

# MECHANISMS AND INSTRUMENTS OF FINANCIAL SUPPORT FOR THE AGRICULTURE OF GALAȚI COUNTY

## MECANISME ȘI INSTRUMENTE DE SPRIJIN FINANCIAR ÎN AGRICULTURA JUDEȚULUI GALAȚI

IUROAEA GH.<sup>1</sup>, CHIRAN A.<sup>2</sup>

e-mail: achiran@uaiasi.ro

**Abstract.** *The paper aims to provide an input in analyzing the economic efficiency of farms and the effects of payment schemes on their performance. The study also aims to analyze the changes that have occurred in the European agricultural space by implementing the payment system, knowing that the new Member States which apply the single area payment scheme (including Romania), have the possibility of applying this simplified system beyond 2013. The financial assistance granted to farmers in the form of the single payment scheme following both the historical model and the regionalized one is based, more or less, on a past reference period (currently set between 2000 and 2002). Very important for the agricultural development of Galati county is also the economic-financial support to farmers, which will be achieved through mechanisms and instruments, in accordance with the law. So far, the economic and financial support for crops production has been granted to certified seeds, fertilizers, pesticides, according to OUG. 65/2006. Because the current measures of the agricultural development policy involve Romania directly the authors will present a summary of the key reforms proposed and the options that Romania has in applying these agricultural policies.*

**Key words:** mechanisms, financing instruments, finance, agricultural policy

**Rezumat.** *Lucrarea își propune să aducă un aport în analiza eficienței economice a exploatațiilor agricole și a efectelor schemelor de plăți asupra performanțelor acestora. De asemenea, studiul vizează analiza modificărilor produse în timp în spațiul agricol european prin implementarea sistemului de plăți, cunoscând faptul că, pentru noile state membre ale U.E., care aplică schema de plată unică pe suprafață (inclusiv România), se întrevede posibilitatea de a aplica acest sistem simplificat și după anul 2013. Ajutorul financiar acordat fermierilor sub forma schemei de plată unică, atât sub forma modelul istoric, cât și cel regionalizat, se bazează într-o măsură mai mare sau mai mică pe o perioadă de referință trecută (în prezent stabilită a fi cuprinsă între 2000 și 2002). O importanță deosebită asupra dezvoltării agriculturii județului Galați o are și sprijinul economico-financiar acordat fermierilor, care se va realiza prin mecanisme și instrumente specifice, în concordanță cu legislația în vigoare. Până în prezent, sprijinul economico-financiar în producția vegetală a fost acordat pentru semințe certificate, îngrășăminte chimice, pesticide, conform OUG nr. 65/2006. Întrucât măsurile actuale de politică de dezvoltare a agriculturii implică direct și România, autorii vor prezenta o sinteză a principalelor reforme propuse, precum și opțiunile pe care le are România în aplicarea acestora.*

**Cuvinte cheie:** mecanisme, instrumente financiare, finanțe, politici agricole

---

<sup>1</sup> A.P.I.A. Galați, Romania

<sup>2</sup> University of Agricultural Sciences and Veterinary Medicine Iasi, Romania

## **MATERIAL AND METHOD**

The study involved detailed knowledge of agricultural production processes and of the relations between them and the financial support, for which reason the following actions were taken:

- a thorough documentation on the potential ways and means to finance crop production, achieved by knowing the laws in force;
- direct involvement in financing implementing activities to support the agricultural production;
- systematization of the existing information and data, their analysis and synthesis, and the conclusions on the allocation of financial resources directed to the agricultural production in the county of Galati.

## **RESULTS AND DISCUSSIONS**

The concept of a European model of agriculture was formally defined in 1997 in a period of new challenges for the European agriculture, mainly related to: the European Union expansion towards Central and Eastern European countries, the growing international competition, domestic financial constraints.

The European agricultural model includes a set of values shared by EU Member States. From the outset it included the continuation of the CAP reform model started in 1992, their expectations being to achieve further durable solutions, particularly from an economic perspective, but socially acceptable. The decision in 2003 reinforced the principles of reform of the European model of agriculture, and the approval of the financial framework for 2007-2013 has provided resources (Chiran A. et al., 2008; PNDR 2007-2013).

