
**INVESTMENT AS A DOMINANT FACTOR OF SOCIO-ECONOMIC
DEVELOPMENT OF RURAL AREAS IN THE REPUBLIC OF MOLDOVA**

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Abstract. *The economic development of the rural areas of the Republic of Moldova is largely based on investments, foreign trade and remittances for economic growth. The purpose of the study is to analyze the role of investments in the economic development of rural areas of the Republic of Moldova. For the Local Authorities, it constitutes the main pillar, which influences the development of the village in economic and social terms.*

Investment plays an important role on the country's economy, representing the material support of its economic and social development. It ensures the permanent capital increase, advances the technical and economic efficiency of existing ones and creates new places of employment. In this context, investment is the dominant factor of development the rural areas.

Key words: *investments, socio-economic development, projects and programs, national economy, rural area.*

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Introduction

One of the problems of directing the flow of investments into rural areas is the limited ability to attract sources of capital from potential investors in the conditions of fierce competition between developed and least developed areas, and those that are most attractive to investors win.

The economic development of the rural areas of the Republic of Moldova is largely based on investments, foreign trade and remittances for economic growth.

At the same time, the main goal of the Republic of Moldova is to ensure a transparent and favorable business environment for foreign and local investors by supporting international law and protecting a market economy, private property, provisions against unfair confiscation of property and separation of powers between government structures.

Usually, when it comes to rural investment, we talk about the well-being of private families and entrepreneurship, where money can be a source of community development and can change rural life into a prosperous zone.

An analysis of recent studies and publications that began examining this problem showed that the main goal of the Republic of Moldova is to provide a transparent and favorable business environment for foreign and local investors, supporting international law and protecting a market economy, private property, provisions against unfair confiscation of property and separation of powers between government structures.

Analysis of recent researches and publication

Recent studies in the field of economics have shown that more than half of the population of the Republic of Moldova - 56.9%, lives in rural areas. Agricultural land covers about 74% of the country's territory, of which 54% is arable land. In 2018, 36.1% of people worked in the agricultural field.

Although, this percentage has grown slightly over the past 4 years, many rural communities have little to do with economic growth. We believe that to accelerate economic growth in rural areas, investments in this environment are still elements that need to be improved. Thus, strengthening the capacity in order to attract financial resources for the development of rural areas in the Republic of Moldova by improving drinking water supply services, waste management, maintaining local roads, developing leisure and sports services, telecommunications and public lighting, local and socio-economic development (schools, kindergartens, cultural centers, libraries, medical centers), as well as

other comprehensive utilities, remain one of the main tasks of local public authorities of the first and second levels.

Paper's objective is to assess the impact of investment and to justify the role of investments in development of rural areas in the Republic of Moldova.

The main body of the academic paper

According to studies in this area, Republic of Moldova is one of the well-known countries for mass migration to European countries. At the same time, although many citizens remain working in the black market, some of them return home and invest in their communities, especially in agriculture, social life and production, thus contributing to the socio-economic development of the countryside as a whole.

We believe that the first element in attracting foreign investment is basic legislation and economic investment.

International experience has shown that in order to ensure minimum conditions for attracting foreign investors, the investment and legislative framework in the economic fields must exist, function, be transparent, stable and predictable. However, this is a necessary condition, but not sufficient. At the same time, the ability to attract foreign capital is represented by the degree of openness of the economy to foreign investors.

According to several authors in this field, investments in a financial sense correspond to all cash expenditures that will bring profit or savings over a long period and which will be repaid within a few years. This phenomenon is similar to the use of long-term financing, including debt for a long period. Financially, investments are represented by all the capital with which they work. The financial definition of investments includes both the definition of accounting and the economic concept, which, in addition, has an aspect related to the need for working capital.

At the same time, investment is an activity. Investment activity, as one of the most important types of economic activity, significantly contributes to the success of an economic agent.

