

Research on Financial Support forms for Romanian Agriculture Producers

Case Study: 2011-2015

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Abstract In Romania a regular shared point of view is the fact that agricultural subsidies are insufficient. At the same time, much less is being discussed about how well-founded are the directions and subsidy measures and if resources are allocated in a manner that reflects the appropriate needs of agriculture and rural development. The importance is the fact that the forms and tools for developing the agricultural sector are multiple, lately the subsidization fund became most important. The purpose of this paper is to quantify and analyze forms of financial support agricultural producers in Romania, within the period of 2011-2015, in the process of forming the package of measures implemented in these funds, the allocation of resources and mechanism disbursements.

Key words Financial, Support, Agriculture, Aid, Eu, State Budget

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INTRODUCTION

Agricultural subsidies are a subject that arouses much pro and cons discussion. It is known that the subsidies are involved in the market game and therefore reduces the efficiency of economic resource use. At the same time subsidizing agriculture is widely practiced in many countries, including in the European Union. In the national context and conditions in which Romania, since 2007, has become a member of the European Union, the country is required to take into account the existing subsidy policies in the European Union. Principal objective of farming subsidies is capitalization and increase the competitiveness of the agricultural sector, with an explicit connection with rural development objectives. Employments of maintaining subsistence farm income, control of migration phenomena in rural areas also have, in general, and in particular, a clear reflection in subsidy policies.

MATERIALS AND METHODS

For more than 40 years the Common Agricultural Policy (CAP) is one of the most important EU policies and programs and is a system of subsidies in agriculture.

Agricultural policy is determined at EU level by the governments of member states and implemented by member states. It aims at supporting farmers while encouraging them to produce high quality goods demanded by the market and find new ways to improve their work (such as production of renewable energy). The main beneficiary of this policy is the small and medium farmer said.

At the CAP are three fundamental principles:

- ✓ create and maintain a single market and common prices (single market where agricultural products circulate freely);
- ✓ respect the concept of Community preference (in agricultural trade preference is given to goods produced within the community, non-agricultural buyers will pay an additional cost);
- ✓ financial solidarity (participating member states together to constitute resources and benefit from funding of expenditure on the Common Agricultural Policy).

Agricultural Policy objectives were established in 1957 by the Treaty of Rome and still remain in force. Following the 2013 reform, the CAP objectives have become the following: ensuring a reliable food production, sustainable management of natural resources and climate policy objectives, balanced territorial development. The aim is:

- ✓ to ensure a stable supply of the population with healthy food at affordable prices;
- ✓ to ensure a decent standard of living for EU farmers, while allowing the agriculture industry to modernize and develop;
- ✓ to ensure the continuation of farming practices in all EU regions.

The Common Agricultural Policy is built around two pillars. First, the common market organizations, includes common measures regulating the operation of integrated markets for agricultural products. Second, the rural development includes structural measures targeting the harmonious development of rural areas in several aspects: social, diversification, quality products, protecting the environment. Agricultural policy is based on a wide range of instruments. Each tool can be found in one of the two pillars, their expenses being covered by FEAGA (Pillar I) and the FEADR (Pillar II). Expenditure under the first pillar are fully covered by the EU, while member states should co-finance the Pillar I programs. In addition to the funding mechanism between the two pillars can be identified distinction. Pillar I involves well-defined mechanisms, implementation of which is relatively identical throughout the EU. Pillar 2, however, is based on the regulations of member countries conducted in cooperation with the Commission, which implements and monitors.

For Pillar I instruments consist broadly of the price management to protect the incomes of farmers. Establishing a high level of customs protection against foreign competition combined for certain products, with the unification of domestic prices and fixing common prices, accompanied by a mechanism to support these levels. Here we assign and direct payments. Pillar II focuses on programs to develop a healthy and diverse agricultural environment, most of the tools are based on investment projects.

For Romania institutional system management, control and implementation consists of:

- **Managing Authority** (AM PNDR), represented by the Ministry of Agriculture and Rural Development (MADR) - General Directorate for Rural Development (DGDR-AM PNDR), which is responsible with the implementation and management;
- **Payments Agency**, represented by the Agency for Rural Investment Funding (AFIR), which oversees the payment function;
- **Certification Body**, represented by the Audit Authority lodged with the Court of Accounts that oversees certifying the truthfulness, completeness and accuracy of the accounts Paying Agencies accredited.

Given that in Romania operates two payment agencies for the development of Community funds, respectively AFIR for FEADR and the Agency for Payments and Intervention in Agriculture (APIA) for the FEAGA, was established **Coordinating Body** in as the single interlocutor of the two agencies with the European Commission. Accreditation of paying agencies and coordinating body is the responsibility of the **Competent Authority** established under MADR.

