

IMPORTANCE OF ECONOMIC KNOWLEDGE TRANSFER FOR SUPPORTING OF TOTAL ABSORTION GRANTS BY SEMI SUBSISTENCE FARMS

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Abstract

In Romania semi-subsistence agriculture prevails and is rich in rural human resources, in terms of numbers, but still poor in terms of their quality and professionalism. Therefore, increasing the competitiveness of semi-subsistence farms may be achieved also through the educational enhancement (technological, economic and managerial) of the small farmers. Measure 141 "Supporting semi – subsistence farms" aims to increase the production volume for marketing and diversification of the production according to market requirements and, as well, to introduce new products, in the endeavors for semi-subsistence farms to become economically viable. This research study is based on a brief analysis of the official data on the progress of Measure 141, as well as on a quantitative and qualitative analysis of a sample of over 1,000 farmers involved in semi-subsistence farming, who are carrying out projects under this measure and have attended lectures on information and professional training in economics. The sample was stratified by various socio-professional criteria and selected by statistical step, representing 30% of the studied population segment. All these criteria were correlated and analyzed according to the minimum initial knowledge of farmers at the beginning of the course, in the single-entry bookkeeping, after a period of at least two years after implementation. Due to the highly heterogeneous level of education, in many cases non-agricultural and without economic knowledge, small authorized farmers were forced by the newly created circumstances to adapt and cope on-going, more or less correctly and thoroughly, to the new accounting, tax and management requirements. For many farmers, information and professional training, especially in the single-entry bookkeeping, were provided often too late, in the third year of the project, so they it marked the proper use of the financial support and the quality of the farm management and marketing of agricultural products. From data and information analysis it resulted that a large part of farmers who accessed Measure 141 failed to meet intermediate verification of project implementation, especially in the absence of part or all of the simple-entry bookkeeping needed for transposing the business plans for the first three years and lead to the early finalizing of the financing projects.

Key words: Measure 141, professional training, semi-subsistence farms, simple-entry bookkeeping

INTRODUCTION

The objectives targeting agricultural and forestry yields and market potentiality increase can be also met, together with the investments in irrigations and other production factors, by educational (technological and managerial) improvements of small farmers from the semi-subsistence farms.

Taking into consideration that the farming sector and the rural economy are exposed to the competition pressure of the single market, under NRDP 2007-2013, Measure 141 "Support of semi-subsistence agricultural farms" targets the increase of competitiveness of agricultural holdings under restructuring,

expressed by the increase of production that goes to marketing, production diversification according to the market needs and introducing new products, so that the semi-subsistence farms can become economically viable.

In Romania, out of a potential of 350 thousand semi-subsistence farms of 2-8 ESU, (Gross Margin value from 2400 € to 9600 €), more than 20% benefit from financial support under Measure 141, having in view their transformation into commercially-oriented farms. One of the conditions imposed by the authorities for having access to EU funds under this Measure is the authorization as non-legal entities of farmers according to Government's Ordinance 44/2008, under one of the following organization forms: certified

natural persons (CNP), individual enterprises (IE), family enterprises (FE).

The eligible projects benefit from financial support worth 7500 €, (1500 €/year) with complying with certain criteria that have to be met, among which a viable 5-year business plan fulfillment. The non-fulfillment of business plan on the first 3 years does not entail any financial responsibility as regards repaying the first 4500 € spent by the farmers. Yet, for obtaining the other 3000 € for the years 4 and 5, farmers are subject to rigorous technical and financial checkups of the activity in the first three years. These have to prove entrepreneurial skills in increasing the farm economic viability, in conformity with the business plan, by increasing the marketed production by at least 20% and/or the enlargement of operated areas and/or of livestock herds. At the same time, farmers have to participate to an information and vocational training course in the first 3 years. In case these criteria are not met, the projects will be interrupted, and farmers will not receive the tranches for years 4 and 5.

Farmers' certification according to Government's Ordinance 44/2008 also presupposes the utilization of technical-economic and fiscal knowledge for the organization and management of single-entry bookkeeping, which should reflect the fulfillment of business plan.

