

## THE REFORM OF AGRIBUSINESS SECTOR OF THE REPUBLIC OF MOLDOVA IN THE TRANSITION PERIOD

**Simion MORARU, Assoc. Prof., PhD,**  
Trade Co-operative University of Moldova  
E-mail: moraru42@mail.ru

**Ala CAZACU, Lecturer,**  
Trade Co-operative University of Moldova  
E-mail: uccm@list.ru

**Irina RAEVSCAIA, Master of Economics,**  
Trade Co-operative University of Moldova  
E-mail: irina-89.14@mail.ru

### **Abstract**

*The reform of the agricultural sector is a basic component of national economy's reform in the long process of creating the market economy. The formation of functioning of agricultural market on competitive principles needs: to transform (reform) the state ownership to private, to create adequate rural and agricultural infrastructures, to work out the adequate agricultural policies, simultaneously to realize institutional and administrative reforms adopted to new orientations of the market economy, to restructure the processing industries and preserve the environment. The involvement of state in the socio-economic development of agricultural sector follows the formation of effective farms based on the restoration of the private proprietorship, the technical modernization of this sector, and to develop the national biological patrimony, to ensure food security stabilization of prices at agricultural products by establishing farmer's income and increasing budget's accumulation based on a modern and stable system of import-export taxation.*

**Keywords:** market economy, economic reforms of agricultural sector, private ownership, processing industries, demand and supply.

**JEL classification:** Q13

### **1. Introduction**

Since ancient times Moldova's agriculture was the foundation of its economy, the welfare of the population, and now it is one of the main items of export and GDP's growth. Moreover, this sector provides food security of the country, has important ecological and social functions, as it is directly related to the environment and employment of the rural population. In 2002, there was completed the implementation of the National Program "Pământ", that resulted in the privatization of land and its return to the peasants - those who worked it. In 2003, which was the first year after the formation of land owners there functioned over 31.4 thousand economic entities [5, p.469] in the country which could determine the path of its development, and therefore the fate of the agri-food sector in Moldova. In the same year, in the total area of 3384 thousand hectares in the Republic of Moldova, 2534 thousand hectares are agricultural lands, of which over 70% is arable land, more than 300 thousand hectares of permanent crops. Out of 4 million people living in that period in the country, 49.5% of the employed population worked in the agricultural production and processing industry.

The agricultural complex (AC) at that time constituted more than 50% of GDP and 63% of total exports of Moldova. The authors of this paper proposed to consider briefly a complex way of Moldovan self-identity on the example of agricultural sector during the transition period.

## **2. Formation of individual households on the basis of private ownership of land**

In the early 90-ies of the twentieth century Moldova entered by radical reforms of relations of production – from the central planning and management of the economy to a market system. At that point in agricultural works there have been involved over 63 thousand tractors, 5.5 thousand harvesters, and 34 thousand trucks. In the 80-ies of the last century there were supplied annually up to 1.000 units of fertilizers, more than 600 units of sprinklers, many other agricultural machines in agriculture. The irrigation system has reached 12% of arable land. Every year there was attracted significant capital of investments that allowed to farm in an intensive and effective manner. In 1991 there functioned 534 collective farms and 389 state farms in the country, on the balance of which (in prices by 1984) about 8 billion rubles constituted fixed assets and 25 billion rubles non-productive assets (excluding land) [1, p.2].

The degradation of agri-industrial complex (AC) in Moldova coincided with the beginning of major reforms in the country. In 1990, the concept of transition to a market economy was adopted, and in 1991 – the program of transition to market economic conditions, then the concept of agrarian reform. In this regard there were adopted and implemented a package of market laws, legal, various mechanisms regulating market relations. Among them we can mention the laws on “Property”, “Land Code”, “Land Tax”, “State land’s management, land cadastre and land monitoring”, “Peasants’ farms” etc.

It must be emphasized that the transition from the state and collective farm property to a private one proved to be difficult. There were no professionally trained specialists in this field. Some people naively believed that the way of transition could be completed in 1.5-2 years, reforms were often carried out from the perspective of previous socialist experience. Often, there occurred imitation of reforms that continued the agony of numerous unprofitable farms which debt exceeded their assets. In 1994-1996 there was planned to successfully transfer to large collective farms and state farms 50% of shares of food processing plants, fruits and vegetables, canned goods, wine, meat and dairy, animal feed industries. The creation of joint-stock companies in agribusiness, would close the loop after the producer of the entire promotion chain of goods to the consumer, maintaining the technical and production infrastructure as a unified system – matrix of all economic complexes, and at the same time maintaining control “from below” (from shareholders) on the progress of economic activity of all business entities, “stacked” in a closed cycle. This idea was not developed. In fact, the issue of shares was not carried out. The control from the government agencies of agricultural enterprises was not practically performed.