RESULTS AND DISCUSSION

Under the current CAP, farmers no longer receive money just to produce food, the main benchmark is the market demand. Taking into account the preferences of consumers and taxpayers, while leaving farmers free to produce what the market needs. In the past farmers were receiving more so since producing more, under the current aid farmers are paid independently of production. In addition, farmers must meet standards of environmental protection, food safety and protection of plants and animals.

Failure to observe these standards, manufacturers will risk reductions in direct payments benefiting (a condition known as "cross-compliance"). Break the link between subsidies and production volume (called "decoupling") makes EU farmers more competitive and market oriented. They are free to produce what is most profitable for them while enjoying the desired stability of income.

1. State aid granted from the state budget

Production subsidies apply to products whose consumption should be discouraged in a situation of high price obtained for instance by requiring a high level of customs protection. They are calculated and be granted per unit of product either on the surface or livestock. Their role is twofold: on the one hand, the

price to consumers is maintained at a reasonable level, and on the other hand, household incomes remain high. In this category fall and payments aimed at influencing certain behaviors producers (such as premiums for quality durum wheat premiums for suckle cows, slaughter premium) and payments processing (aid for drying grain / seeds for processing fruits / vegetables).

Products that direct payments are: arable crops, including cereals, potatoes, flax, vegetable seeds, hemp, silk worms, tobacco, seeds, hops, rice, beef and veal, milk and milk products, mutton and goat.

Bring direct payments scheme as an alternative subsidizing some advantages over subsidy by price:

- ✓ in first, increase transparency. System of farm income support price consumers pay high prices, without knowing what percentage of them subsidizes agriculture. In the new system, some of the financial burden for grant passed from consumers (via lower prices) from taxpayers through the tax system.
- ✓ in second, the direct payments system favors farmers. Agriculture support system in the price of agricultural subsidies rather benefits various intermediates between producers and consumers, namely en-gross processors, intervention agencies/storage exporters. Producers are only indirectly supported by the fact that the intervention price guarantee ensures their income stability, but they get the prices negotiated with en-gross reality, and not high prices on the market.
- ✓ in third, are greatly diminished incentives for overproduction on the one hand by the lower price obtainable on the market, on the other hand, by decoupling direct payments from production volumes (currently only arable crops, where direct payments are granted based on land area rather than production).
- ✓ in end by moving the center of gravity of levers subvention into markets from producers, small farmers are expected to benefit in proportion to the large agricultural subsidies. At present, a minority of farms - large ones, representing about 20% of the total - get about 80% of total aid. This situation was reached because of the system of income support through price: those who produce more (large farms) and incur proportionately higher income.

Other financial aid

Farmers can receive various other financial aids granted by the budget be jointly or individually by Member States, in both cases the conditions laid down by the Community. For example, additional financial aid is granted:

- in situations when there is a justifiable decrease in revenues from the production and marketing of a product, such as in the case of natural disasters
- voluntary land for freezing and / or providing other destinations such as the cultivation of plants for biomass
- for the milk products
- association of producers / traders wishing to implement certain measures to increase product quality
- member states may grant additional aid small farms that do not receive the same proportion as the great community support etc.

Table 1. Situation of state aid granted from the state budget

	2011	2012	2013	2014	2015
State aid to farmers for diesel	398.001,6	268.170,9	76.558,2	473.000,1	539.364,2
complementary national direct payments in the livestock sector for cattle	532.608,9	2.593.128,1	793.243,7	582.908,3	677.220,6
complementary national direct payments in the livestock sector for sheep/goats	263.673,7	295.070,2	331.702,8	345.000,4	270.470,1
insurance premium paid by farmers insurance companies reinsurance	16.254,8	15.021,3	27.297,2	30.976,4	7.354,1
minimis aid granted to holders of the animals to conserve local breeds of animals in danger of abandonment			78.902,4	1.557,5	
support for improving animal breeds	591,7	1.869,0	1.311,0	5.775,8	8.282,8
life annuity	73.150,3	73.269,0	74.955,7	69.275,0	66.059,5
support for the poultry sector	388.698,9	432.895,0			
support for the welfare of pigs	301.740,5	255.400,0			
minimis aid granted to farmers to offset the effects of adverse weather conditions		8.146,1		7.362,3	28.229,0
minimis aid granted to farmers to offset the effects of drought		100.000,0			295.563,8
State aid to potato producers affected by potato crop pests		771,8		239,0	
TOTAL	2.060.398,1	2.072.3781,1	1.386.474,2	1.559.190,3	2.513.432,9