Investment activity plays a central role in the economic life, both in the production of goods and services and in the sphere of consumption, being the factor that simultaneously influences both supply and demand. The statement is proved by the processes of training and multiplication of effects, which are generated by any investment project, regardless of the activity sector that is implemented. The realization of an investment project in the sphere of goods and services production results in increased and diversified supply and, therefore, if it is validated by the market, increased incomes of economic agents.[4]

Justification of the volume and economic efficiency of investments at the macro- and microeconomic level requires knowledge of the methodological and theoretical problems related to the systematization of investments, since in essence investments are expenses intended for the implementation of a wide variety of works and activities. [6]

The Law of the Republic of Moldova about Investments in Entrepreneurship defines investment activity as "activities for making investments and doing business in relation to these investments with the aim of generating income".

A problem of directing the flow of investments to rural localities consists of the limited possibilities of attracting the sources of capital from the potential investors, under conditions of fierce competition created between the developed and the least developed localities, the victory being by the most attractive ones for the investors. Therefore, the field is more than the competence of the Local Public Authorities, which, in order to solve this problem, has to worry about increasing the investment attractiveness of the rural localities. The improvement of the investment attractiveness will contribute to the increase of the investment flow, therefore - to the increase of the level of development of the rural localities, to the increase of the quality of life of the rural population, respectively to the poverty reduction.

Financing of investment projects is a significant step in the investment process, according to which, after making an investment decision, financial resources are included in the investment budget and can be used to implement the project. In fact, the decision to invest makes a choice between local investment and external investment. Thanks to the decision to "finance", a choice is made between own resources and resources borrowed or attracted as a result of financing.

At the same time, the mechanism for financing of investment projects includes appropriate actions regarding the following:

- determination of funding needs;
- establishing an appropriate capital structure;
- assessment of the cost of financial resources in the medium and long term.

Through the financing plan for investment projects, an investment program is included into the balance sheet, consisting of a portfolio of ongoing investment projects, and the resources that the investor has or will be able to mobilize. It is important that the investor can mobilize the necessary resources from internal financing or from external financing. Thus, the problem of attracting capital resources should be considered in two interdependent aspects: in accordance with the sources and methods of financing. The financing structure of investment projects is based on internal financing and external financing. [9]

According to the World Investment Report for 2019, foreign direct investment (FDI) in Moldova has declined in recent years: in the case when the average annual pre-crisis value was estimated at \$ 330 million, FDI fell to \$ 228 million in 2018. [10]

Thus, total FDI is estimated at \$ 4 billion in 2018 (35.5% of GDP). Most FDI comes from other EU countries. The National Strategy for Attracting Investments and Export Promotion for 2016–2020 identified five priority sectors for investment and export promotion, namely:

- agriculture and food;
- cars;
- business services;
- clothes and shoes;
- electronics and cars.

In general, the economic and political environment of the Republic of Moldova is not particularly attractive for investors. The country faces a number of challenges, including the need to fight corruption, improve the investment climate, remove obstacles for exporters, turn remittances into productive investments, and develops a reliable financial sector. Administrative and judicial reforms are also needed.

Table 1. Comparative Investor Protection Indexes

Indicators	Republic of Moldova	Western Europe and Central Asia	USA	Germany
Transparent transactions	7.0	7.0	7.0	5.0
Managers responsibility	4.0	5.0	9.0	5.0
Shareholder Competence	7.0	6.0	4.0	8.0
Investor protection	6.3	6.4	6.5	6.0

Source: *Doing Business - Latest available data.*

The data in table 1 shows the comparison indexes for investor protection. Some of them, which relate to the Republic of Moldova, are more or less equal to the indicators that relate to the countries indicated in the table.

Many studies reflect the **strengths** of the Republic of Moldova in attracting foreign direct investment as follows:

- skilled and cheap labour;
- privatization of a number of companies on the verge of bankruptcy;
- taxes and fees favourable to investors;
- agricultural potential (wine, dried fruits, vegetables, sunflower, wheat).

Weaknesses that prevent FDI include:

- high level of poverty;
- an important segment of its informal sector;
- dependence on money transfers of expatriate workers;
- political instability and social tension;
- high level of corruption, poor governance and "nepotism";
- separatist aspirations of Transnistria.

The current law on business investment was developed in such a way that it complies with European legislative standards and defines the types of local and foreign investments. It also offers guarantees to respect investor rights, not to expropriate or act similar to expropriation, and to recover damages in case of violation of investor rights. The law allows investment in all sectors of the economy, while some activities require a business license.