The entire agricultural sector in 1996 was, according to some estimates, unprofitable. Traditional suppliers of high quality seeds, fertilizers, agricultural machinery and agricultural markets and processing industry have been lost. Essentially, there was dismantled the system of procurement and processing of raw materials in consumer cooperatives as small wholesale link in the agro-industrial sector of the country. There was a precipitous decline in cereal production, pulses, industrial crops, tobacco, completely disintegrated volatile oils industry which was once essentially lucrative. Low efficiency in the livestock sector has led to a reduction in livestock and

poultry, the effectiveness of irrigation system collapsed; the machine-tractor park began to fail. Because of the widespread job losses and the depopulation of the country – the most productive sectors of society began to immigrate in droves.

According to the concept of agrarian reform in 1992 provided not to destroy collective and state farms, and use these shapes to build large commodity competitive farms, changing only the conditions, rules of economic activity, management and forms of payment, i.e. investing in these forms of new content based on private property and competition. However, the Constitutional Court in 1995 recognized as unconstitutional the measures of constraining the output of collective farmers, together with the release of their ownership on the land. In 1998, the Parliament by its decision abolished the collective farms without offering them other organizational and legal forms of agribusiness. Not having a local responsible government authority in the field of state and collective property; in 1984 – 86% of all fixed assets of the Republic, farms' properties and consumer cooperatives were stolen nationwide. Under these conditions, by passing the involvement of Ministry of Agriculture, with the financial support of foreign funds there started the legal registration of property rights of peasants to land quota under the National Program "Pământ". By that time there was created a market land. There appeared a class of owners, about 75% of agricultural land was privatized. Most of the products were produced by the private sector.

### **3. Agrifood Market after privatization of the land. New channels of distribution and sales**

The market represents an economic sphere in which the production of goods takes the form of offer and the consumption needs (productive or individual) as the solvent demand of goods. The term "market" usually expresses two distinct ways: either the venue where a transaction takes place or the conditions of this transaction.

We call agricultural markets the exchanges that relate to agricultural and agro-industrial markets exchanges that relate to agricultural products by producing industries (food and nonfood). These two categories are different: agricultural products are, in most cases, heterogeneous products, often perishable, offered to consumption in the fresh state or after the minimum primary transformations. The agricultural products are stabilized products which involve secondary and tertiary activity that can be stored and preserved for a certain time period, are differentiated, marked and homogeneous for a certain brand.

After Malassis and Chersi (1992) the markets which compete in the transfer of markets from agricultural and food production stage to the stage of consumption may be grouped into four categories, depending on their location in the food system:

- basic agricultural product markets in the agriculture;
- food products markets in the food industry;
- consumer markets in the households;
- international markets for export and import flows worldwide.

This system is complex and dynamic, having multiple interdependent markets upstream and downstream.

It must be taken into consideration that concrete agricultural and food markets, with a few exceptions were almost never competitive markets in terms of pure economic theory, and those

that remain tend to disappear. Market as an area of transactions, is basically a reflection of the status and development of agrifood market, of forms of social organization and economic interests of the sector, the degree of its development, capitalization and concentration.

Agriculture being a vital industry for any country is the most powerful factor in harmonizing the economic development. Agricultural production was, is and will be forever a condition without which the human society cannot exist. Agriculture, being traditional for Moldovan population was and remains a basic occupation. Moldova is a country at this stage of agriculture.

In the centralized economy of the country the agrifood sector of the Republic of Moldova was relatively developed with its share about 40% of GDP, 75% of exports. The population is of 4.3 million inhabitants; mostly all were employed in agriculture. In 2012, according to official data, the agriculture accounted for 12.2% of food industry and 11.2% of G.D.P. The employment in agriculture constituted 27.5%, in processing industry – 10.9%.

During the transition from the centralized economy, until 1990, Moldova was specialized according to the division of the labor union that marketed the agricultural products all across the USSR, which collapse for Moldova signified:

- apocalyptic loss of external sales of agricultural products;
- decollectivization, restitution of land ownership;
- lack of energy resources, of capital stock, of tractors, agricultural machinery and modern technologies.