Up to the present moment, there are no exhaustive statistical information with public character in the concrete aspects with regard to: (i) minimum socio-professional skills necessary for the initiation and implementation of projects from the economic and managerial point of view, (ii) farmers' interest in increasing their activity competitiveness and efficiency on the market, (iii) the number of projects that met all the necessary criteria to qualify for funding years 4 and 5 or who completed the projects. The paper attempts to investigate and interpret some of the presented problems.

MATERIALS AND METHODS

The paper is based, on one hand, on an analysis focused on the statistical data regarding the implementation and funding of

Measure 141, presented in the Report on NRDP 2007-2013 progress and current situation of payments effected by the Agency of Payments for Rural Development and Fisheries under the Ministry of Agriculture and Rural Development; on the other hand, it is based on a quantitative and qualitative analysis of a sample of 1000 semi-subsistence farmers from Dâmbovița county, who accessed Measure 141 and who attended information and vocational training course in the field of economics. The purpose of the analysis was to obtain additional and complementary information on the farmers' socio-professional and behavioral potential, which could help the investigation and data interpretation.

The sample was stratified according to different criteria: activity field, gender, different age groups of farm heads, agricultural or non-agricultural training level, education, skills, etc. All these criteria were correlated and analyzed in relation to the minimum levels of farmers' accountancy knowledge, after at least two years from the beginning of project implementation.

The sample was constructed on a random basis by statistical step, from the lists designed by the organizers of the course, depending on the order in which the farmers concluded the funding contracts

RESULTS AND DISCUSSIONS

The restructuring of semi-subsistence farms and the stimulating the sale on the market of a significant part from the obtained production are the main objectives of the non-refundable financial support from EU funds under Measure 141. For a better monitoring of the efficient utilization of EU funds and of farmers' stimulation and getting aware of their involvement in the market economic environment, it was necessary to condition the carrying out of projects on the *obligativity* of small farmers' certification, be they young or less young. This new position of the small farmer as economic operator, even as a non-legal entity, presupposed an ongoing adaptation through self-taught efforts or through the consultation of an accountant, as the

independent economic activity needs the utilization of some minimum economic knowledge in single-entry bookkeeping, in taxation rules and basic managerial accountancy rules.

In the period 2009-2012, out of total 82000 farmers certified at the National Trade Register Office (NTRO), 80% are farmers who accessed EU funds through Measure 141 (82%) and Measure 112 (18%) (fig.1).

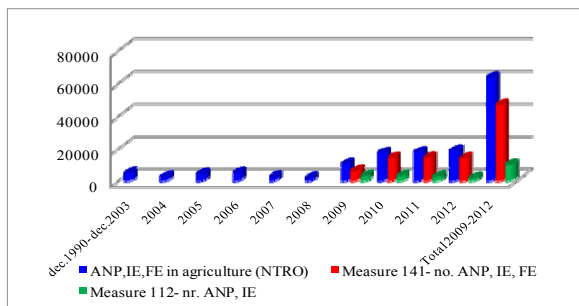


Fig.1. Evolution of the total number of certified natural persons at NTRO for agricultural activities and farmers who carry out projects with non-refundable funds under Measures 141 and 112

The efforts made by the authorities in project management, as well as by the farmers and advisory firms led to accessing the EU funds through an increasing number of eligible projects from one session to another.

In the period 2009-2012, 6 sessions of project submitting and selection under Measure 141 were organized. 88,846 projects were submitted, out of which 60,779 projects were selected for which funding contracts/funding decisions were concluded, accounting for 68.4% of total (fig. 2).

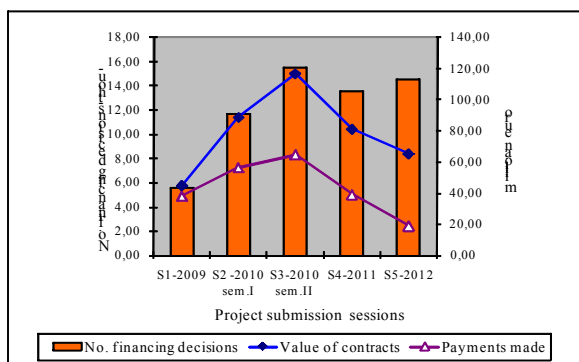


Figure2. Situation of projects and effected payments on 13.02.2014 under Measure 141

The period of implementation and funding of projects totals 9 years, beginning with the year 2009, with the first year of the first session and ending up with the year 2017, with the last year of the 6th session.

