you get drowned or swim” is not valid for the competition economy.

Without any doubt, competence can be also transmitted from professor to student by practical training in the specialized higher education institutions. Even since 1911, Frederic Taylor wrote about that “optimum method”, and Henry Fayol (1916-1984) considered that the “managerial activity can and must be acquired in the same way as the technical ability, in school, and then in a workshop” At present, no performant results can be obtained if we do not have farmers and/or managers with adequate training. For our country, which experiences a painful transition from the command economy to the market economy, this conclusion is more valid than ever.

Conclusions

The integration of Republic of Moldova agriculture into European Union might be possible only if we'll adjust our legislation and national agricultural policies to the European one, introduce EU standards and will assure the necessary efforts in order to change the mentality and to educate owners and managers that will meet free market economy requirements.

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