

THE ROMANIAN AGRICULTURE FINANCING IN THE CONTEXT OF EU INTEGRATION

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Abstract: There was drawn up a presentation of the Romanian agriculture and financing sources used in the transition period underlying the budgetary and external financing. The paper emphasizes the low level of absorption of external funds starting from the allotted amounts of money and compares them to the sums actually used. Then, there came into the picture the Union support that Romania will take advantage of as a result of the integration and the mechanisms used in this respect: direct payments and market measures and allotted amounts of money.

Key words: budgetary financing, external financing, SAPARD, PHARE, ISPA, FEADR, FEAGA

In the market economy, financing in agriculture plays a significant role in carrying out the flux of the economic activity in view of producing agricultural goods and services specific to this sector. In our country, during the transition period, financing the agriculture has been accomplished by means of own resources of agricultural enterprises and farms, budget state support, credits, non-reimbursable external funds as well as other type of resources.

Substantiation of the necessary funds has not always been preceded by studies and analyses of the economical objective situations. In many cases, there were administrative decisions that were predominant having a negative impact on the economical performance.

The budgetary financing of agriculture during the transition has experienced significant variations regarding the instruments and mechanisms used, the support system being complicated and instable. The lack of scientific substantiation and the knowledge of realities in agriculture as well as the correct misunderstanding of applying financing mechanisms in this sector have contributed to wasting some important financial resources, the economic effect being irrelevant.

Romania's political and agricultural instruments and afferent institutions have scarcely complied with the Common Agricultural Policy, policy that was continuously based on applying direct and indirect payments as a supporting measure of agricultural producers' incomes in the main sector.

The stage 2004-2006 of Romania's EU pre-accession was underlined by the change that affected national policies of financing agriculture from the state budget. There were highlighted 3 different periods of time and conceptions:

- The year 2004 – characterized by applying mainly some schemes of direct support from the state budget for small farmers.
- The year 2005 – when the application of some subsidizing programs approved of during the previous year continued, but another type of schemes was implied, that is

by freely granting meal tickets with state financing in order to buy seeds, chemical fertilizers, pesticides and gas as well as subsidizing vegetal or animal goods.

- The year 2006 – there appears a restructuring of the subsidizing system by applying 3 payment schemes: the payment scheme on area unit for cultures having negotiated quotas with EU, but that represent only 6,5% of the arable area, the payment scheme on animal species and an investment program named “Farmer Program”.

However, none of the payment schemes stipulated for this period through programs approved at the same time with the state budget, complied with the payment schemes stipulated in the European regulations. Each payment scheme had specific granting procedures through difficult bureaucratic procedures without any help of informatics, and which implied a tremendously great number of documents and institutions.

The financial support offered to agriculture through financing sources in accordance with multi-annual programmes (years 2004-2006)

millions RON

Sources	Achieved 2004	Achieved 2005	Programme 2006
Total sources	3.380,9	3.134,5	3.099,1
State budget	2.612,3	2.537,9	2.815,9
Out of which: subsidies for agriculture of the state budget	2.319,9	2.163,5	1.892,2
Own incomes	0.0	37,0	80,8
External credits	39,1	17,2	42,7
Non reimbursable external financial assistance	729,5	542,4	159,7

Source: Annual accounts of budgetary execution regarding accomplishing annual programs for the years 2004, 2005 and 2006 from the budgets on programs stipulated in MAFRD budget on 2006

The external financing sources may be classified in:

- Reimbursable granted by different banks and nongovernmental organizations as loans, micro-credits and technical assistance;
- Non reimbursable granted as grants, Union support through different programs in the sector of agriculture and rural development.

Loans have been granted mainly by the World Bank in view of supporting Romania in achieving economic recovery by offering consultancy and financing in achieving the reform in the agricultural sector. Micro-credits and technical assistance were offered by nongovernmental organizations financed by foreign governments or external donors through various development programs. Grants usually include technical assistance necessary in implementing various projects.

The Community support was offered within the strategy of EU pre-accession and consists of pre-accession financial instruments PHARE, ISPA and SAPARD – non reimbursable financing programs with respect to the principle of avoiding ‘the double intervention’.

SAPARD program (Special Pre-Accession Programme for Agriculture and Rural Development) represents the main financial instrument by means of which the European Commission supports the process of accomplishing pre-accession measures

in the sector of agriculture and rural development. In implementing SAPARD Programme, in accordance with the Multi-annual Financing Agreement, the European Communities Commission decided on allotting a non reimbursable financial contribution for Romania during 2000-2006, of nearly *156 million EUR per year*, amount that may be supplemented depending on the Romanian state's absorption capacity.