The total value allocated for funding the contracted projects, if they were fully completed, should be 455.84 million euro.

The payments effected until 13.02.2014 for the 6 sessions (MARD, 2014), found in different implementation stages, totaled 216.32 million euro, accounting for 47.5% of the total allocated value and 54.6% respectively of the effectively contracted value. A total value of effective payments by the year 2017 is uncertain, as we do not know the number of farms that will be entitled to receive tranches 4 and 5, after the rigorous checkups at the end of the third project year.

As it results from the reports, in early 2014, 75.3 % of the farmers from Session 1 and 20.4% of the farmers from Session 2 had successfully gone through the checkups and were qualified to continue the projects and receive funding (tab. 1).

Table1. Diagram of project progress and of payments effected under Measure 141 in the period 2009-2017 (thousand projects)

Sesi-uni proiecte	2009	2010	2011	2012	2013	14	15	16	17
S1	5,6	5,6	5,6	4,2	4,2				
S2		11,7	11,7	11,7	2,4				
S3			15,5	15,5	12,1				
S4				13,5	12,4				
S5					12,5				

The project promotion rate in the 3rd year was only 38% for the first two sessions, and this is probably due to multiple causes:

- lack of certain technical documents;
- incorrect modality of making investments from own funds;
- non-reaching the necessary physical size (ha, number of animals, number of bee families, etc.);
- lack of justifying documents or single-entry bookkeeping evidence in order to prove the volume of products sold on the market and the production expenses made according to the yearly targets from the business plans etc.

As there are no public information so far with regard to the concrete causes of project non-promoting, we established a few working hypotheses, among which the level of single-entry bookkeeping knowledge with which the farmers came to the information-vocational training courses, after at least two years of own projects implementation.

Out of this reason, a brief survey was conducted in a sample of 1000 farmers from Dâmbovița county, who attended such courses under Measure 111.

Certain information was used provided by farmers, as well as the results of tests for checking up the initial accountancy knowledge, after the completion of the two accounting years.

Out of total sample, 59% men farmers and 41% women farmers were identified.

As regards the working time allocated to farming activities, 48% are working full-time, out of which 32% men and 16% women.

The young farmers under 40 years old represent 49% of total (two-thirds men and one-third women), getting closer as share to the national share, i.e. 52%.

The farming activity is well-represented in the sample. Following the farming specificity of the county, 52% of the farmers who applied for funding under Measure 141 are specialized in fruit-tree farming, out of which women represent more than half. Vegetable farming comes next, in the southern area of the county, with 15% of farmers, and bee-keeping, distributed throughout the area, with 14%. The crop mixes (cereals, potatoes, cabbages, onions, etc.) and the mixed activities (crops and livestock) are found in equal proportions as activities in the sample.

Sample analysis by educational level, by gender and by farming or non-farming profile reveals the high share of non-agricultural education (61%), out of which 59% men and 41% women, with young people under 40 years old in this category accounting for 46%. By educational levels, medium education prevails (40%), out of which 57% men and 43% women. One-third of the farmers who accessed Measure 141 in Dâmbovița county graduated higher education, out of which the share of women (58%) is higher than that of

men (42%). All the farmers who graduated vocational schools are men, while farmers who graduated 8-10 grades represent 10% equally divided between men and women.

An analysis of the initial level of minimum theoretical and practical single-entry bookkeeping knowledge, by age groups and gender, revealed the following aspects (Figure 3 and 4).