As a result of fulfilling the “Pământ” program in the agrarian sector, there appeared a new type of corporate enterprises instead of collective farms and state farms: 95 stock companies which constituted 5% of total new forms; 111 cooperative of agricultural production (6%), 300 state enterprises (16%); 1118 limited liability companies (62%), 229 other types of agricultural enterprises (12%). Separately we place the peasants’ farms – 283.2 thousand [2, p. 15].

Land privatization was the first and most important phase of land reform. This socio-economic process of vital importance had positive and negative sides, including:

- Agricultural land, as mentioned above, was chopped into small parcels, which influenced the economic efficiency of land fund;
- There was a mismatch between the size of farms and the implementation of modern technologies for processing the soil;
- The agricultural machinery park does not match to the new conditions of organization and functioning of agricultural households;
- The staff hadn't management, economic and technological trainings.

Following the land reforms there had also changed the distribution of agricultural areas by ownership. The total area of agricultural land in 2012 amounted to 2498 thousand hectares, or 73.8 percent of the total land area of the Republic of Moldova, including arable land – 1.8105 million hectares and 288.7 hectares for perennial plantings. Of sown area with crops about 49 percent are agricultural enterprises, 31 percent – farms and farmers, 18.8 percent – households, 1.2 percent other forms of property.

The structure of agricultural production can be considered as a relatively stable one, which generally for Moldova is 70 percent – of vegetal and 30 percent – of animal origin.

The direct disadvantage of Moldovan agricultural industry generates the indirect processing of agricultural raw materials. In 2012, the output of processing industries increased by 11%. Within the processing industry, 4506 manufacturing firms operated in 2011 compared to 4021 in 2007 and 4630 in 2010 [6, p.285].

The share of processed agricultural products in the processing industry is 80 percent of the structure that is:

- Food and beverages – 50.3%;
- Manufacture of tobacco – 2.8%
- Production, processing and preserving of meat and meat products – 12.6%;
- Processing and preserving of fruit and vegetables – 8.9%;
- Manufacture of bread and pastry products – 9.5%;
- Dairies – 10.6%;
- Wine – 17.2%.

Agricultural growth in the economic increase improves its activity at a slower pace compared to the average growth rate. The development of exports, insignificant in our vision and acceptance of considerable imports of agricultural products further complicates the situation of local farmers.

As a result of land reform there were structured differently distribution channels and selling of agricultural products.

Sales of main vegetal products by all farmers in the past three years are mainly sold in the market, decentralized individually through its own sales network, through the public markets, through transactions:

- Cereals and pulses – 86%;
- Sunflower – 74%;
- Potatoes – 98%;
- Vegetables – 72%;
- Grapes – 46%.

Through the acquisitions made by enterprises and organizations collecting and processing agricultural products it is sold:

- Sugar beet – 100%;
- Tobacco – 77%;
- Vegetables – 28%;
- Grapes – 54%;
- Sunflower – 26% [6, p.348].

Agricultural policies are some regulators of agriculture' operation in any country. There is no country where the agriculture exists without specific agricultural policies. The support of agricultural production and the use of more efficient technologies create facilities:

- farmer increases the offer;
- market price becomes lower;
- imports are reduced;
- exports grow;
- the manufacturer improves his product structure, the demand for capital, personnel.

The success, failure of agriculture and the processing of agricultural products is the result of many vectors:

- brokerage services;
- exogenous services;
- technology services.

In the triad: agriculture - processing - trade, agriculture is being disfavored in most cases.

No government can afford to be indifferent to the problems of consumption. As a criterion, with respect to food consumption, the subsidy on food prices, which consequently contributes to the increase of consumption, the increase of food imports, the increase of budgetary costs. Another component of this criterion is price controls, production becomes distorted, there can occur the shadow market. To the consumption problem, as the criterion, is also attributed food aid. This contributes to increased consumption, to reduced market price, to decreased production, to reduced imports. This economic mechanism of solving this problem does not create premises for the development of production and therefore can have positive effects in the short term, in long term one having only negative effects.

As a result of the analysis of the Ministry of Agriculture and Food Industry of the Republic of Moldova, we can mention that the domestic agricultural export is oriented towards traditional markets mainly towards those to CIS, with developing markets, currently unstable ones. The export to these countries involves big risks. The diminishing of the export of agricultural products was influenced by reduced competitiveness of local agricultural products on domestic and external markets. A good moment constitutes the positive commercial balance of agricultural products for 2003-2010, with the exception of the year 2008 when the commercial balance was negative, being 36.3 million USD.

