FINANCING MECHANISMS OF AGRICULTURE IN ROMANIA

BUMBESCU SORINA SIMONA
PHD STUDENT, 1 DECEMBRIE 1918 UNIVERSITY OF ALBA IULIA
e-mail:sorina.bumbescu@yahoo.com

Abstract
The objective of this article is to highlight the importance of the agriculture financing ways, existing an interdependence relationship between the stage of agriculture development and its funding mechanisms. This article presents in a complex way, the general theoretical framework of the agriculture financing, and the practical methods of agriculture finance from bank loans to European programs and projects, the impact of EU funds on agriculture. The research leads to two important categories of tangible results; on one hand it highlights the most important and used ways to finance the Romanian agriculture, and on the other hand, there is analised the impact of EU funds on rural development, their absorption.

Key words: agriculture, financing, European funds, programs.

JEL Code: Q14

1. Introduction
Romanian rural sector has a significant growth potential but unexploited, the agricultural restructuring represents an important tool for the economic development of Romania. Romania has 14.7 million hectares agricultural land, being one of the European countries with the best resources for agriculture in this regard; most of this land is arable land (63%), followed by pastures (22.8%) and hayfields (10.3%). [1]

Romania shows significant discrepancies comparative with EU-27 for several points of view, including the level of technology, the productivity of the agriculture sector, situation that shows the unexploited economic potential of the agriculture.

In the current market economy, the agriculture finance has a key role in developing the economic activity in order to produce agricultural goods and services specific to this sector. The agriculture as an important branch of the national economy requires considerable financial resources for restructuring and modernization.

In Romania the crisis has deepened due to the delay of agricultural reform, insufficient financing and resource allocation without economic purpose and monitored.

Ensuring the adequate funding mechanism for any activity including agriculture requires an efficient allocation of funds, whether we are referring to equity, bank loans, European funds and so on. Regarding the agriculture financing through European projects and programs, it is known that Romania occupies the last place in the absorption of EU funds. If we are referring to the bank loans granted to agriculture by various financial institutions, it results that the banks offers is totally inadequate to the agriculture structure, interest rates are high, the credit conditions are inadequate and difficult to accomplish.

Even if the agriculture has received significant amounts from European programs, through SAPARD and National Rural Development Programme, there are significant discrepancies between the funds used and the level of rural development. This situation is based on the one hand, on the low absorption level and on the other hand on the unappropriate use of the funds.

Research methodology
The research has a strong practical character, so in addition to the general investment presents, there are presented aspects of agriculture financing through bank loans, through the European programs and projects, from pre-accession funds (SAPARD), and continuing with National Rural Development Programme 2007-2013. There is made a comparative analysis between the amounts initially allocated by National Rural Development Programme 2007-2013 and amounts actually consumed. In this research, an important place is occupied by highlighting the funding sources available through the new National Rural Development Programme 2014-2020.

The used datas in order to achieve the research were collected from a variety of sources, from books and professional articles to various documents issued by the Ministry of Agriculture and Rural Development and its subordinate institutions, reports issued by different national institutions, sites, etc. The most commonly used research techniques refer to analysis and interpretation of data, documentation in the literature.
2. The current situation of Romanian agriculture

After Romania adhered to EU, the proximity process to the other countries agriculture occurs slowly, without any notable progress in terms of structural and functional compatibility of the system.

In terms of agriculture performance and rural development, the current state of Romanian agriculture is similar to the stage in which was the agriculture of EU-6 in the period 1965-1970:

- The production value per hectare obtained by Romanian farmers (800-900 € / ha) is about 2.5 times lower than that obtained by farmers in the EU (1800-2000 € / ha);
- The intermediate consumption as a way of supporting their production technologies, register important differences from one country to another. Romania has an intermediate consumption of 715 euro/ha, compared to Netherlands - 8369 euro / ha, Belgium - 3987 euro/ha;
- Gross value added is at half the EU-15, which makes that the final agricultural production in Romania to be approximately 1400 to 1500 € / ha compared to 2400 to 2600 € / ha in EU-15;
- In Romania in subsistence farms the own consumption represents 90-92% of the production of these farms and for semi-subsistence farms is 50-52% (in EU-15 is only 10-12%). The consequence of this is that the commercial value of agricultural production in Romania is 400-420 € / ha, that is four times lower than the EU-15;
- The equipment and machinery of a romanian farmer compared with the farmer endowment in EU 15 is about 25 times lower (€ 9,000 tangible assets in EU, € 350 in Romania);
- The bank loans for European farms are about 15 times higher than those granted to romanian farms (1700-2000 € / ha credits in the EU, 110 € / ha in Romania). [6]

Non-agricultural performance of Romania, fluctuations caused by old technologies, minimal consumption of inputs have severe consequences on both the insurance of the necessary of agricultural products and the overall cost of the agricultural sector.

Considering the above, we believe that the factors who are generating non-performance of romanian agriculture are: the inefficiency of the allocation and use of resources, a system of disequilibrium of the property and holdings, the prices of agricultural products and agricultural production inputs.

It should be noted that although the agriculture has received various forms of financial support, with significant growth in recent years, those have not been found in the increase of agricultural production value and gross value added in agriculture, generally these indicators remained at the same level.

The analysis of the degree of incompatibility of Romanian agriculture and rural economy with the European, reveals significant discrepancies between Romania and EU, we consider that those aspects are based on:

- the insufficient degree of adaptation of the common agricultural policy;
- technological gap compared to other EU member states;
- insufficient access to European funds through projects;
- institutional incompatibility caused by market functionality, structural differences and institutional functionality;
- excessive bureaucracy and confusing legislation.

3. General considerations on the agriculture financing

The economic activity financing refers to the insurance of cash flows to cover necessary expenses for a project, an activity performed in the national economy, an industry or the entity [3].

The financing economic activity can be realized from several sources, namely: their own sources, subsidies from the state budget, loans, UE funds, programs and European projects.

One of the characteristics of the romanian agriculture from the transitions period refers to the surplus of labor and lack of capital, so that agricultural financing was made from own sources, support from the state budget, loans, EU funds through SAPARD program.

In order to adopt the comunitar acquis, as is mentioned in the Position Paper on Chapter 7- Agriculture, negotiated by Romania to EU, must be achieved a series of objectives who can allow the agriculture finance:

- establish some finance policies of agriculture with objectives on short, medium and long term;
- reviewing existing legislation related to "commercial farms" in order to adopt the concept of european economic dimension;
- implementation of Common Agricultural Policy (CAP) mechanisms. In order to achieve this objectives, the most important measures were: solving terrier problems, animal identification, increasing the educational level of the farmers, functioning the paying agency [10].

Ministry of Agriculture and Rural Development, through its institutions manage the funds allocated from the state budget and the two funds under the Common Agriculture Policy: the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development. These institutions ensure funding both Pillar I "Common Organization of Payments" and Pillar II "Rural Development".

The aim of mechanism of direct payments by Single Area Payment Scheme (SAPS) is to provide a grant in order to achieve a agricultural balance market. The modernisation of agricultural holdings and rural areas are funded based on the projects financed from Community, national co-financing and own resources of economic agents.
During the period 2007-2009, the agricultural sector from Romania has benefited from a series of funding schemes, the amount paid in the period 2007-2009 was 3.854.673 million lei. After accession, Romania has to adapt its agricultural in order to integrate into EU internal market and to adopt the Common Agricultural Policy (CAP). During this period, were made payments by single area payment and complementary national direct payments for crops and animals.

Given the importance of agriculture to the national economy, there are required a series of measures to support it, respectively:
- protect the income of farmers;
- increase agricultural productivity;
- improve the balance of trade in agricultural products;
- food security [4]

4. Impact of bank loans on the agriculture finance

In agricultural financing and investment in this area an important place is the lending system. Due to the specific particularities of the agriculture (seasonality of production, the action of natural factors, different times to incur expenditure and achievement of revenue, etc.), the essential problem of the farmer is the financial resources to a new cycle of production in order to ensure the investments that contribute to profitable business. After 1990, lending to agriculture has declined due to land reform, the negative effects of macroeconomic reform (inflation, high interest rates, etc.) and the low performance of this sector.