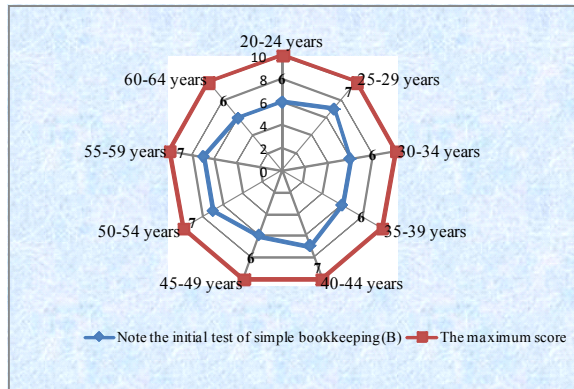


Fig. 3. Average scores obtained by men-farmers on the initial Accountancy tests, before the beginning of training courses, by age groups

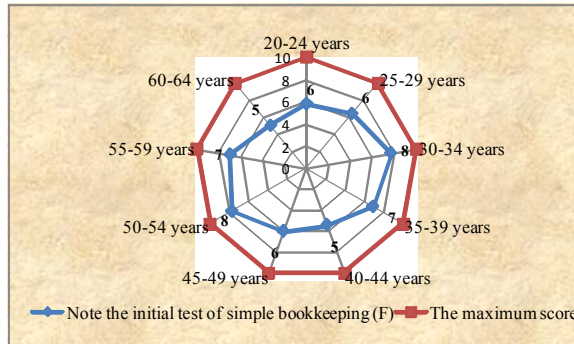


Fig. 4. Average scores obtained by women-farmers on the initial Accountancy tests, before the beginning of training courses, by age groups

Poor average scores were obtained in both genders (58 scores of 90 possible scores). However, women from the age groups 30-34 and 50-54 years obtained better scores, with a weighted average of 8, compared to men, where this average was not obtained in any age group.

An analysis of scores obtained by genders on an individual basis and not as weighted averages by age groups revealed 19% of men and 17% of women with scores over 8 and

20% of men and 22% of women with scores under 5.

Hence, we can draw the conclusion that more than 60% of farmers received scores from 5 to 7.9. This is the domain with the poorest scores received.

Taking into consideration that most farmers were in the 3rd project year, it is presumed that they had already gone through two full accounting years and they should have had a minimum level of accounting knowledge or they should have consulted and learnt certain accounting and fiscal rules from a professional accountant; yet, on the contrary, many of them proved that they were not concerned at all with the organization and keeping a primary accounting evidence. Probably they waited to learn this from the courses, not knowing that the accounting activity cannot be performed on a retroactive basis.

At the same time, another problem was to justify the sold production, in the case of certified farmers who sold directly on the free peasant market, to final consumers.

Although these do not have the same status as the non-certified natural persons any longer, the legal possibility to use the producer certificates on the free market, by all farmers, regardless of their statute, favoured the certified farmers' option to sell agricultural products in the absence of justifying documents (cash register receipts), although their production was obtained under CNP or IE status.

If certain legal provisions existed by which the certified farmers would not be allowed to use the producer certificates and these should have had to be replaced by other legal documents, resulting in their CNP/IE status, these would have had to sell their products on the markets only with cash registers, which would have enabled them to obtain justifying documents for the registration into the accounting system of the quantities and incomes from the sale of farm production.

Even though the farmers were aware of the precarious legality, they tried to profit from the lack of a strict legislation and they opted for an unfiscalized, poorly controlled modality to sell their products.

Another explanation for the lack of interest in accounting comes from the fact that in the Fiscal Code, until February 1, 2013, the livestock production activity, the sericulture activity, bee-keeping and the incomes from sale of animal products under natural form (Art.42, letter k, Law 571/2003 corroborated with Government's Decision 44/2004 and with the subsequent modifications and completions) were non-taxable activities. Yet the compulsory condition of certification as CNP, IE or FE in real system for the farmers who had eligible projects under Measure 141, had to determine them to keep "accounting evidence with no fiscal purpose" and to meet only the APDRP requirements of EU finance monitoring and of projects differentiation between the 3rd and 4th year. Thus confusion appeared both at the level of authorities and of farmers, who found out that their activity has no fiscal interest and hence it will not be controlled by the representatives of the National Fiscal Administration Agency in the territory.