Briefly, the model assumes a sustainable agriculture economically, environmentally and socially, having at its core the concept of multi-functionality. In most European countries, family farms are a key element in achieving the objectives of the model, even if there are differences between Member States in terms of production systems, farm size and natural conditions, as well as the cost of production.

In Romania there are a total of about 4 million farms of different sizes which employ about 2 million people, or 30% of the working population of Romania. Although these figures are deeply disproportionate from the European average (only 5.6% of the active population is working in agriculture in the EU-27) it is not a concern in itself. Problems arise, however, when trying to disseminate the structure of these farms and their economic sustainability. The data are alarming, to say the least: of the 4 million households, 2.5 million have less than 1 hectare, and only about 900,000 have the minimum degree of economic profitability (1 ESU). However, of all 900,000 profitable farms, about two thirds produce for personal consumption only. A simple calculation shows that, out of the 4 million Romanian households, only 312,000 (or 8%) are economically viable and connected to the market (especially large agro-industrial farms) while the remaining 92% are mostly subsistence households. The lack of consistent data on the economic dimension of small and medium-sized farms significantly prevent political support decisions.

Despite the methodological limitations imposed by a certain delay in taking over the instruments of analysis of the farm (RICA, structural surveys), the general picture of the orientation of Romanian production farms, reveals a somewhat predictable feature of small size farms: a combination of growing crops and farm animals, known as "traditional polyculture" specific to peasant holdings. If, to this picture, we add some rural Eurobarometer results, obtained in Romania in 2002 and 2005, which highlight some *worrying attitudes of rural residents (present farmers) in connection with entrepreneurial spirit and intention of moving from traditional agriculture (semi-subsistence), to pass to a modern agriculture, to a trade agriculture*, then we can conclude that for these segments, "implementing" the measures must be based on counseling and training, especially for the category of farms that have a potential for exceeding the subsistence level.

**Financing the Romanian agricultural farm** is aimed, at this stage, at the formation of the "commercial sector", with viable European farms (holdings). For this purpose it is necessary to promote an adequate system for financing production and investment in agriculture (Filip G., Onofrei M., 2001; Reg.CE nr.1782/2003). To finance farms, two categories of sources are used:

- **own sources** (*net profit and depreciation fund for corporate farms, gross margin for family farms producing for the market*);
- **additional sources, which come from:** *the state budget (subsidies), external financial assistance grants, the external credit inflows, bank loans, other domestic sources (credit cooperatives, moneylenders, friends and relatives, term delivery sales, bank certificates of deposit, leasing etc).*

The main instruments of support, implementation and consolidation of the Common Agricultural Policy are: *prices, subsidies, production quotas and customs protection*.

Romania had the freedom to decide on the following aspects of the funding modalities:

- *the choice of direct payments scheme;*
- *choosing to supplement the direct payment with national severance pay;*
- *the possibility of transferring funds from the budget for rural development in the agriculture budget.*

**The choice of the payment scheme** has been achieved respecting the rules imposed by the CAP for all new EU member countries. Of all the new Member States, eight chose as funding mechanism the single area payment scheme (Single Area Payment Scheme - SAPS) as an interim solution for a period of three years, with the possibility of extension - twice, no more than one year each - with approval of the European Commission, after which the standard direct payment scheme or the single farm payment scheme (Single Payment Scheme - SPS) is to be adopted.

**The amount of support from the Community budget for new Member States** for direct payments could not exceed the limits of the allocated direct payments, i.e.: 25% of the direct payments in the first year after joining, 30% in the second year, 35% in the third year, 40% in its fourth year and 10% each year until it reaches the full 100 % (Chiran A. et al., 2008; Bîzu C.L., Chiran A., 2010):

The financial package for Romania, from the Community budget, allocated to implement the CAP for the period 2007-2013, exceeds 4 billion Euros, with the following destinations:

- the financial support for the proposed direct payments amounted to €881 million to sustain products or sectors that have established quotas, reference surfaces or national ceilings and does not require national co-financing from the national budget;

- the sum of €732 million was proposed for market measures, without national co-financing;

- the amount of €2,242 billion, part of the package designed to support the rural development policy, which Romania will have to contribute to by co-financing with the sum of approximately €606 million.