The total allotted budget within this programme for the period 2000-2006 was of 2.384,63 million EURO out of which the community participation was of 1.142,7 million EUR, the private participation of 862,5 million EUR and national participation of 379,42 million EUR. The first payments afferent to SAPARD Programme were made starting with September 2003.

**Authorized and effected payments from community funds carried on through
SAPARD Programme until June 23, 2006**
millions EUR

No. Crt.	Authorized payments	Effected payments
1.	82,6	78,0
2.	382,0	377,0
3.	46,4	40,7
4.	9,7	9,0
5.	1,7	1,7
Total	521,9	505,9

Source: Romanian Government, Evolutions registered in the preparation period for Romania's accession to the European Union

According to the assessment made by the Romanian government [3], out of the total community funds allocated through SAPARD Programme during 2000-2006 that amount to 1.142,62 million EUR, there were authorized and effected payments worth of 521,9 million EUR and respectively 505,9 million EUR (44,3% of allocated community funds).

During the stage 2001-2003, there was allocated the sum of 36.4 million EUR for the Romanian agriculture through *PHARE Programmes*.

During 2004-2006, Romania took advantage, through PHARE programmes for agriculture, of a budget of 75 million EUR out of which: for the year 2004 – 24 million EUR; for the year 2005 – 26 million EUR and for the year 2006 – 27 million EUR. The priority objectives of this period for which the above-mentioned sums were allocated are the following: investments – 45% of funds; consolidating the existent investments – 31% of funds; legislative harmonization – 25% of funds.

ISPA programmes represent also an instrument of non reimbursable financing instrument from the European Union having the following priority objectives:

- Support in view of aligning to EU environment standards;
- Extent and correction of national transport network to the trans-European ones;
- Compliance with the applied policies and procedures in view of accessing EU structural and cohesion funds.

For the period 2000-2006, through ISPA Programmes, there were allocated funds worth of 2.023 million EUR, as it follows: for environment – 1.011 million EUR and for transport – 1.012 million EUR. Nearly 25% of the total amount of a project financing is insured by the beneficiary and 75% through ISPA programmes.

Just like the other 10 EU member states that joined the Union in 2004, Romania, as a newly integrated state, must replace the national agricultural policy with the Common Agricultural Policy, to fulfill the *Copenhagen Criteria*, consequently, to align to the entire set of laws of EU existent policies (the so-called *acquis communautaire*).

The mechanisms of financing agriculture will originate from:

1. EU budget through two European funds for agriculture:
European Agricultural Guarantee Fund (EAGF) for financing market measures;
European Agricultural Fund of Rural Development (FEADR) for financing rural development programmes.
2. National co-financing from state budget;
3. Own resources of agricultural exploitations and beneficiaries of investment projects;
4. These are accompanied by other financing sources, respectively credits for production and investment credits in completing their own sources.

Romania shall benefit from community support for setting up the market under the form of *direct payments and market measures*, doubled by considerable amounts of money allocated for rural development in view of increasing agricultural competitiveness and complex development of rural economy. Payments depend on the effective capacity of absorption determined by the presentation of some eligible projects (or measures), by institutions functionality, the functionality of management and funds financial control, by insuring co-financing (from state budget, local budget or private sources).

Direct payments represent the main supportive instrument of agricultural producers whose financing source is the community agricultural budget and the national budget. The amount allocated by EU for direct payments during 2007-2009 raises to 967.9 million EUR, representing 24.15% of the community support. This amount includes financial support aimed at products or sectors that have pre-set quotas, reference areas or national ceilings.

SAPS application is suitable for a limited period of time in order to ensure exploitations restructuring and develop their relations with the market. Passing over from the single payment scheme implies an advanced level of production development and stabilization and activity diversification to put the Romanian agriculture to an advantage.

Romania's agriculture benefits, as well as other member states, from other forms of support including for restructuring semi-subsistence farms, community support of Structural funds for investments in agricultural exploitations and other economic activities in rural areas, significant support for rural development and environment protection etc. For Romania, direct payments are introduced in accordance with the next calendar of percentage increase.

Romania can complete direct payments granted to farmers by additional payments from the national budget ('top-up' mechanism) up to 30% over the level offered by the Community.

In view of allotting the direct support of the Community Budget, the Accession Treaty established the national basic area at 7.012.666 ha as well as the reference production of 2,65 t/ha (the ha production average for cultures in arable fields during the reference period 2000-2002).

