

## FINANCIAL MANAGEMENT OF EUROPEAN FUNDS FOR ROMANIAN AGRICULTURE

Andrei-Cristian MATEI<sup>1</sup>, Bianca-Maria MĂDESCU<sup>2</sup>, Mihaela ONOFREI<sup>1</sup>

<sup>1</sup>"Alexandru Ioan Cuza" University of Iași, Faculty of Economics and Business Administration, Iași, Romania, Email: mateiandrei135@gmail.com, onofrei@uaic.ro

<sup>2</sup>"Ion Ionescu de la Brad" University of Life Science, Faculty of Animal and Food Resources Engineering, Iasi, Romania, Email: biancamadescu@yahoo.com

*Corresponding author:* mateiandrei135@gmail.com

### Abstract

*The goal of this study is to look into how to finance the agricultural sector in Romania. The study emphasizes public institutions and their contribution in financing Romanian agriculture, as well as the results obtained by analyzing the effects of public funding on the agricultural sector, which are critical to the economy. In this regard, we present the functionality and involvement of two important national public institutions, APIA and AFIR. The research methodology is based on qualitative methods that employ both inductive and deductive reasoning. The study's main conclusion is that European funding leads to higher in the number of new farmers as well as an increase in agricultural entrepreneurial income. Moreover, the findings of the study can help public decision-makers understand the agricultural sector's financial needs as well as its importance to the economy.*

**Key words:** European funds, farmers, investments, revenues, agriculture, Romania

### INTRODUCTION

Financial private firms are widely regarded as having a poor understanding of farming operations.

Many companies are lacked of specialized agriculture, financing strategies, products, or personnel.

Furthermore, their presence in rural regions is restricted, and they are not positioned near prospective clients. Furthermore, the provision of limited-amount loans is thought to indicate greater costs due to the larger effect of fixed costs for application screening and management, thus reducing the availability of credit to the farm sector. This has a significant impact on small farms that require minor loan amounts [1].

The higher interest rates charged for agricultural loans as compared to other industries is a manifestation of these circumstances [8].

Thus, public institutions are the essential chance for farmers to receive the desired funding.

The impact of public funding on the development of Romanian agriculture is a

research topic for both decision makers or economists, as well as for researchers, because it is essential to finance companies in the agricultural sector, in the medium and long term given the vital importance of this sector of basic goods to citizens [9].

Many governments and international financial institutions have tried to address the issues related to barriers to SME (Small and Medium Enterprises) financing through the development of support programs of small entrepreneurs [2]. This is also the case of the Romanian government, which, since the country's entry into European Union has supported the creation of financial instrument packages (guarantee, credit products, etc.) aimed at facilitating the access of SMEs to funding, in line with European best practices. Initiatives in this field, carried out so far, have sought to strengthen the capacity of financial intermediaries (microcredit institutions, banks, venture capital funds, etc.) to support, at the level national and regional, private sector investments [5].

In addition to membership of European Union ensures Romania the right to benefit from targeted financial transfers to facilitate access

to knowledge and innovation, increase the clarity and predictability of the environment business education and training [9].

Direct payments are perceived as the most important grant for farmers (support for their income, intended to compensate for the gap of income from other economic activities), therefore, in future negotiations, one of the "battles" with important stakes will be around the way they will be divide the amounts allocated to this form of support between Member States [1,6].

Although, at least at the declarative level, it was wanted to rebalance the value of direct payments between Member States, the European Commission had to make a proposal feasible and balanced budget and policy, taking into account elements that exceed the rigors of European agricultural policy, being closer to maintaining a balance between predominantly contributing and net beneficiary Member States [3].

The access of agricultural companies to financing is inextricably linked to the cost of the methods of funding and the financial structure of the applicant. Often, however, financial intermediaries question the ability of farms to present viable projects in which they can invest.

Sources of financing for agricultural enterprises differ from country to country due to their characteristics the level of development of the financial system and the environment governing institution [7].

At the country level, differences in the method of financing the activity of micro, small and medium enterprises are more prominent in reasons that are largely related to company-specific factors such as profitability, tangibility of assets, sales volume, development opportunities, bankruptcy costs and so on understanding the financing models for small and medium-sized agricultural enterprises and how they change with institutional development and have important political implications [10].

The CAP is a real financial support for the new member states from the Central and Eastern Europe. Because Romania has large agricultural areas, a high share of population working in agriculture, but the productivity is

still low, specialization is a solution for attracting direct aids funds, destined to production performance using modern techniques [11].

The process of accessing the European funds has had a positive impact on the economic and social development of agriculture and rural areas, as proved for example by the analysis of the project portofolio of the Călărași county [4].

The EU funds should continue to favour investments in the creation and modernization of small-scale basic infrastructure, processing/marketing units, and also on the creation of non-agricultural units [12].