It appears that the Galati County farms under 50 ha area (individual farms), run into 26,307, accounting for 31.3% of the agricultural area, with an average area of 3.87 ha. The 140 family associations holding 7.21% of the agricultural area have an average surface of 180.8 ha and the 48 agricultural companies with legal personality detain 17.99% of the area.

On the other hand, the 101 companies own an average area of 1514.30 hectares, 43.50% of the county's agricultural area.

Table 1

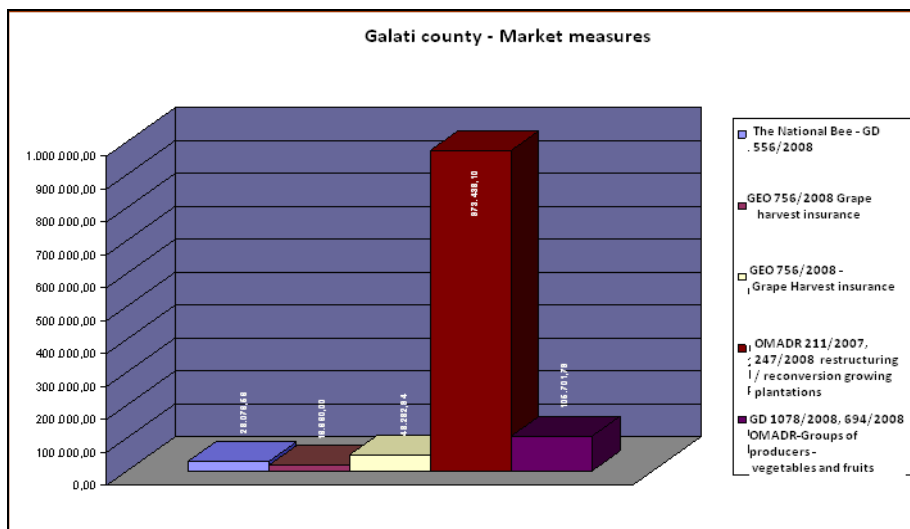
**Growth in direct payments per area (% compared to previous years)**

Sizeholding	Area (ha)			Amounts awarded (thousand RON)		
	2008/2007	2009/2008	2009/2007	2008/2007	2009/2008	2009/2007
<50ha	1,46	2,16	3,66	39,20	42,37	98,18
50-1000ha	18,03	-26,61	-13,37	61,93	2,28	65,62
1000-2000ha	49,18	21,19	80,79	104,67	68,88	245,66
2000-3000ha	105,49	123,66	359,60	181,92	211,69	778,73
3000-4000ha	1,76	9,65	11,58	39,61	52,81	113,34
4000-5000ha	2,91	13,01	16,29	41,18	57,49	122,34
5000-6000ha	-49,47	2,35	-48,29	-30,68	42,63	-1,13
6000-7000ha	0,00	122,39	122,39	0,00	209,92	209,91
<b>SUM</b>	<b>15,63</b>	<b>1,90</b>	<b>17,82</b>	<b>58,63</b>	<b>42,00</b>	<b>125,26</b>

As shown by the data presented in table 1, there is an increase of the areas that required payments by 15.63% in 2008 compared to 2007, by 1.90% in 2009 compared to 2008. Also, in terms of growth rate of disbursements under direct payments there is an increase of 58.63% in 2008 compared to 2007 and of 42% in 2009 compared to 2008. The increase appears both as an effect of expanding the areas for which payment was claimed by 17.82% in 2009 compared to 2007 as well as an effect of the amount of compensation per hectare, which increased from €85 in 2007 to €110 in 2009.

Regarding the amounts granted to Galati county for market measures, the data presented in figure 1 reveal that in 2007-2009 the highest amounts (873,438.10

RON) were given for the vineyards restructuring/reconversion program, in accordance with Disposition no 211/2007 of the Minister of Agriculture and Rural Development, followed by the assignment of 106,701.78 RON for organizing producer groups in accordance with Government Decision no. 1078-2008 (figure 1).