The calendar of allotting amounts of money for direct payments out of the Community Budget and Romania's Budget during 2007-2016

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
% of increase of direct payments ceiling	25	30	35	40	50	60	70	80	90	100
% of increase from national budget	30	30	30	30	30	30	30	20	10	0
Total annual payments (%)	55	60	65	70	80	90	100	100	100	100

Source: EC Council Regulation no. 1290/2005 on financing expenses carried out through CAP, EC Council Regulation no. 1698/2005 on the support offered from the European Agricultural Fund for Rural Development and Strategic National Plan 2007-2013, set out by MAFRD, June - 2006

When analyzing the size of national basic areas and the quantities of reference productions (average efficiency of the period 2000-2002), we may observe that Romania is the second country of the newly EU joined states, from the point of view of the low level of reference productions per hectare. Romania's reference efficiency is low due to crops that were highly affected by drought during the stated years and especially of the reduced agricultural performance.

The passing over to single payment scheme being done (process whose completion is foreseen in 2016 or in an optimistic possibility in 2013), it is established the number of single payment rights (SPR) per exploitation which, according to the methodology used in EU15, can include eligible basic area (eligible hectare) as well as the number of bovines, sheep and goats. The support per hectare is supplemented from the national budget with up to 30% of the negotiable level of direct payments amounting to 1.766 million EUR in 2016. This amount includes allocations for eligible area (vegetal sector) and zootechny sector.

Should we take into account the agricultural area used that includes the basic negotiated arable area (7.012.666 hectares) and 2 million hectares of permanent pasture, there appears an eligible area of nearly 9 million hectares. The agricultural area used that is registered in the Farms Register was of 8.925.802 hectares on May, 12, 2006. Considering this hypothesis, estimating the direct support from the community budget and the sums allocated from the national budget for the vegetal and zoo-technical sectors, as compared to the agricultural area used, it would be as it follows:

Estimation of the direct community support and additional sums of the Romania's budget for the period 2007-2016

	007	008	009	010	011	.2016
Annual percentage of the EU allocated amounts	5%	0%	5%	0%	0%	00%
Direct payments according to the negotiations results (mil. EUR)	40	27,9	18,1	06,4	83	766
Maximum support of the national budget (%) (mil. EUR)	0%	0%	0%	0%	0%	
	29,8	29,8	29,8	29,8	29,8	
Total allocated amounts of community budget and national budget	5%	0%	5%	0%	0%	00%
- % annual and						
- mil. EUR	69,8	057,7	147,8	236,2	412,8	
Annually allocated amounts to a hectare eligible for direct payments out of which:	8	98	18	28	33	00
- community support EUR/ha:	8	8	8	8	3	
- national support EUR/ha	0	0	0	0	0	

For the *market measures* during the period 2007-2009, the EU allocated funds will amount to 732 million EUR representing 18.26% of the total, including market intervention and export restitutions. This support does not require national financing either, but, in order that Romania could benefit from these amounts of money, it will have to support, from the pre-accession national budget, the implementation costs of these policies.

Community financing of agricultural and rural development policy for Romania, during 2007-2013 was estimated as a result of the agreement between member states regarding EU budget at nearly 12 million EUR.

The support proposed for *Rural development* for the period 2007-2009 amounts to an EU engagement of 2.308 million EUR (57.59% of total allocated amount). Financing rural development measures from the community budget is made through the European Agricultural Fund for Rural Development.

According to EU regulations for applying the Common Agricultural Policy and the negotiation results, starting with 2007, Romania will be granted, from the community budget, 25% of direct payments allocated in EU, in 2008 – 30%, in 2009 – 35%, in 2010 – 40% and then, an annual increase of 10% until reaching the 100% value of EU15 support.

The main instrument used by EU in rural development of member states consists of the European Fund for Agriculture and Rural Development (EFARD) that will have to act accordingly to other community instruments: European Regional Development Fund (ERDF), European Social Fund (ESF) and Cohesion Fund (CF).

Presently, Romania's agriculture is facing significant structural disequilibria:

- excessive fragmentation of agricultural property and the existence of nearly 4,5 million lei of subsistence households that do not offer the conditions necessary for sector modernization;
- priority orientation of budget funds towards big enterprises in some stages of transition as well as small subsistence households producing for self-consumption in other stages, prejudiced the formation of European-type medium commercial forms;
- maintaining an excessively big agricultural population and the reduced level of occupation is associated with the incomplete use of work time over the year and, consequently, agricultural productivity is very low;
- the low level of technical modernization and inefficient allocation of material resources maintain low efficiency and do not ensure the population's alimentary security;
- Structural and performance differences as compared to the European Union grew deeper, etc.

In this context, a significant structural reform is needed, a reform that requires a consistent financial support granted on the basis of eligible projects and programmes for the community and European funds.

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