We have to note that the total shown in the table have not been taken into account aid that was granted only at a single year, in certain special circumstances which necessitated such state aid. In the following are listed such aid, specifying the destination and each year they were awarded:

- state aid granted to farmers in the livestock sector, to collect dead animals (granted in 2011)
- public funds granted under the Law of agricultural credit for production (granted in 2011)
- deposit certificates (granted in 2011)
- execution guarantees (granted in 2011)
- support to farmers for the production of sugar beet (granted in 2012)
- allocations guarantee funds needed to guarantee financing granted by financing institutes farmers and processors of agricultural products to finance working capital (granted in 2012)
- minimis aid for the purchase of milk cooling tanks (granted in 2014)
- measures relating to complementary national direct payments in the livestock sector for 2007-2010, respectively repayment of amounts withheld ordered by decisions issued by the county chambers of accounts (granted in 2014)
- purchase of rams and heifers of specialized breeds (granted in 2014)
- minimis aid for damages in the beekeeping sector due to adverse weather conditions (granted in 2014)
- minimis aid granted vegetable farms registered in the organic farming system (granted in 2015)

- transitional national aids in the vegetable sector (granted in 2015 for 2014).

2. The aids from European funds including co-financing from the state budget representing direct area payment schemes, specific aid and aid to farmers and market intervention measures in agriculture

Table 2. Situation of the aids from European funds

	2011	2012	2013	2014	2015
<i>direct area payments scheme, of which</i>	4.732.979,7	5.364.536,7	5.923.333,5	6.474.596,8	4.326.709,5
separate sugar payment scheme	16.942,7	21655,2	27.457,1	31.341,7	35.395,5
direct single area payments (SAPS) and the difference of 50% (support that advance)	1.548.739,4	2253143,3	2.595.275,2	3.014.000,0	1.128.000,0
direct single area payments (SAPS) and the difference of 50%		2093021,3	2.436.790,2	2.765.802,2	3.149.958,1
specific payment for rice scheme in disadvantaged areas			13.177,8	13.384,9	13.355,9
complementary national direct payments to the single area payment scheme (CNDP)	106.500,0	827039,2	850.633,2	650.068,0	
aid to farmers and market intervention measures in agriculture according to EU regulations	462.805,8	608.761,2	666.893,7	229.202,4	214.780,0
specific aid to producers of milk and beef in disadvantaged areas	94.114,5	91.188,7	116.884,7	132.451,9	141.905,4
specific aid to producers of milk and meat from sheep / goats in disadvantaged areas				29.349,4	37.887,3
specific support for improving the quality of organic food	13.212,4	13.324,0	31.423,0	18.288,3	31.014,3
<i>financing component of U.E.</i>	385.431,5	537.888,4	542.541,4	171.595,6	182.919,0
<i>funding from the state budget and ineligible expenses, of which</i>	28.307,9	70.872,8	124.352,3	57.606,8	31.861,0
community financial support granted to agricultural producers in the wine sector restructuring / reconversion vineyards	242169,8	216903,6	169326,8	90398,6	79854,8
implementation of the program to encourage the consumption of fruit in schools	16083,7	11021,5	14972,7	5905,7	19600,9
community financial support granted to producer groups and producer organizations granted preliminary recognition in the fruit and vegetable sector	15102,5	31041,2	35836	29666,8	16539,6
community financial support granted to agricultural producers in the wine sector to ensure the grape harvest	1119,3	1343,1	765,3		949,3
food aid coming from community intervention stocks for the most disadvantaged categories of persons from Romania	8646,8	210987,3	253608		
community financial support for the system of export refunds for exporters of agricultural products agricultural	912,7	3918,7	1895,6	210,5	