One of the main important governing function and of the agricultural sector is the security of providing the agricultural products, the stability of local production which implies the government's support. The experience of developed countries offers some characteristics of market relations in agricultural sector [3, p.19].

The agriculture and the market of agricultural products are not completely self-regulated by the state, in case when the demand for agricultural products is characterized by a decreased elasticity, which is specific for the agriculture. At the same time, the agricultural production which is of the first need, some of them being irreplaceable, then their demand cannot be reduced with the prices' increase.

The demand for agricultural products varies relatively and is determined by more factors which are specific for local conditions (peasants' households, private enterprises, auxiliary enterprises, etc.). Therefore, the identification of these specific factors is relevant in the actual conditions from the agricultural market.

The supply of agricultural products based on the modifications of prices has a gap in time, especially in the plant growing sector as well as in the zootechnical one with a long cycle of production. The production volume and the supply volume mainly depend a lot on the soil and weather conditions which have a probable character in the nature and in consolidating the risks, as well as the biological processes linked with crop cultivation and animal growing, more than this, there is a gap between the obtained production and the supply of agricultural products on the market which consolidates the negative impact upon the inflation process. Excluding these impossible characteristics for taking correct decisions, the market conditions are mainly relevance.

Analyzing the evolution of global vegetal production for all categories of households of the Republic of Moldova, we observe a minimization of global agricultural products in 2012 in comparison to the previous year by 2356 thousand lei, but in comparison to 2001 with 11617 million lei. As a result, there takes place the decreasing of vegetal production by 4405 million lei in 2012 in comparison to 2011 and by 2070 million lei and 5772 million lei and services - by 21 million lei and by 236 million lei in 2001 in comparison to 2012.

Currently, the socio-economic situation of agricultural complex is most complicated. There are noticed tendencies of their unbalancing-reducing the supply volume of local producers and accelerated increase of prices in comparison to the increase of population income. This thing takes us to insufficient usage of production capacities of the agriculture as well as to difficulties in commercializing agricultural products in free economic zones, as well as to the efficient formation of regional market's functioning with agricultural products.

The agriculture of the Republic of Moldova faces a difficult stage of reforms, of re-orientating from a centralized planned economy, mainly based on public property to the economy which is oriented towards market relations, based on private property. The reform of national agriculture is accompanied by integration processes, by globalization, liberalization of international commercial exchanges.

The state's interference, in our opinion, is mandatory not only in the process of establishing the prices, but also in the process of regulating the market of agricultural products creating economic premises for the development of agricultural products in qualitative and quantitative proportion. A special role is attributed to the direct support of the agricultural producers by the state by offering subventions and compensations which is an important tool in the model of increasing and developing the agricultural sector.

The major costs of inputs on production unit and the low productivity per hectares, followed by a low quality of some agricultural products, are the main factors in the weak competitiveness on national and international market of local products.

The local prices which benefit our agricultural producers are far less than the international ones and this has an effect upon the profitability of the agriculture, which at present is the least preferable from all the sectors of national economy. So, as a result of politicians' distortion, market's imperfection and inefficiency, important transfers of profit from producers to other subjects of the commercial network take place. By cumulative effect, these distortions reduce the agricultural income, conditioning a failure in investments, which in its turn causes the decrease of productivity of uncompetitive products on export markets and of the proper consumption, the thing which limits the income.

The success of forming the agricultural market depends on the accelerated reforms outlined in the agricultural sector; the formation of new types of agricultural enterprises based on free association of small owners; functioning of market's economy mechanisms; modernizing the techniques and technologies; improving the legislative framework in the domain of agriculture; initiating new mechanisms of financing and subsidizing the agriculture; the degree of rural economy's diversification; educating the economic behavior of farmers and creating a flexible mentality to different changes.

#### 4. Conclusions

After the completion of land reform most of the agricultural land is in private ownership. New organizational and legal forms of agribusiness development were created, based on private form of land and economic liberalization of the agricultural sector. The number of peasant farms (about 283.200) greatly exceeds the number of other organizational and legal forms. Distribution of land made on an equitable basis – the land was received by those who worked it. Privatization has given impetus to the development of agriculture. The agricultural sector has gradually become adapted to the new economic conditions. There appeared agricultural business. Agricultural exports and food consumption slightly increased. But the revival of the agricultural sector due to the change of ownership of land has its limits. Further development of agribusiness in post-privatization economic conditions (giving it stability, efficiency, competitiveness, infrastructure, storage, processing, products' sales) are possible only when there is available and significant investment, subsidies, loans. By 2010, according to the estimations by the World Trade Organization, the agricultural sector of Moldova needed 600 million lei annually at least until 2010.

