

FINANCING OF THE DURABLE DEVELOPMENT PROCESS OF AGRICULTURE AND OF ROMANIAN RURAL AREA

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The instruments and mechanisms of intervention and financial support applied in Romania in various transition steps had an administrative effect, without a strategy established in concordance with some documented analyses, fact that did not determine the concretization of the financial effort in an adequate evolution of the agriculture and rural area on the whole. Public funds for agricultural support, after the adherence to the EU, prove to be insufficient, so that the designing of our own system of agriculture financing, with the help of the bank credit, becomes a must. The public funds provided by the EU budget destined for the financing of the rural development measures comprised within the National Program for Rural Development, for 2007-2013, represent an important sum, of more than 8 milliard euro. The analysis on the destinations of this sums per measures rearranged into fields of activity leads to the conclusion that the agricultural financial support represent only 14.7%, non-agricultural activities 19.9% and infrastructure development 20.2%, requiring a remarkable financial effort, but insufficient, to relaunch the rural economy.

Key words: *financing instruments and mechanisms, subsidies, direct payments, National Program for Rural Development, European funds*

During the period of transition to the market economy, the instruments and mechanisms of budgetary support of the Romanian agriculture were different from one period to another, their analysis revealing the lack of a coherent and constant legislative and institutional framework for the application of proper support mechanisms and of a rational administration of budgetary resources, and also serious deficits in the organization of the agricultural products market.

MATERIAL AND METHOD

In this work, we intend to perform an analysis upon the financing process of agriculture and rural development in Romania.

At the beginning, we analyzed the financing level of Romanian agriculture, according to the financial support mechanisms adopted, per steps: 1991-1993, 1994-1996, 1997-2000, 2001-2003, 2004-2006, respectively after Romania's adhesion to the European Union. Data were collected from the budgetary execution completed by the Ministry of Agriculture and Rural Development and from the Romania's Negotiation Agreement with European Union regarding Chapter 7 – Agriculture.

This work also includes a comparative analysis between the agriculture crediting levels from Romania, Germany, France and Hungary, relied on the data processed from the reports provided by the national banks from these countries.

The problems given by rural development financing represent a significant percentage within the economy of this work, highlighting aspects like: the dimension of funds allocated for rural development for the programming period 2007-2013 in Romania and in the other EU member states, respectively funds' provenience (EU budget and national budget). Data are provided by the Report of the General Directorate for Agriculture and Rural Development for 2007.

The originality of this work is given by the regrouping of rural development measures per fields of activity, not per axes of priority, like in the National Plan for Rural Development, to be able to measure their direct economic implications upon the Romanian rural area.

RESULTS AND DISCUSSIONS

Data collected from the budgetary execution performed by the Ministry of Agriculture and Rural Development reflect the financial effort made for agricultural support:

Table 1

Financial support offered from the state budget during 1991-2006

Years	Million lei (RON) current prices	Million equivalent ECU-EURO
1991	1.6	187.9
1992	16.4	409.7
1993	35.7	404.2
1994	68.2	346.6
1995	134.4	511.3
1996	217.8	564.0
1997	303.3	374.8
1998	359.3	359.7
1999	370.3	227.2
2000	731.1	366.4
2001	935.8	366.5
2002	950.2	304.0
2003	1306.9	348.0
2004	2033.4	501.7
2005	1914.9	528.5
2006	1886.1	535.1

Source: Annual accounts of budgetary execution made by MARD
Processed data

The incoherence of the financial support system is obvious if we analyze more analytically the allocation mechanisms.

In the beginning, **step 1991-1993**, the main direction of governmental interventions was represented by consumers' subsidizing with the help of consumption prices (72.4% of the total budgetary allocations), with the

establishment of a commercial addition fixed by government, leading to remarkable distortions on the market.

During the next period, **step 1994-1996**, the financial support was directed towards the agricultural producers. The consumers were subsidized indirectly through the instrumentality of processors and the sale prices were still fixed in an administrative way, controlled by the government; products were supervised to get to the consumer at the smallest prices possible, eliminating the private competition, in its early development stages.

An advanced subsidy system was implemented step by step at input prices, and then the Law 83/1993 regulated allocations, subsidies to interests for production credits and investments, production bonuses and other compensations.