export					
community financial support for promotion of agricultural products, namely vegetable - fruit, in third markets	562.1	673.6	823.8		3410.8
community financial support granted for wine promotion on third markets	2409.1		2796.8	5763.8	5843.0
supplying milk and certain milk products in schools	34494.3	42444.6	48171.8	23734.3	45573.2
community financial support for private storage of pork	1579.2				232.2
national beekeeping programme	12478.5	14653.8	14344.6	1849.3	14334.9
related financing measure of producer groups and producer organizations granted preliminary recognition in the fruit and vegetable sector	8041.1	16375.2	17651.2	15699.7	8029.4
related financing measure fruit in schools	4896.4	3674.9	5046.0	5683.4	4091.1
measure related financing agricultural and wine promotion on third markets	1932.5	3201.2	2406.2	3419.9	
national program funding beekeeping	12478.5		14586.4	14849.3	14333
ineligible expenses or VAT, handling and transportation expenses on food aid measures coming from Community intervention stocks		32967.7	84661.6	17954.5	
<i>financing of exchange rate changes (ineligible)</i>		177.039,5	115.622,7	76.903,9	11.971,8
<i>direct area payment schemes in the previous years (ineligible)</i>				8.128,7	4.528,3
<i>finance operating costs of the Farm Accountancy Data Network (RICA)</i>		162,3	285,6	1.921,5	1.393,9
TOTAL	5.289.900,0	6.255.012,4	6.856.403,8	6.970.842,9	4.780.287,7

We have to note that the total shown in the table have not been taken into account aid that was granted only in certain special situations, particularly in some years. In the following are listed such aid, specifying the destination and each year they were awarded:

- ✓ community financial support for intervention on the grain market (granted in 2011)
- ✓ community financial support granted to agricultural producers using concentrated grape must to increase the natural alcoholic strength of fresh grapes (granted in 2011 and 2012)
- ✓ financial support to offset the effects of the crisis caused by the bacterium E-coli in vegetables sector (granted in 2011)
- ✓ the finance Community support granted for grubbing vineyards (granted in 2011)
- ✓ community aid for restructuring and diversification in sugar (granted in 2011)
- ✓ exceptional temporary financial support granted to farmers in the fruit and vegetable sector (granted in 2015)
- ✓ transitional payments for tomatoes for processing (granted in 2011 and 2012).

3. Funding from external grants and co-financing from the state budget related to RDP

European Agricultural Fund for Rural Development (EAFRD) is a financing instrument created by the European Union to support member countries in implementing the Common Agricultural Policy.

EAFRD funding represented an opportunity for Romanian rural area, worth about 7.5 billion euro, from 2007 until 2013. EAFRD is based on the principle of co-financing private investment projects. PNDR 2014 - 2020 is the program by which the grants from the European Union and the Romanian Government for economic development - social rural area of Romania.

Table 3. Fundings situation from external grants and co-financing from the state budget

	2011	2012	2013	2014	2015
national co-financing investment projects and measures relating to APIA delegated by APDRP of the PNDR	153,294.5	1,136,200.4	1,709,770.3	701,630.2	765,868.4
- for investment	260,744.8	981.571,7	1.090.886,6	550.643,4	716.387,1
- for delegated measures	1,275,549.7	154.628,7	618.440,7	150.986,8	49.481.3
Non-repayable external contribution of European Commission by FEADR related investment projects	5,102,198.8	3,800,104.4	5,813,219.0	7,869,456.0	6,750,788.0
TOTAL	6,638,493.3	4,216,304.8	7,522,989.3	8,571,086.2	7,516,654.4

The dynamics of value highlights a considerable increase in 2014 non-repayable contribution related foreign investment projects, after a period in which the allocated funds have recorded both increases and decreases, these fluctuations being maintained at the level of 2015.

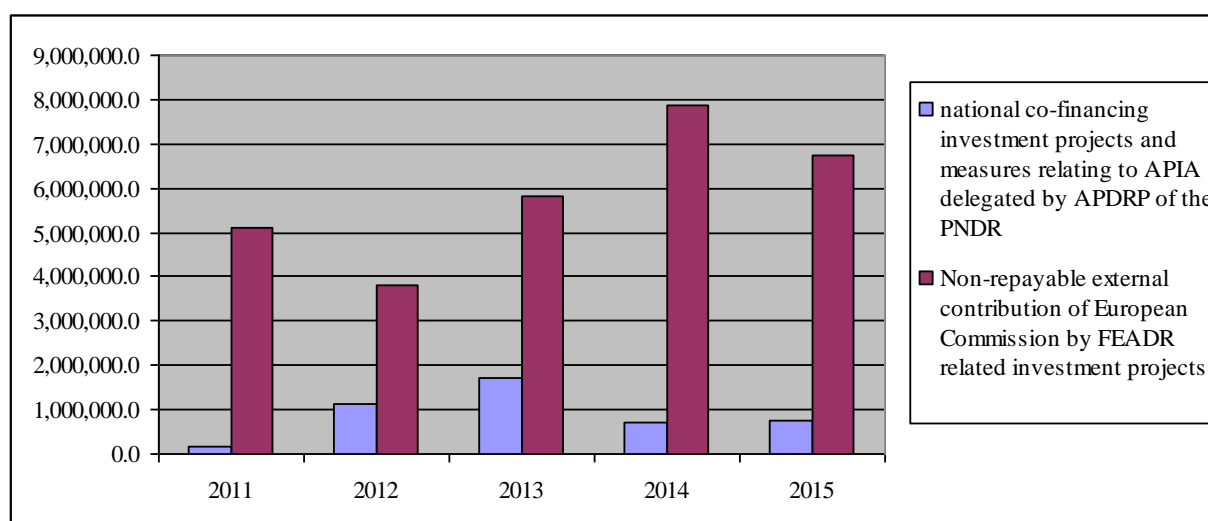


Figure 1. Funding from external grants and co-financing from the state budget related to RDP