**Fig.1-Paymentsformarket measures**

The new CAP reform must take into account the peculiarities of the new Member States, where agriculture plays an important role in the national economy. It must also provide a realistic support for agriculture, to allow the new members to overcome structural problems and to achieve the convergence objective, by increasing their level of development and added value in agriculture, in order to bridge the efficiency and competitiveness gap between the older and the newer members.

Romania sustains the need to discuss the agricultural budget for the post 2013 period, after which the objectives and measures within the CAP will be discussed again.

The structure of the new budget for agriculture should create equal conditions of competition on the EU internal market and give the agricultural, administrative and economic structures in Romania the opportunity to develop and capitalize the country's potential. For the next period the idea should be publicly promoted that agriculture must be regarded as a common possession and sustained as such, because it can meet the increasing demands of European consumers by supplying wholesome, safe and quality products. In this respect, direct payments should be maintained after 2016 (the year that Romania will reach the 100% level), and the mechanism for constructing the budget should take into account the new CAP objectives (PAC, 2010).

For the 2014 – 2019 period, in view of achieving the complex process of *sustainable development of agriculture and the countryside*, Romania supports a rural development policy that meets the real needs of rural regions and contributes further to combat climate change.

Measures specified in the I<sup>st</sup> pillar of the Common Agricultural Policy in Romania constitute an important tool for ensuring food security and farmers' income, but also as a payment for the provision of public services through respecting environmental cross-compliance requirements.

Regarding the introduction of the principle of co-financing measures for the I<sup>st</sup> pillar of the CAP, Romania considers that it would exert a significant pressure on national budgets, and reinforces the differences between developed countries and less developed ones.

## CONCLUSIONS

1. Implementation of the Common Agricultural Policy in Romania, in general, and in the county of Galati in particular, is supported by significant financial resources allocated from the Community budget and the national budget. Compared with 2000-2006, the first year after becoming a member Galati county received support for agriculture up to 3.0 times higher, and in 2009 4.4 times higher. Therefore, the support per 1 ha of farmed land (or plowable land) and the average per farm increased accordingly.

2. Although the agriculture of Galati county is ranked, in many respects, above the average level of development of this sector in Romania, farmers are facing financial problems for the development of productive activities and investments, due, on the one hand, to the very faint support offered by the financial institutions, and on the other hand, to the delay in the payment of subsidies, respectively to their much smaller size compared to the old European Union member countries.

## REFERENCES

1. Bîzu C.L., Chiran A., 2010 - *Economic-financial supporting mechanisms and tools in the agriculture of Botoșani county*. Lucrări șt. USAMV Iași, vol. 53/1, seria Agronomie ISSN 1454-7414
2. Chiran A., Gîndu Elena, Bîzu C.-L., Archip V., 2008 - *Renewal the generations of farmers and their association, condition to valorize the advantages of Romania's adhesion to European Union*. Bulletin of University of Agricultural Sciences and Veterinary Medicine Cluj-Napoca. vol. 65(2).
3. Chiran A., Gîndu Elena, Bîzu C.-L., Archip V., 2008 – *Mechanisms of economic and financial support for the agriculture of Botoșani district*. Buletin of University of Agricultural Sciences and Veterinary Medicine Cluj-Napoca. vol. 65(2).
4. Filip G, Onofrei M, 2001 - *Politici financiare*. Editura Sedcom Libris, Iași.
5. \*\*\* - *Planul Național de Dezvoltare Rurală 2007 - 2013*. [www.fonduri-structurale-europene.ro](http://www.fonduri-structurale-europene.ro).
6. \*\*\*, 2010 – *Politica Agricolă Comuna după 2013, posibila configuratie din perspectiva Romaniei*. M.A.P.D.R., Bucuresti;
7. \*\*\*, 2003 - *Regulamentul CE nr. 1782/2003 privind normele comune de sprijin direct în cadrul politicii agricole comune*.