Since 2003, there were introduced two economic and financial instruments for financing agriculture: agricultural credit for production and investment credit in agriculture. Due to the strict conditions of banks, the access to credits for the most farmers was limited, being favored large farms.

Before accession to the EU, the banking sector tended to reduce lending for rural area because of the low profitability. Currently, in Romania there are 42 credit institution that sustain the financing needs of agriculture.

The interest of financing institutions in lending the agriculture increased as the state has established a set of financial policies:
- dispersion of bank risk in lending to agriculture by passing from monobank system (agricultural bank) to a diversified system through which all commercial banks who have in their strategy the farmers lending;
- establishment of guarantee funds institutions who takes the risk of agriculture lending;
- interest subsidies on loans gaves to the farmers;
- provide state financial support in order to have the advance requested by the commercial banks to provide credit for the purchase of agricultural equipment;
- taking the risk of farmers lending by Guarantee Fund by 100% until 2010 and 80% after;
- European funds for the development of investment projects under SAPARD and National Rural Development Programme.

Regarding the development of rural projects, the business areas showed a particular interest but it appears the problem of ensuring cofinancing of projects. So to fix this problem, since 2005, the Romanian Government has developed a package of normative acts for lending and loan guarantees for investments, in particular to ensure co-financed of SAPARD projects. The program "Fermierul" was an essential component of this package and the main instrument for increasing the absorption of EU pre-accession funds (SAPARD). Also for the beneficiaries of SAPARD program was made from state funds a rural credit guarantee scheme by providing guarantees (covering 100% of the loan amount and taking the credit risk).

Currently, there are two favorable trends in the relation of the farmers with the commercial banks:
- availability for all commercial banks to provide credit to farmers on the basis of certificates issued by the Agency for Payments and Intervention in Agriculture for various forms of support;
- competition between banks to grant credits for production and especially for the absorption of EU funds. These loans are granted special to the customers with financial performance and no obligations to the state budget, those with cash-flow developed through bank accounts.

In order to increase the absorption of European funds for agriculture, it was created a loan guarantee scheme for the beneficiaries of the measures financed by European Fund for Agriculture and Rural Development. The guarantees are granted by Guarantee Fund under the following conditions:
- beneficiaries have signed a grant agreement with Paying Agency for Agriculture and Rural Development;
- guarantee covers maximum 80% of the approved financing;
- guarantee fees payable by beneficiaries are those established by Ministry of Agriculture and Rural Development.

5. Agriculture finance by European programs and projects

After Romania joined the EU, in agriculture are applying the mechanisms of Common Agriculture Policy that meets the necessary policies to adapt to the requirements of the Community, taking into account the national
peculiarities. The Romanian agriculture is far from EU objectives regarding the cost competitiveness, development of service in rural areas.

Common Agriculture Policy application is made by Ministry of Agriculture and Rural Development together with its regional institutions and the funds manage for agriculture support is done by Agency for Payments and Intervention in Agriculture and Paying Agency for Agriculture and Rural Development.

Common Agriculture Policy is based on two pillars: Pillar 1 which refers to market measures for ensuring food security, supply-demand adjustment, increase farmers’ incomes. Pillar 2 includes measures to modernize the agriculture and food sector, economic development of rural areas and social cohesion.[6]

Agricultural policy measures applied in Romania since 2007 are:
- Single Area Payment Scheme
- National complementary payments per hectare and animals
- Other forms of support from the state budget for sensitive activities in relation to the market and to eliminate disparities comparative to EU.

**SAPARD Program**

SAPARD Programme is an EU financial instrument whose purpose is to help the candidate countries in the pre-accession with the agricultural and rural development [2].