4. Funding from external grants and co-financing from the state budget the OP Fisheries

Operational Program for Fisheries of Romania (POP) contribute to achieving the strategic vision expressed in the National Strategic Plan for Fisheries, namely: "A competitive fishery sector, modern and dynamic, based on sustainable activities of the fishing and aquaculture that takes into account issues environmental protection, social development and economic well-being. "Among the general objectives of this program we can mention:

- ✓ developing competitiveness and sustainability of the primary fisheries sector;
- ✓ develop market for the products of the fisheries sector;
- ✓ support sustainable development of fisheries areas and improving quality of life in these areas;

- ✓ supporting proper implementation of PO in the Common Fisheries Policy.

The dynamics of value highlights the considerable growth in 2015, financial support for the fisheries sector, after a period in which interest in this sector appears to be quite low compared with other sectors of the Romanian agriculture.

This may be related to relaunch program under the name POPAM 2014 – 2020 (Operational Programme for Fisheries and Maritime Affairs), which aims mainly to increase aquaculture production and processing. It also aims to increase the profitability of operators, biodiversity conservation and environmental protection, maintaining and creating jobs, particularly in fisheries areas.

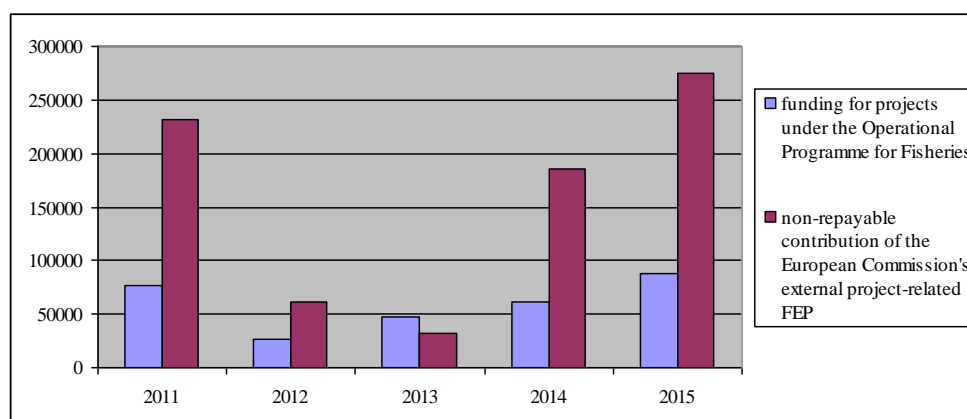


Figure 2. Funding from external grants and co-financing from the state budget the OP Fisheries

CONCLUSIONS

Efficiency and effectiveness of subsidizing agriculture largely depends on the institutional capacity of the Ministry of Agriculture and the Agency for Payments and Intervention in Agriculture. In this respect it is necessary for the Ministry to strengthen the capacity of policy formulation for rural development and the grant, the regulator of the Agency's work and impact assessment results subsidization.

Subsidy measures implemented during the period under review had a stable and predictable character with eloquent arguments for the introduction, modification or their exclusion, and reflect an explicit policy on agricultural market. For most measures, the objectives of the grant were sufficiently clearly defined, monitored and subsequently carried out the impact assessment implementation. Critics of the CAP often set their views on the argument economic distortions created by subsidies. In general, such subsidies tend to divert resources from more productive uses to less productive uses, thereby reducing economic efficiency. However, these policies are costly for the consumer, environmentally harmful and regressive in terms of domestic revenue distribution. Devotees claim that subsidizing grants can serve to redistribute priorities and correcting market failures, forgetting about the side effects of such policies.

EU figures show that in 28% of net farm income are grants and direct payments, indicating that while most of the EU's agricultural production would be economically viable without such aids. In our opinion, the ultimate objective of these forms of support should be promoting agricultural structures that allow optimum use of factors of production in agriculture and ensure a decent living standard for rural population.

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