Step 1997-2000 generated a series of substantial changes by liberalizing prices of agricultural products, the regime of exchange rate, by reducing import customs fees, removing or reducing subsidies for some products, promoting foreign investments, privatization, restructuring or closeout of state enterprises with losses.

Step 2001-2003 is marked by a new change of the agricultural support mechanisms. A support redirectioning to the big agricultural holdings took place. The system practiced during this period was characterized by frequent changes, annual negotiations, arbitrary events, political connecting and much insecurity.

Step 2004-2006 is a step of new changes, due to the implementation of new payment mechanisms.

Although some changes with regards to the compatibility between the national and European payments schemes occurred, we must specify that no one of the schemes applied during this period was concordant with the payment schemes stipulated in the European regulations. The difficult specific procedures of each payment scheme, without a common framework with unitary informatic applications, have generated bureaucratic procedures with an impressive number of documents and many institutions involved in this process.

The analysis of the Romanian agriculture performances (efficiencies per production unit, agricultural production value, added value or added value per person employed in agriculture) proves that we are positioned at the level of 30-40% of the average EU-15 level, and the direct payments level is much reduced compared to other countries.

To compare with some of the EU member states admitted in 2004, and also with the mean of the EU-15 member states, we present the direct payments per arable hectare in table 2.

The difference between the possible subsidizing level of Romanian agriculture and the subsidizing level of the other EU member states is evident. The direct payments per arable hectare in Romania will be only 66.2% from the average annual value of the budgetary allocations in EU-10, representing 167 €/ha in Romania compared to the mean of 252 €/ha in EU-10. The difference is much bigger compared to the farmers from EU-15 who receive a mean of 300.5 euros per hectare. With other words, direct payments for Romanian vegetable farms will be only 55.6% compared to EU-15.

Table 2

Comparative situation of payments per surface from the EU budget and the national budget

- €/ha -

Countries	Reference efficiency t/ha	Year I	Year II	Year III	Year IV	Year V	Year VI	Year VII
Czech Republic	4.20	145.7	159.0	172.2	185.5	212.0	238.5	265.0
Hungary	4.73	149.5	161.0	174.3	208.6	238.4	268.2	298.0
Poland	3.00	104.0	113.4	122.9	132.3	151.2	170.1	189.0
Slovakia	4.06	140.8	153.6	166.4	179.2	204.8	230.4	256.0
EU-10	4.00	138.6	151.2	163.8	176.4	201.6	226.8	252.0
EU-15	4.77	300.5	300.5	300.5	300.5	300.5	300.5	300.5
EU-10/ EU-15, %	838	46.1	50.3	54.5	58.7	67.1	75.5	83.8
Romania	2.65	91.8	100.2	108.5	116.9	133.6	150.3	167.0
RO/EU-10, %	66.2	66.2	66.2	66.2	66.2	66.2	66.2	66.2
RO/EU-15, %	55.6	30.5	33.3	36.1	38.9	44.5	50.0	55.6

Source: European Institute from Romania, Impact studies III, Study no. 6 and own estimations for Romania

Note: - for EU-10 year I corresponds with the calendar year 2004, and for Romania with 2007; for EU-10 year VII corresponds with the calendar year 2010, and for Romania with 2013;

- EU-10: the package of 10 countries entered in 2004

Beside the non-reimbursable financial sources, an important position in the agricultural financing process should be occupied by **the bank credit**.

Compared to our country, Hungary, although it has an agricultural area of only 5866 thousand ha (2.5 times smaller), directs 1.7 times more credits to agriculture. Compared to the advanced EU member states, France or Germany, the level of bank credits offered to agricultural financing is much superior to Romania, namely 62 times bigger in France and 48 times in Germany. The comparative situation is presented in *table 3*.

Table 3

The crediting level of Romanian agriculture compared to other European countries (August 2006)

Countries	Bank credits offered to agriculture		RO:EU countries
	mil. €	% of total credits	
France	42100	2,4	1:62
Germany	32500	2,6	1:48
Hungary	1167	6,8	1:1,7
Romania	677	2,5	1:1

Source: Data processed according to National Bank reports from these countries
www.banque-france.fr; www.bundesbank.de; www.mnb.hu; www.bnr.ro

Compared to Romania, Hungarian agriculture is 14-times more provided with financial resources from bank credits, 31-times more credits per agricultural hectare are offered in France and 42-times more in Germany.