In this context, the purpose of the paper is to demonstrate the role of public institutions in financing agricultural holdings and highlighting the effects that public funding has on the development of Romanian agriculture.

## MATERIALS AND METHODS

In order to analyse the way in which the public funds destined for the development of the agricultural sector in Romania are managed, the coordinates of the topic proposed for debate were taken into account and they were corroborated with various methods that allow to substantiate the hypotheses. Thus, the nature of the present research is based on an interpretation of the institutional data on the financing and evolution of Romanian agriculture.

The study is focused on:

1. Analysis on the level of investment in agriculture.
2. Presentation of the main public institutions that finance Romanian agriculture.
3. Analysis on the amount of European funds allocated by EAFRD in 2018.

## RESULTS AND DISCUSSIONS

### *The level of investment in agriculture*

Investments in the Romanian agricultural sector are and have been declining in recent years, both in absolute value terms and as a percentage of GVA (Gross Value Added) (Figure 1).

In absolute terms, Gross Fixed Capital Formation (GFCF) was EUR 970 million in 2018, which was 35% below the level of 2011.

The decrease in investment is uniform more striking in terms of its share of the GVA of agriculture. In 2011, its share was 18.5%, while in 2018 its share was only 11.7% [10]. This compares with a weighting of 30.7% for

the EU 28 average. All GFCF components, including machinery and other production equipment (-40%), transport (-28%) and buildings (-26%) decreased since 2013, except for investments in the plant and animal husbandry sector (+ 45%). For 2018, however, investments in the plant and animal husbandry sector fell by more than 56% compared to 2017 (Figure 1).

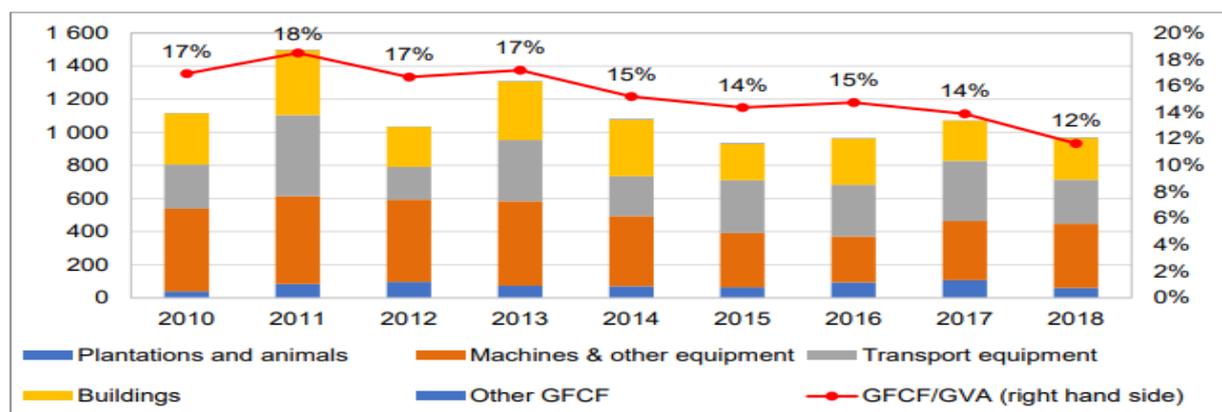


Fig. 1. Gross Fixed Capital Formation (GFCF) in the Romanian agriculture sector 2010 - 2018, EUR million Source: European Commission [5].

The decrease in the investments must be attributed, in part, to the economic and financial crisis which is expected to have started in 2012.

### Public institutions that finance Romanian agriculture

In Romania, the Ministry of Agriculture and Rural Development (MADR) also includes subordinate agencies whose primary responsibility is to finance agricultural operations. APIA and AFIR are the two most important institutions.

The Ministry of Agriculture and Rural Development develops the National Rural Development Program in compliance with the Common Agricultural Policy (CAP). Beginning in 2007, the agricultural intervention system was built around two pillars:

- Pillar I Represents direct payments through APIA:
- Pillar II Rural Development through AFIR

#### Pillar I. Agricultural Payments and Intervention Agency (APIA)

The Payments and Intervention Agency for Agriculture (APIA) is a government agency

that functions under the Ministry of Agriculture, Forests, and Rural Development and is based on Law 1/2004, with later revisions and completions. APIA's organizational structure consists of a central apparatus, 42 county offices, and 266 local offices. APIA has been managing European monies for the implementation of assistance measures funded by the European Agricultural Guarantee Fund since January 1st, 2007.

APIA's tasks are extremely complex, ranging from the management of public funds allocated to agricultural entities, to the verification of payment requests received from beneficiaries, to the administration of the agricultural import-export certification system, to ensuring all conditions of public information on activities, and so on.