SAPARD program objectives were achieved through four axes which contains 10 measures whose purpose is the rural development:

**Priority 1:** Improving market access and competitiveness of agricultural processed products:
- Measure 1.1 Improving the processing and marketing of agricultural and fishery products;
- Measure 1.2 Improving the structures for quality, veterinary and plant health, food quality and consumer protection.

**Priority 2:** Improving infrastructures for rural agriculture development:
- Measure 2.1 Development and improvement of rural infrastructure.

**Priority 3:** Development of rural economy:
- Measure 3.1 Investments in agricultural holdings;
- Measure 3.2 Setting up producer groups;
- Measure 3.3 Agricultural production methods for protection the environment and maintain the countryside;
- Measure 3.4 Development and diversification of economic activities generating multiple activities and alternative income;
- Measure 3.5 Forestry.

**Priority 4:** Development of human resources
- Measure 4.1 Improvement of vocational training;
- Measure 4.2 Technical Assistance. [7]

At the end of 2009, the total amount committed for the whole program was 1354.929 million euros, resulting in a degree of engagement of 89.06% compared to allocations 2000-2006. Regarding the payments at 31 december 2009 there was a total of 1348.016 million euros, resulting in a consumer grade 88.60% compared to allocations 2000-2006. Detailed statement of amounts involved and the number of projects submitted for each measure is shown in table no. 2.

It appears that at the end of 2009, the highest amount was committed under measure 2.1. "Development and improvement of rural infrastructure", 45.69% of the total amount available for SAPARD, followed by Measure 1.1. "Improving the processing and marketing of agricultural and fishery products", 24.90% of the total amount available for SAPARD.

<table>
<thead>
<tr>
<th>Measure</th>
<th>No. of projects submitted on 31.12.2009</th>
<th>Amounts incurred on 31.12.2009 (mil. euro)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measure 1.1</td>
<td>459</td>
<td>337,408</td>
</tr>
<tr>
<td>Measure 1.2</td>
<td>20</td>
<td>33,698</td>
</tr>
<tr>
<td>Measure 2.1</td>
<td>847</td>
<td>619,067</td>
</tr>
<tr>
<td>Measure 3.1</td>
<td>1935</td>
<td>230,538</td>
</tr>
<tr>
<td>Measure 3.2</td>
<td>3</td>
<td>0,075</td>
</tr>
<tr>
<td>Measure 3.3</td>
<td>1</td>
<td>0,014</td>
</tr>
<tr>
<td>Measure 3.4</td>
<td>1058</td>
<td>66,768</td>
</tr>
<tr>
<td>Measure 3.5</td>
<td>113</td>
<td>63,086</td>
</tr>
<tr>
<td>Measure 4.1</td>
<td>5</td>
<td>2,901</td>
</tr>
<tr>
<td>Measure 4.2</td>
<td>10</td>
<td>1,374</td>
</tr>
<tr>
<td>TOTAL</td>
<td>4451</td>
<td>1354,929</td>
</tr>
</tbody>
</table>

Source: Final report on the implementation of the SAPARD program in Romania, 2011
National Rural Development Programme 2007-2013

National Rural Development Programme is a rural development programme that addresses to the needs of rural areas, refers to the reduction as quickly as possible, of the disparities in socio-economic development of Romania comparative to other Member of the EU.

National Rural Development Programme 2007-2013 includes four axes for supporting the modernization and development of the Romanian countryside. Within each axis there are several measures and sub-measures which meet specific needs, were determined allocated amounts, eligibility conditions, the amount of public funding, private co-financarea. For each project submitted for funding are established indicators of investment economic performance which must be substantiated by the investment beneficiary.