Table 4

Bank credits offered to agriculture in some European countries in August 2006
(€/ha)

Countries	Agricultural area (thousand ha)	Total bank credits for agriculture (mil. €)	Bank credits per ha (€/ha)	RO:EU countries
France	29.690	42100	1418	1:31
Germany	17.008	32500	1911	1:42
Hungary	5.866	1167	199	1:14
Romania	14.717	677	46	1:1

Source: own calculations

Under the conditions specified, the lack of our own agriculture financing system, like **Farm credit** in the USA or **Co-operative agricultural credit**, Robobank or Raiffeisen-type, specific to Western-European advanced countries, maintains a condition of precariousness in the competitiveness of this sector of activity.

The application of CAP for Romania is supported by important financial resources allocated from the common budget and from the national budget. The allocations from the EU budget for rural development attain the sum of 8022.5 million euros, much more than the financial support level of the National Programs for Rural Development from other countries (*table 5*).

Table 5

Size of rural development funds (2007-2013)
- million euros -

Country	Total public funds	From which:		% national contribution
		EU budget	National budget	
Poland	17217.8	13230.0	3987.8	23.16
Italy	16746.1	8292.0	8454.1	50.48
Germany	13213.6	8112.5	5101.1	38.60
Romania	9970.7	8022.5	1948.2	19.53
Spain	13909.3	7213.9	6695.4	48.13
France	11944.5	6441.9	5502.6	46.06
Portugal	4972.7	3929.3	1043.4	20.98
Austria	7822.2	3911.4	3910.8	50.00
Hungary	5159.1	3805.8	1353.3	26.23
Greece	5077.9	3707.3	1370.6	26.99
Czech Republic	3615.8	2815.5	800.3	22.13
Bulgaria	3241.9	2609.0	632.9	19.52
Ireland	4298.7	2339.9	1958.8	45.56
Finland	6682.6	2079.9	4602.7	68.87
Slovakia	2562.5	1969.4	593.1	23.14
Great Britain	8880.4	1909.5	6970.9	78.50
Sweden	3917.1	1825.6	2091.5	53.39
Lithuania	2260.3	1743.3	517.0	22.87
Latvia	1361.6	1041.1	320.5	23.53
Slovenia	1158.9	900.3	258.6	22.31
Estonia	924.8	714.6	210.2	22.73
The Netherlands	973.0	486.5	486.5	50.00
Denmark	830.3	444.6	385.7	46.45
Belgium	1144.5	418.6	725.9	63.42
Cyprus	325.0	162.5	162.5	50.00
Luxembourg	368.4	90.0	278.4	75.57
Malta	100.2	76.6	23.6	23.55

Source: Rural development in European Union, Statistical and economic information, Directorate General for Agriculture and Rural development, Report 2007

In terms of size of the funds allocated from the EU budget, Romania is on the 4th position in the total European member countries, and in terms of total budgetary sources from public budget (EU + national budget), we are only on the 6th position, because of the reduced national budget's participation to the constitution of these funds, only 19.53%. The national contribution to the constitution of public funds destined for rural development in the well-developed EU countries is much bigger: 68.87% Finland, 78.50% Great Britain, 53.39% Sweden, 63.42% Belgium, 50.48% Italy, 50.00% The Netherlands, etc.

For an advanced analysis of the financial funds' destination, we propose a rearrangement of measures per **fields of allocation**, not per axes of priority, depending on their direct economic implications:

1. – agricultural holdings;
2. – non-agricultural activities;
3. – economic forest capitalization;
4. – infrastructure;
5. – environment;
6. – consulting, professional training and other indirect actions.