An important lesson to be drawn from the land reform is the perversity of “equalization of privatization”. This approach is based on the principle of “not to offend anyone”, to give land to those who work it. This led to excessive fragmentation of land. The average peasant farms had 1.5-2 hectares of land with subsequent parceling of this area in various locations. There appeared contradictions between the people about the production, distribution, exchange and consumption of agricultural products, the lack of effectiveness of small areas of the machine and tractor equipment, while the use of this technique provides the required performance only at its operation on large areas. Small farms could not be objectively specialized enterprises, efficient and competitive agricultural producers in the market. “... In the Republic of Moldova, there are 903 thousand households, the average size of a single enterprise is 2.5 hectares, which is usually divided into three plots with an average size of 0.8 hectares” [4, p.38].

The operation of small scattered plots belonging to the same owner, and excessively fragmented structure of farmland at the national level led to a decline in crop productivity, induced breaking rotation in the crop rotation, primitive use of fertilizers, poor soil and water quality, increase level the vulnerability of agriculture to natural risks. Minor scattered areas do not allow the safety of individual irrigation systems in the areas of agriculture venture. The consequence of such an organization in case of crops is fragmented and inefficient on livestock production. Feed mill industry has not been restored, there disappeared qualitative pastures.

The lack of financial resources, domestic certified materials, high prices for imports of high-quality working capital, fuel and lubricants, fertilizers, machinery; inaccessibility of farms to bank loans (even when the land does not cover the security needs of the bank), the lack of markets and primitive conditions of the sale of products in the domestic market, the low efficiency of agricultural production led to the impairment and depreciation. At the national level the land market sometimes does not dominate the supply and demand on the land, but the need of a peasant is either to sell for a knockdown price, or to rent out their land because he cannot handle it. In circumstances when the peasant offers extremely low prices for his plot of land, he does not sell, but does not process because he cannot. This has contributed to the existence of vast areas of non-cultivated land in Moldova. The losses from all these were huge at national level. Therefore, there

were only a small number of owners able to buy large areas of land and create medium and large enterprises with plots from 500 to 1,000 hectares of land. As a result, about half of the country's farmland belongs to the few owners who are able to create high-tech competitive commercial farms. Although the trend of creating high and efficient farms should be maintained, it must be emphasized that in our country this progressive process of the organization is due to the social polarization of the rural population.

An important issue that has remained unresolved for the authors of the national program "Pământ", is that the reform failed to close the whole cycle: production - provision - storage - cold storage - processing - market - the consumer. The loss is obvious to all: producers, processors, buyers. So now, the manufacturer is looking for a storage, refrigerator, processor, market for their products, and practically sells its products mainly unprocessed, through intermediaries, but the processor "is looking for his" producer or tends to create the production. There are no modern processing units of food production, the entire post-harvest infrastructure, transportation, storage, processing, packaging. The consequence of this structure of agro-food trade is the low value of exports and the high costs of imports. The Republic of Moldova has not yet begun to systematically introduce the European standards for food safety, without which the access of Moldovan producers to capacious markets of CIS and EU is difficult.

#### REFERENCES

1. CHESHUEV, V., 2014, Agriculture of Bessarabia/Moldova: Bitter Experience of Reforms. Available at: <http://www.cisr-md.org/ROM/cesuev2rus.html>.
2. CHIMPOESH, D., SCHULZE, E. Economic Situation of Moldavians farm enterprises. Available at: <http://hdl.handle.net/10419/284961>.
3. GOODLAND, R. LEDEC, G., *Neoclassical economics and principles of sustainable development*, Ecological Modeling, Vol. 38, 2007, pp. 19-36.
4. National Strategy for Agriculture and Rural development for 2014-2020 years. Available at: <http://lex.justice.md/viewdoc.php?action=view&view=doc&id=353310&lang=1>.
5. Statistical Yearbook of the Republic of Moldova 2004. - Ch.: Statistica, 2004. - 738 p.
6. Statistical Yearbook of the Republic of Moldova 2013. - Ch.: Statistica, 2013. - 572 p.