The total funds for rural development (8,022 billion) distributed across the four axes are as follows:
- over 3 billion euro, ~ 45% of the total, is for axis 1 (Increasing the competitiveness of agriculture and forestry) whose purpose is to increase competitiveness in agriculture and forestry;
- 25% for axis 2 (Improving the environment and the countryside) whose purpose is improving the environment and the countryside;
- 27.5%- about 2 billion euro for axis 3 (quality of life in rural areas and diversification of the rural economy) which refers to the diversification of the rural economy;
- 2.5% of the amount is allocated for axis 4 Leader. [12]

Tabel no. 2 Projects funded by the RDP (2008- February 2015) | euro
---|---
| Measure | Submitted projects | Selected projects | Contracts / funding decisions | Payments | Public value |
| | No. | Public value | No. | Public values | No. | Public value | Public value |
| 111 | | | | | 36 | 21,033,279 | 15,555,340 |
| 112 | 22,494 | 630,074,066 | 13,446 | 339,118,514 | 12,979 | 326,195,035 | 275,155,545 |
| 121 | 8,154 | 3,008,189,083 | 3,375 | 1,250,133,509 | 2,643 | 826,480,160 | 561,909,935 |
| 122 | 20 | 3,011,934 | 18 | 2,513,937 | 17 | 2,384,188 | 1,078,760 |
| 123 | 1,762 | 1,771,015,955 | 923 | 908,484,590 | 586 | 508,094,173 | 308,886,428 |
| XS scheme 28/123F/2008 | 177 | 78,896,763 | 157 | 67,450,879 | 88 | 33,881,683 | 27,047,902 |
| Scheme N578/2009 | 453 | 311,099,775 | 292 | 216,093,918 | 196 | 111,416,127 | 65,726,116 |
| 125 | 1,701 | 1,789,032,854 | 555 | 611,012,899 | 544 | 556,000,952 | 383,334,439 |
| 141 | 88,846 | 666,345,000 | 63,544 | 476,580,000 | 58,340 | 388,673,733 | 285,274,687 |
| 142 | PNDR | 86 | 16,870,702 | 80 | 15,560,049 | 62 | 12,350,816 | 3,922,505 |
| Transferred from SAPARD | | | | | 3 | 69,794 | 47,420 |
| 143 | 7 | 12,415,223 | 5,084,766 |
| 211 | | | 767,604,310 |
| 212 | | | 428,932,628 |
| 214 | PNDR | | | | 1,403,881,793 | 7,837 |
| Transferred from SAPARD | | | | | 1 | 9,498 |
| 215 | | | 291,538,264 |
| 221 | PNDR | 52 | 4,354,839 | 40 | 3,775,661 | 23 | 1,536,278 | 375,903 |
The amount allocated by RDP 2007-2013 is 8,022 billion euro. The projects amount selected in February 2015 was 7.21 billion euro, resulting in a high absorption rate.

For the financial year 2007-2013, axis 1 has received the most significant financial allocation, 3.17 billion euro. Regarding the value of the selected projects under Axis 1, by measure 121 "Modernisation of agricultural holdings" were consumed the most important amounts respectively 1.250.133.509euro, ie a total of 3375 projects selected, followed by measure 123 "Increasing the value of agricultural and forestry products ", 908.484.590euros, a number of 923 projects selected.

It is found that the lowest amount is allocated to Axis 4 LEADER, which plays a vital role in the development of the rural area by supporting rural development projects made by local communities in public-private partnership.

National Rural Development Programme 2014-2020

Romania's rural development priorities for the period 2014-2020 are:
- farm modernization, openness to marketing and processing of agricultural products;
- supporting the establishment of young farmers;
- rural development by modernizing infrastructure, attracting investment in rural areas, creating new jobs;
- development of small and mediu organizations in rural non-agricultural sectors;
- local development through LEADER;
- development of fruit sector through a dedicated programme [9]

Regarding investment measures proposed by National Rural Development Programmes 2014-2020, those are divided into five measures which contains several sub-measures (see table no. 5).