At the same time, the Government took a number of measures to promote investment in the country. Companies investing \$ 250,000 can take advantage of tax credits for the first 5 years. Income tax has also been reduced. The government promotes equality between international and local investors and the fact that there are no restrictions on invested capital.

It should be noted that the Republic of Moldova has signed numerous bilateral investment agreements, which can be found on the website of the UNCTAD Investment Center. (Conference on Trade and Development)

We agree with the opinion of economists of the Republic of Moldova that the development of a country depends of the effectiveness of all components of the investment sector, supporting the idea of the positive impact of investments on economic development.

Given the topic of rural investment research, we agree with the studies that have shown that the socio-economic development of rural areas faces many obstacles, and one of the major obstacles to this development is the lack of access to finance.

In a market economy, the main activity in which the majority of the rural population is involved belongs to the main sector of the market, namely to the agricultural sector. The source of development of this sector consists of investments or own financial resources, formed on the basis of profit received from economic activity or other financial resources. In most cases, agricultural enterprises do not have their own sources to finance the necessary investments. This is done using borrowed sources, such as: bank loans, deposits from founders or other sources of financing.

Obviously, the role of loans in financing investment projects is positive, contributing to the modernization of agricultural enterprises. But at the same time, the payment of interest is a burden that leads to a decrease in the economic efficiency of production when repaying a loan.

However, in order to increase the efficiency of the agricultural sector, the concept of agricultural loans provided by commercial banks of the Republic of Moldova, approved by financiers, was introduced.

In the same time, in order to develop the private sector the Government of the Republic of Moldova receives funds from its development partners under favourable conditions. Taking advantage of this assistance (credit schemes, grants or subsidies), Moldovan entrepreneurs can develop their businesses, significantly increase the quality and export capacity of their products, thus, becoming more competitive and creating new jobs. Interest rates for these favourable funds are lower or do not exist in case of grants and subsidies. Moreover, the repayment period of loans is several times higher than in case of commercial loans, many of them have grace periods as well. [5]

According to the conclusions of a number of experts in this field, the dependence on external sources of financing capital expenditures in agriculture has increased in recent years. This impressive dynamics of capital distribution during this period was achieved mainly due to an increase in the volume of external grants and loans for agriculture.

A number of other donors have contributed to the implementation of vital projects in the field of agriculture and socio-economic development of rural areas, such as: United Nations (UN), World Bank (WB), European Investment Bank (EIB). And a number of countries provided individual assistance: the Czech Republic, Switzerland, Poland, Romania, the USA, Sweden, etc.

Despite internal disagreements, a number of projects implemented in rural areas were very successful, such as:

- Compact Project (2010-2015), funded by the United States through the Millennium Challenge Corporation.
- Agriculture Competitiveness Project (MAC-P) 2012-2017, World Bank, Government of Sweden.
- Agriculture Competitiveness and Enterprise Development (ACED) Project (2011–2016), funded by USAID and the Millennium Challenge Corporation.
- IFAD (IFAD) 5 (2011–2016), funded by Denmark and the United Nations.
- IFAD 6 (2014–2020), Danish Global and Environmental Fund.
- ENPARD (2015-2022), funded by the EU.
- 2KR Privileged Farmer Assistance Project funded by the Japanese government.

Of particular note is the implementation of the Pilot Program for Attracting Money Transfers to the Economy ("PARE 1 + 1"), approved by Government Decision No. 972 dated October 18, 2010 for 2010-2012, the purpose of which was to inform and train labor migrants in the field of entrepreneurship and mobilize the human and financial resources of labor migrants from Moldova for the sustainable economic development of the Republic of Moldova. In the period 2010-2012. Under the program, 124 financing agreements were concluded and more than 76 million lei were invested in the national economy. Based on these results, the authorities extended this funding program, and until 2014, 411 non-refundable contracts were concluded. In total, the investments of the beneficiaries of the "PARE 1 + 1" program amount to 258.13 million lei, and non-refundable financing - 76.66 million lei. An analysis of enterprises by field of activity showed that migrant workers invested their financial resources accumulated abroad, mainly in agriculture - 58%.

