

**“Free money” for the agricultural sector as helping hand
for investment activities in times of financial crisis**

by

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1. Introduction

As result of the last financial crisis many companies in the agricultural sector have reported decreases in their bottom line, due to decrease in the demand for their products (Bajalska, 2007).

This decrease regardless of its size has had impact on the future strategies of the companies by affecting their investment projects. This is due to the fact that the financial crisis has forced many companies to commence a cost cutting process with the objective of maintaining their solvency (Saks, 2009, Jovanova, 2008). The investment projects have suffered because the planned financial resources were stopped (at least until the crisis are over). As it is well known, some of the projects could not be delayed, thus companies are desperately in need for extra funds, funds which became extremely expensive on the Macedonian market (Bogdanovska, 2009).

The agricultural sector is one of the sectors in Macedonia that was severely influenced by this crisis in terms of increase in the price they are paying for the capital they have borrowed and decrease in the bottom line (Tomik, 2009; Bogdanovska, 2009). The capital borrowed has become more expensive because most of them have borrowed the money with flexible interest rates, and during the crisis the interest rate have notice a significant upward movement (Bogdanovska, 2009; Tomik, 2008).

2. The need for free money

Due to the fact that some investment projects must be completed, the beneficiaries from the agricultural sector are in desperate need for low cost or even better, free money. Fortunately for them, free money is available in Macedonian economy in the form of a “grant”. Grant is an instrument which should not be repaid, and usually it is given by the government or other institutions to encourage specific development (Johnstone, 2003). These funds could be perceived as “Free money” because the beneficiary does not pay any interest and does not return the principal amount, instead the beneficiary is subject to fulfilling certain requirements imposed by the entity which is providing the financial assistance.

3. Sources of free money

In the Macedonian market beneficiaries could apply for grants in couple of institutions or foundations depending on the type of investment and the region in which the business is performing its activities. For instance, grants are available for covering consulting costs for preparation of construction project, consulting costs for implementation of quality standards, preparation of business plan, purchase of new equipment, renovation of an existing facilities, modernization of production processes, start up costs coverage, etc. (IPARD programme, 2009). Some of the entities that are providing the financial assistance are¹: USAID, Bas Program, different business incubators, and the financial assistance given by the European Union, as well as Government grants. The financial assistance from the EU directed toward the agricultural sector, is offered through the so-called IPA² program or more precisely the IPARD component (which at the same time is providing one of the largest financial assistance in terms of available amount).

4. Problematic areas for the beneficiaries applying for free money

Although the financial assistance offered by the EU through the IPARD component represent free money, the beneficiary from the agricultural sector may be faced with couple of obstacles while trying to finance their investment using these funds. These obstacles are arising because of the criteria and conditions that should be fulfilled by the beneficiary in order to receive the assistance, as well as poor knowledge regarding the application and approval procedure.

One of the first problem they (the beneficiaries) will encounter is the 100% upfront financing of the investment project (IPARD programme, 2009). With other words, in order for the beneficiary to receive the financial assistance he/she should finance the full amount of the investment, after which when finished (and if during control no irregularities are found) the EU i.e. the relevant institution accredited by the EU, will transfer the agreed grant amount³ (IPARD programme,

¹ For more info please visit the following links:
<http://macedonia.usaid.gov/en/index.html> ; www.ipardpa.gov.mk;
www.basprog.com.mk .

² IPA – Instrument for Pre-accession Assistance (IPARD programme, 2009)

³ For some investments the beneficiary could ask for an advanced payment as a percentage of the total investment cost. (IPARD programme, 2009).

2009). The problem here arises as a result of insufficient funds for the 100% percent upfront investment which is one of the main obstacles which could stopped the beneficiaries to make use of these free money.

Next obstacle is the time needed for the free money to be received by the final beneficiary. Stated differently, the application and approval process may last up to couple of months, which is major obstacle for investments in the agricultural sector because it is season sensitive. The final transfer of the funds could also take couple of more months which might complicated the matters even further.

Lack of knowledge and lack of information are other obstacles which are increasing the difficulty for using the free money. In some cases the beneficiaries will not be able to apply because they will not have the knowledge and/or adequate information needed for the preparation of the documentation for application.

5. Basic steps that should be undertaken

In order for the beneficiaries to be able to overcome some of the obstacles such as lack of knowledge and lack of information regarding the application and approval procedure, they should attend various training and seminars where all issues regarding the IPARD component would be presented and adequately explained. In addition, during these seminars the beneficiary could be presented with the different possibilities on how to acquire capital needed prior to receiving payment by the accredited institution. In addition, these seminars should be free of charge and should be focused solely on the IPARD component.

5.1 The need for training and free seminars regarding the use of free funds

Although there is free money that could help the agricultural sector to overcome the problems imposed by the financial crisis, one of the biggest problem for the beneficiaries is their lack of information and the objectives for which grants shall be given. Namely, large numbers of beneficiaries are not aware about the type of investments for which a financial assistance is provided. For this reason seminars, where all the details and criteria are going to be explained, should be prepared.

5.2 The role of consulting companies in the application process

Because of the important role consulting companies have during (and after) the application process, special emphases should be given for education of the agricultural sector regarding the benefits that come along when hiring a consultant. One of the main problem when it comes to hiring a consulting company is the poor understanding of what exactly this company will do and why it is better to use these services instead of preparing the application individually. The beneficiaries should also be informed that the consulting costs are considered to be eligible expensed under the IPARD criteria and thus 50% of the same are paid out with the financial assistance⁴ (IPARD programme, 2009).

Although the beneficiaries are not obliged to use the services when preparing the application, they should understand that the consulting companies have precise know-how for the preparation of the needed documentation, and unless the beneficiary is fully familiar with all of the requirements, then a consulting company should be hired.

6. Concluding remarks

Although the standard sources of capital have become more expensive, the agricultural sector still has alternative options where the beneficiaries could find not only low price but also free capital for their investment activities. Taking into consideration this free money, the beneficiaries should also try to be informed regarding all the possibilities for financial assistance. In order for the free money to be made easily available and approachable by the beneficiaries from the agricultural sector, they should firstly be educated i.e. informed about the availability and the purpose of this free money and second, they should be presented with the adequate sources of temporary capital (needed for completion of the investment).

More over, when using the financial assistance provided by IPARD component, the beneficiary should carefully take into consideration the time period need for the application to go from pending status up to approval status and accordingly to pay out status, in order to avoid any financial resources mismatch.

⁴ This percentage could be higher if certain criteria are met, and the general application could receive more then 50% financing.

Leaving aside the negative aspects, the free money could provide a helping hand, because they might turn out to be extremely helpful for the development of the agricultural sector in times of financial crisis, where available funds are either too expensive or are insufficient for any major investment project.

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