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# Financing of agricultural projects – risks and perspectives

by Serghei Cebotari, Moldova Agroindbank SA

AGRICULTURE IS ONE OF THE LARGEST ECONOMIC SECTORS OF THE ECONOMY OF THE REPUBLIC OF MOLDOVA. IT ACCOUNTS FOR 15% OF GDP OR 30% INCLUDING THE AGRO-PROCESSING INDUSTRY. THE RICH SOILS AND MILD CLIMATE ARE IDEAL FOR FARMING AND THE COUNTRY HAS THE POTENTIAL TO BECOME A GREAT SUPPLIER OF AGRICULTURAL PRODUCTS. THE SHARE OF AGRO-FOOD EXPORTS STANDS AT 45%-50% OF TOTAL EXPORTS. THE EMPLOYMENT IN AGRICULTURE EXCEEDS 28% OF THE ACTIVE LABOUR FORCE.

Despite the size and significance of the agricultural sector in the Moldovan economy, there are a lot of problems and constraints:

1. Farmers operate low-technology businesses on small and fragmented plots of land, without proper seeds and other productivity enhancing methods.
2. Although the majority of the country's territory is agricultural land (73%), and in particular arable land (54% of the country) with fertile soils, only a small share is irrigated (13% of the arable land). This makes the sector dependent on natural precipitation.
3. The level of training and technical capacity of the rural population is very low. The economic and social standing of Moldova has been marked by the long-term decline of production, unemployment and departure of a significant part of skilled workforce to other countries.
4. Agriculture is marked by weak export potential and lack of storage capacity.
5. Access to loans and credits is limited (lack of collateral and long-term credit resources). All small-scale entrepreneurs face problems in providing loan collateral

to financial institutions. Usually, they have few assets, or these are in a form that is not liquid and have little of their own capital to contribute to the project.

6. Low returns (rural capital turns over slowly, has low profit margins and is seasonal) make investments in agriculture non-attractive for investors.



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7. Weak rural infrastructure.
8. Insurance in agriculture is not well-developed.

On the other hand, the agricultural economy of Moldova has five major advantages:

- i. due to its favourable geographical location and characteristics, it is possible to grow early varieties of vegetables, which is a significant competitive advantage for Moldova;
- ii. Moldova has good humus soils and water resources;
- iii. population has accumulated rich experience in and knowledge of growing fruits, vegetables and tobacco, as well as viticulture and wine production;
- iv. Moldovan research institutions hold sound knowledge of and experience in the agricultural sciences, which significantly contributes to the development of agriculture; and
- v. the production capacities of the agro-industrial system are located at a short distance from a raw material location and are placed uniformly within the country territory.

An important advantage for Moldova's economy is the integration of Moldova in the EU's Neighbourhood Policy, which aims to promote closer relationships with the new neighbouring states, has the objective to improve the political, social, economic and ecological situation, with a mutual commitment to sustainable development.

The Ministry of Agriculture and the Food Industry is being supported in its efforts to improve the political framework through modern legislation, thus also benefiting family-operated farms, and to improve export opportunities for agricultural produce through EU harmonisation. In these circumstances, Moldova's economy became more attractive for foreign investments, including financial support of agriculture.

The international co-operation under different programmes for supporting rural development focuses on promoting modernisation in the agricultural sector and the food processing industries, and in rural infrastructure.

A large and sustainable support of agribusiness is offered by the World Bank, the European Bank for Reconstruction and Development (EBRD), International Finance

Corporation (IFC), the European Investment Bank (EIB), Millennium Challenge Corporation, the US Agency for International Development (USAID) and other financial institutions through special programmes, aiming to stimulate growth in high value agriculture, including financing, technical assistance and advisory services.

Financing facilities of international programmes are usually provided through local banks, Moldova Agroindbank being the main partner and participant in all programmes due to its good experience in financing agricultural projects.

As the leading local bank in terms of market share, Moldova Agroindbank has an extended network of 70 branches and 26 agencies located across the country, offering convenient and permanent access to bank services. It holds approximately 19.2% of all banking assets, 20.6% of loans granted and 19.2% of all deposits (as of June 30, 2013).

Agroindbank has a long history of being the leading bank to serve the agricultural sector and has learnt through the years how to manage the risks of agricultural lending. Our bank is deeply involved in various parts of the agriculture finance chains by providing customised short and medium-term working capital as well as long-term investment financing.

Agricultural lending exposes the institution and its assets to potential risks since rural activities bear risks related mainly to weather and other external factors.

Nevertheless, Agroindbank is working on improving diversification of their loan portfolios as much as possible by lending not only to agriculture, but also to other activities related to agriculture (processing, rehabilitation and construction, land improvement, post-harvest infrastructure, transportation, etc). Bank loan products for agriculture have been developed and some of the risks mitigated. In this respect, we have established different credit guarantee schemes to finance agricultural producers, input suppliers, offer special lending facilities for young entrepreneurs in rural areas, and have collaborated with donors on a shared risk basis.

Innovative financing schemes and prudential risk management have conducted agricultural loans repayment to very high levels compared to international standards,

despite the consequences of the drought in 2012 when the country's agriculture sector faced unprecedented hot weather and lack of precipitation.

The loan products are integrated with other banking operations and represent a unique advantage to benefit from tailored banking services.

Among the objectives of all financing activities in agribusiness of Agroindbank and other financial institutions include:

- i. the development of highly-productive, intensive agriculture as well as a processing industry with a stable source of high-quality raw materials;
- ii. obtaining a high efficiency and profitable agro-industrial sector;
- iii. creating large popularity of Moldovan brands in foreign markets;

- iv. improving the quality of Moldovan agricultural products;
- v. creating new jobs in rural areas and reducing poverty; and
- vi. implementing new, innovative bank products for farmers and other agribusiness entrepreneurs, with the aim of achieving long-term co-operation that is mutually beneficial.

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**Moldova Agroindbank**

Puterea stă în noi



**SERGHEI CEBOTARI**

Chairman of the Management Board

*“Moldova-Agroindbank S.A. promotes an intelligent business of high performance that consists in the excellent team work and high level of social responsibility, showing stability, strength, flexibility, responsibility and professionalism.”*

## THE UNDISPUTED LEADERSHIP ON THE BANKING MARKET

Moldova-Agroindbank S.A. is a main institution for the financing and banking systems of Moldova, having a prominent role in accelerating and supporting economic processes, implementing social programs of national importance and developing banking services.

Due to constant change and continuous qualitative improvement, the Bank retains over 21 years the undisputed leadership on the banking market. The Bank dominates the tops of the banks efficiency in Moldova and holds the highest position on the main segments of activity (assets - 19.2%, loans - 20.6%, deposits - 19.2% as of 30 June 2013). The Bank has the largest network of branches, agencies, ATMs, POS-terminals, offering the advantage of proximity, convenience and

permanent access to bank services.

The results recorded by Moldova-Agroindbank during its activity confirm that the Bank promotes an intelligent business of high performance that consists in the excellent team work and high level of social responsibility, showing stability, strength, flexibility, responsibility and professionalism.

Moldova-Agroindbank has contributed significantly to the development and improvement of relationships with foreign financial partners, to the international promotion of the country's image.

Bank performances were recognized by specialized international institutions and publications, which, during the years, have nominated Moldova-Agroindbank as “The Best Bank in Moldova”.