In 2014, the Ministry of Agriculture, Regional Development and Environment of the Republic of Moldova, in conjunction with the Joint Implementation and Monitoring Group of Agricultural Projects funded by the World Bank, launched two grant programs for agricultural producers under the project "Competitiveness of Agriculture in the Republic of Moldova". The first grant program to facilitate access to retail markets is implemented by the Ministry of Agriculture, Regional Development and the Environment of the Republic of Moldova and has a budget of \$ 7 million. dollars. The second - grants to increase productivity through sustainable soil management, received a budget of 3 million. dollars. Another financing project implemented by the WB in 2014 provides for the allocation of US \$ 45 million for the Competitiveness Enhancement Project II (CAP II), which will increase export competitiveness and reduce the regulatory burden for agricultural enterprises in Moldova. According to information on investment projects administered by the Directorate of the Credit Line, from the beginning of the initial period of implementation of investment projects for the development of small and medium enterprises, about 6773 beneficiary sub-projects were financed, mainly from the rural sector, for a total amount of 2113. 2 million Lei, 88 , 96 million US dollars and 38.08 million euros (or the equivalent of more than 3.82 billion lei). At the same time, a large number of international donors and donor organizations, such as USAID, SIDA, IFAD, Soros Foundation, organizations from Japan (Moldo-Japanese project 2KR), Poland, Germany and the Netherlands, have increased during this period, efforts to support agricultural activities, including through investments, grants, loans with low interest rates and bank guarantees, through technical assistance. [8]

These projects and programs to attract financial resources made a huge contribution to the development of rural settlements of the Republic of Moldova, namely: services for the supply of drinking water, waste collection, maintenance of local roads, the development of leisure and sports, telecommunications and public lighting, local and social -economic development (schools, kindergartens, cultural centres, libraries, medical centres), as well as other comprehensive utilities. It should be noted that investment activity in the Republic of Moldova is coordinated by the current legislation. The first legislative act providing for investment activity was the Law on Foreign Investments, No. 998 of 04/01/1992 [7]

The investment strategy of the Republic of Moldova is an effective tool for the development of the whole country, which provides for the following activities related to the investment system:

- ensuring a favourable investment climate;
- attraction of foreign and local investments;
- access of companies to investment loans for the modernization of enterprises;
- promotion of investment projects;
- creation of a database of investment programs.

Also, it is very important to notice, that in order to increase investment, a State Economic Growth Strategy was developed, also, the Development and Investment Bank of the Republic of Moldova, the National Investment Promotion Agency were created. The activities of the agricultural sector are also coordinated by a number of laws, decisions and programs aimed at improving and the effectiveness of activities in this sector.

The Republic of Moldova could unblock additional investments by resolving regulatory and other issues. These problems vary depending on the degree of constraint imposed, complexity and lack of predictability. With the onset of the crisis, the level of investment in the EU, as well as in the Republic of Moldova, has significantly decreased.

Some economists believe that the level of investment will increase, but recovery may remain modest, reflecting, among other things: low demand, a decrease in the leverage effect of enterprises, and strict loan conditions. The identification and removal of these obstacles to investment is part of the effort to improve the basic conditions and eliminate bureaucratic delays and regulatory blockades, as part of the so-called "third pillar" of the Investment Plan for Europe. [4]

Conclusions

We conclude that the role of foreign direct investment (FDI) is not only necessary, but practically possible and really very favourable for the economic revival of the Republic of Moldova. First of all at the rural areas level, the investments directly contributed to the job creation and contribution to local budget.

We believe that, the volume of FDI is far from reflecting the real absorption potential of the Moldovan market, and is far from satisfying the needs for external sources, which will positively affect economic development as a whole.

However, the development and effectiveness of activities, both at the level of the national economy and at the level of rural areas, are categorically dependent on investments.

Foreign investment has become an important and stable source of financing and implementing the country's economic policy. International investment resources are important components of the restructuring of the national economy, prerequisites for the resumption of production growth and social improvement.

To ensure the minimum conditions for attracting foreign investors, the investment and legislative framework in the economic sphere must exist, function, be transparent, stable and predictable. However, this is a necessary condition, but not sufficient. At the same time, the ability to attract foreign capital is represented by the degree of openness of the economy to foreign investors, as well as the ratio of the population and political parties to foreign investment.

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