Table 6

Funds destined to rural development in Romania, per fields of activity

Field	Financial contribution – million euros				% EU of the total general EU
	TOTAL	EU	Nat. budget	Beneficiaries	
1. Agricultural holdings	2317.0	1174.3	293.6	849.1	14.7
1.1. Modernization of agr. holdings	1840.9	793.4	198.4	849.1	
1.2. Semi-subsistence farming	476.1	380.9	95.2	-	
2. Non-agricultural activities	4136.0	1599.0	399.7	2137.3	19.9
2.1. Increase of added value of agricultural and forestry products	2708.8	856.9	214.2	1637.7	
2.2. Support for business creation and development	589.9	306.7	76.7	206.5	
2.3. Encouragement of tourism	837.3	435.4	108.8	293.1	
3. Forestry activities	624.3	346.7	81.0	196.6	4.3
3.1. Improvement of the economic value of forests	360.7	158.7	39.7	162.3	
3.2. First forestation of agr. lands	263.6	188.0	41.3	34.3	
4. Infrastructure	2174.3	1617.8	404.4	152.1	20.2
4.1. Infrastructure related to development and adaptation of agriculture and forestry	595.1	380.9	95.2	119.0	
4.2. Village renewal and development	1579.2	1236.9	309.2	33.1	
5. Environment	2064.0	1692.4	371.6	-	21.1
5.1. Support for natural handicap mountain areas	607.7	498.3	109.4	-	
5.2. Support for areas with handicaps, other than the mountain area	493.1	404.3	88.8	-	

5.3. Agri-environment payments	963.2	789.8	173.4	-	
6. Other activities	1442.8	1092.0	272.9	77.9	13.6
6.1. Vocational training and information actions	119.0	95.2	23.8	-	
6.2. Setting up of young farmers	337.2	269.8	67.4	-	
6.3. Producer groups	138.8	111.0	27.8	-	
6.4. Consulting services and advisers for agriculture	158.7	127.0	31.7	-	
6.5. Axis Leader	313.0	188.1	47.0	77.9	
6.6. Technical assistance	376.1	300.9	75.2	-	
7. Direct complementary payments	625.1	500.1	125.0	-	6.2
GENERAL TOTAL	13383.5	8022.3	1948.2	3413.0	100.00

Source: Processed data - Rural development in European Union, Statistical and economic information, Directorate General for Agriculture and Rural Development, Report 2007

We may notice that the percentage of financial resources from the EU budget destined for agricultural (14.7%) and non-agricultural economy (19.9%) represent a total of 34.6% (2773.3 million euros), namely, in absolute values, 396185.7 thousand euros annually, that obviously is too little for the relaunching of the rural agricultural and non-agricultural economy. At the same time, we may observe that the percentage of allocations from the EU budget destined for village infrastructure renewal is 20.2%, in a value of 1617.8 million euros - an important, but insufficient sum, if we take into consideration the current situation of Romanian villages. If we add the contribution of the national budget (404.4 million euros) and the beneficiaries' own contribution (152.1 million euros) to this field, then we obtain a total value of 2174.3 million euros destined to the 15784 rural localities (2827 communes and 12957 villages), with a mean of 137753 euros per locality for the entire period 2007-2013, and an annual mean of 19679 euros per locality.

From the viewpoint of the environmental financing, we may notice that the percentage of allocations from the EU budget is 21.1%, totalizing 1692.4 million euros, to which we may add 371.6 million euros, the participation of the national budget. The reduced percentage of allocations destined to this field places us on the last position in the EU, although environmental problems are especially severe in Romania. Ireland allocates to this field 80%, Finland, Austria, Great Britain and Sweden over 70%, Denmark 65%, Czech Republic 55%, France 50%, Hungary and Poland 35%.

CONCLUSIONS

The entire period of changes started in 1990 and continued so far may be assessed as a mixture of contrary, hesitating, anomalous and bureaucratic methods, measures and attitudes, which actually determined a huge waste of resources from an insufficient budget for a real and durable development of agriculture and of the Romanian rural area.

The perspectives of agricultural financing through the system of **direct payments from European and national funds** cannot bring us today too many hopes; on the contrary, in our viewpoint, they should wake us up to the absolutely alarming reality, determined by the current condition of the Romanian agriculture compared to the agriculture level in the other EU member states, by the unique market requirements, by the problems generated by conditionality factors and by the level of the financial allocations for agriculture.

The allocations structure per fields of activity reflects the priority order established and agreed by Romanian authorities and the EU organisms, depending on our country's needs. The analysis on the destinations of this sums per measures leads to the conclusion that the agricultural financial support represent only 14.7%, non-agricultural activities 19.9% and infrastructure development 20.2%, requiring a remarkable financial effort, but insufficient, to relaunch the rural economy. Durable development of rural area requires, obviously, much bigger financial efforts. EU allocations represent just a supplementary support, complementary to the national effort which must be dominant. Refreshment and institutionalization of the rural credit and especially of the agricultural credit, according to models from the advanced European and American countries, is one of our national priorities.

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