Another cause that in early 2013 confused the certified farmers (CNP, IE, FE) with projects under Measure 141 was the change of fiscal legislation (Government's Ordinance 8/2013), by which the taxpayers, who obtain agricultural incomes on individual basis or under association form, without legal status, have no longer accounting obligations; their activities are excluded from the sphere of "independent activities" (Title III, Chapter 2 from the Fiscal Code) and they shift from the real system (based on single-entry bookkeeping) of farm income taxation to income taxation based on "farm income norms" (Title III, Chapter 7 of the Fiscal Code).

These fiscal modifications with regard to the lump-sum taxation of agricultural incomes obtained by non-certified natural persons are welcome, taking into consideration the fact that the non-legal entities – agricultural producers as natural persons have contributed to the national budget only to a very low extent in recent years.

However, these new fiscal provisions also included the certified natural persons and the individual agricultural enterprises, which

should have previously kept or they kept accounting evidence.

This is also the situation of farmers who accessed Measures 141 and 112, who represent almost 80% of total certified entrepreneurs in agriculture.

This results in an alarming aspect with regard to the scope and expected results of NRDP 2007-2013 for the semi-subsistence farming: a great part of farmers who accessed Measure 141, either did not have any other interest besides receiving financial support in the first three years, knowing that there will be no punitive effect, or they could not manage by themselves, if we take into consideration the training level or the activity field of the project titulars (education, industry, culture, arts, etc.) or the lack of full time farmers' previous experience in accounting evidence.

After farmers participated to the accounting course, many declared that it would not have been difficult for them to keep single-entry bookkeeping evidence if they had been informed and trained since the first project year and not when they were in the middle or close to the completion of the 3rd project year. They also declared that few advisory firms, who had helped them to prepare the application file for Measure 141, continued to help them throughout project implementation.

CONCLUSIONS

Hence, we consider that besides certain farmers' "ill will", the lack of information in due time and the lack of previous experience or the organization of course at the wrong moment, these modifications of the application norms in terms of tax are in contradiction with the rules required to be obeyed by the farmers who applied for non-refundable EU and national funds.

On the other hand, these farmers will have difficulties in the relations with other honest economic operators or the tax evasion will increase along the "producer to consumer" chain in the sphere of farm products acquisition by intermediaries, there will be more difficult relations with the banks and other financial bodies, there will be an increasingly decreased willingness to get

associated on the market into professional associations or producer groups, etc.

The government will be satisfied to receive taxes on income norms (lump-sum taxes) from all the small farmers who exceed a certain number of hectares (for instance: over 2 ha in cereals, over 2 ha in oilseeds, over 2 ha in potatoes, over 1.5 ha orchards, over 0.2 ha in vegetables grown under protected areas, etc.) or a certain number of animals (for instance: over 2 dairy cow heads, over 50 sheep, over 25 goats, over 6 pig heads, over 75 bee families), whether they certified or not, regardless if they obtain production or not, of they sell on the basis of justifying documents or not, registered in the accounting system or not.

There are still about 40 thousand projects by the end of the year 2017, which will be completed, more or less, which will be overlapped by other projects under similar measures from NRDP 2014-2020.

In order to avoid such unclear situations in the future, we make the following proposals:

- coming back in the Fiscal Code to certified farmers in agriculture being included in the category of "independent activities" with the legal obligations resulting from this;

- establishing the obligativity for certified farmers to sell the production on the peasant markets only with cash registers receipts, and not on the basis of producer certificate, like in the case of the non-certified persons;

- the future projects under NRDP 2014-2020 to be accessed only by the farmers who can prove that they work full time in agriculture;

- the information and vocational training courses to be organized in the first project year and to dedicate more time to training in bookkeeping;

- the advisory firms should support farmers throughout the implementation period, giving them advice and information on a free of charge basis;

- the local fiscal authorities should get more involved in checking up the application and respect of single-entry bookkeeping legislation on the farms.

It is only in this way that the small semi-subsistence farms will become commercial farms and they will get adapted and get

integrated to the market economic environment.

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