Tabel no. 3 Proposed investment measures and allocated amounts by National Rural Development Programmes 2014-2020

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Investment in physical assets</td>
<td>Investments in agricultural holdings</td>
<td>757,968</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Investments in processing / marketing of agricultural products</td>
<td>429,0356</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Investment for development, modernization</td>
<td>570,0242</td>
</tr>
</tbody>
</table>
Regarding the amounts allocated by National Rural Development Programmes 2014-2020, we find that they are grouped in five axes, the total amount allocated is 7,412,2143 million euro, noticeably higher than the amount allocated for 2007-2013, 7.13 billion euro. If it makes a hierarchy of allocations within each axis, we find that the most significant amount is allocated to axis 1 (49.35% of the total amount allocated by the RDP), followed by Axis 4, Axis 2, Axis 5, Axis 3. The amounts distribution for the period 2014-2020 for each axis was achieved by absorption achieved in the financial year 2007-2013.

### 6. Conclusions

Agriculture is an important sector of the national economy that can generate important financial resources for the national economy. One of the difficulties facing by the romanian agriculture is reflected in the lack of adequate funding. From a practical point of view, agriculture financing ways are:

- external sources in the form of bank loans;
- own farms sources;

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*Source: National Rural Development Programmes 2014-2020, author’s view*
Regarding the agriculture lending, the most commercial banks have interest in granting loans under certain conditions. Agricultural credit conditions, however, are difficult to meet by most farmers, thus being favored large farms. In this regard the central organizations have take a series of measures that relate to the establishment of funding schemes, interest subsidies, grant funding lines, etc. However, the loans granted to agriculture in 2012 was less than 4% of total available loans.

Common Agricultural Policy (CAP) is one of the most important instruments in European policy implementation, being addressed to the agricultural sector support (Pillar I: direct payments) and rural development (Pillar II: funding national programs). The way that were divided the amounts for each country was the result of internal negotiations, being a model of compromise between the interests of states with strong agricultural sector, which sustained significant allocations under this program, and the targets of the countries that benefit lesser of those funds. The divergent between net contributor states and those that benefit from the implementation of the CAP are present in discussions for the period 2014-2020.

One of the most important sources of financing for agriculture refers to european funds. On the one hand it is about the direct area payments and livestock to farmers under certain conditions and on the other hand is about funding programs by SAPARD and National Rural Development Programmes.

SAPARD programm was a pre-accession financial instrument through the four axes contributed significantly to rural development. The success of the program is resulting from the large number of projects implemented at the end of 2009 totaled 4451, value of 1354,929 million euro. This results in an absorption of about 89% compared to the amount initially allocated.

National Rural Development Programme is one of the main tools for producing social change with a clear interventionist vision, but for some substantial transformation it is necessary a better adequacy of financial support measures to the romanian reality, organization of land ownership, increase investment attractiveness in rural areas. So just harmonize the financial programs with the land structure and economic climate of rural areas can be produced substantial changes to ensure solid foundations to be able to talk about a developed rural area.

Regarding the financing of rural development projects through National Rural Development Programmes, it is important to note that this programm aimed the continuation of rural development initiated in the pre-accession period through a set of measures and sub-measures adapted to each country. In National Rural Development Programmes 2007-2013 were available four axes and 21 measures of project financing. Total funds allocated for rural development were 7,13 billion euro. The total amount consumed and payed to the beneficiaries was 6,248 billion euro which is related to a number of 87537 projects. Comparing the initial allocated amount with the spent amount is resulting an absorption of 87,63%.

The amount alocated to Romania for rural development for period 2014-2020 was made based on the absorption of the previous year. Thus for National Rural Development Programmes 2014-2020 is expected to be allocated a total amount of 7,412 billion euros, a higher allocation comparative with the previous period with 3,95%. This assignment is available in five major measures of financing.

Considering the insufficient exploitation of rural resources, underdeveloped agriculture and the current funding situation of romanian agriculture, we propose the following:

- establishment of an agricultural bank who gave credits to the farmers under certain specific conditions that characterise the agriculture sector;
- simplify the conditions for granting loans for the financing projects undertaken by National Rural Development Programmes. In this way it will increase the absorption of European funds and therefore will be developed the rural areas.

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