#### Pillar II: Agency for Rural Investment Financing (AFIR)

Given Romania's obligation to designate an accredited payment authority for each rural development program and the need to absorb the aforementioned funds, it is necessary to establish the institutional framework of the

Agency for Financing Rural Investments, a public institution with legal personality subordinated to the Ministry of Agriculture and Rural Development. The Agency's mission is to oversee the technical and financial execution of the European Fund for Agriculture and Rural Development, abbreviated as the EAFRD.

Agency for Financing Rural Investments, AFIR, is responsible of informing the farmers how to access European funds granted through the National Rural Development Plan for the period of 2014-2020. The agreements existing between the European Community and Romania provides measures and

submeasures and also specify the amounts granted and the advantages that the applicants could obtain by accessing EU funds [7].

***The amount of European funds allocated by the EAFRD in 2018***

The table below shows the breakdown by Member State and by the reporting period of the amounts paid by the European Commission in the 2018 budget year (Table 1).

The financing of agriculture from public funds is made taking into account the objectives of the Common Agricultural Policy, which was designed to provide food for the population.

Table 1. Payments allocated by the European Commission for each Member State, in 2018

Payments actually made between 01.01.2018 and 31.12.2018							
FEADR 2014-2020							(in EUR)
Member state	Prefinancing	Before T4 2017	T4 2017	T1 2018	T2 2018	T3 2018	Total
BE			14,769,727	15,140,622	25,364,796	13,820,384	69,095,529
BG			23,123,216	51,560,230	90,811,734	40,188,138	205,683,318
CZ			51,401,899	99,910,206	121,404,790	51,930,327	324,647,223
DK			25,150,543	23,743,732	24,203,641	16,589,239	89,687,155
DE			518,178,026	282,762,184	166,020,708	150,707,971	1,117,668,890
EE			26,393,744	62,414,101	21,516,515	17,779,705	128,104,065
IE		9,957	140,312,902	37,845,485	30,944,655	109,596,149	318,709,149
GR			379,215,655	54,885,586	53,542,080	92,301,511	579,944,832
ES			416,008,619	96,475,713	187,940,300	199,301,454	899,726,086
FR	16,198,977		796,540,026	373,403,181	173,535,226	365,371,103	1,725,048,512
HR			28,786,041	34,672,812	97,924,640	44,766,900	206,150,392
IT			165,429,113	257,078,670	263,057,102	360,192,154	1,045,757,040
CY		28,200	4,935,917	958,689	1,518,427	7,088,938	14,530,171
LV			100,480,707	34,413,859	23,541,015	34,228,519	192,664,101
LT	1,502,340		92,618,423	49,513,684	40,021,563	35,815,191	219,471,201
LU			4,472,366	5,509,319	1,591,621	2,957,429	14,530,735
HU			126,974,681	78,165,237	78,248,639	102,540,987	385,929,544
ML			1,664,858	773,245	404,825	6,548,266	9,391,195
NL	1,800,000		14,461,718	48,496,359	3,301,137	12,613,164	80,672,378
AT			297,250,603	42,654,465	129,876,825	43,022,265	512,804,158
PL			188,299,185	290,179,630	284,299,863	181,791,044	944,569,722
PT		440,121	298,337,459	95,012,944	65,110,741	44,132,058	503,033,323
RO		5,775,526	291,226,430	322,544,208	206,914,475	319,691,776	1,146,152,415
SI			32,016,502	14,193,563	52,304,883	12,428,401	110,943,349
SK			55,560,398	43,342,784	53,662,898	47,630,789	200,196,868
FI			139,384,686	24,270,973	60,320,920	127,811,352	351,787,931
SE			126,607,330	25,820,902	19,873,752	23,340,897	195,642,880
UK			101,215,145	150,380,307	125,030,443	204,372,633	580,998,528
<b>Total</b>	<b>19,501,317</b>	<b>6,253,804</b>	<b>4,460,815,920</b>	<b>2,616,122,689</b>	<b>2,402,288,216</b>	<b>2,668,558,754</b>	<b>12,173,540,691</b>

Source: European Commission [5].

Table 1 shows that Romania benefited from a European funding of over 1.1 billion Euros in 2018, being among the EU member states that benefited from high allocations of funds. Apart from Romania, only Germany, France and Italy received over one billion euros in

2018.

Given the situation of the agricultural sector in our country, we can say that it was one of the privileged countries, in terms of funding.

## CONCLUSIONS

Public funding can be the "cornerstone" for the proper functioning of business in Romanian agriculture, and institutions such as APIA and AFIR, directly involved in this process must work as well as possible. Following the analysis of the level of investment in agriculture, it was found that in recent years the agricultural sector is the only sector that has seen an increase in investment, compared to other areas such as real estate, transport or others. The research highlights a high level of public funding in Romania, our country being among the countries that benefited from the highest amounts of money in 2018. Future research pathways can focus on the financial evolution of small and medium enterprises with agricultural profile that benefit of public funds but also on the sustainability of enterprises according to the financing stage and the way of applying a correct financial management.

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