

THE IMPACT OF PUBLIC FUNDING ON THE DEVELOPMENT OF ROMANIAN AGRICULTURE AFTER EU INTEGRATION

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Abstract

The purpose of this research is to analyse the impact of public funding on the agricultural sector in Romania. The study highlights public institutions and their role in financing Romanian agriculture and shows the results obtained by analysing the effects of public funding on the agriculture sector, as very important for economy. In this sense, we present the functionality and the role of two important public institutions at national level, APIA and AFIR. The research methodology is based on qualitative methods using the inductive and deductive approach. The main conclusion of the study shows that public funding leads to an increase in the number of new farmers and an increase in agricultural entrepreneurial revenue. In the end, the research results can provide important guides in substantiating the financing of the needs of the agricultural sector for public decision makers, as well as its importance for the economy.

Keywords

Public funding, public institutions, farmers, agricultural investments.

JEL Classification

H32, E60, O13, Q14.

Introduction

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 in the medium and long term such an important sector as agriculture, which provides basic goods to the population. Romania's integration into the EU offered the possibility to identify new opportunities for the development of sectors of the national economy by accessing European funds and making investments, in order to close the gaps between the economies of Member States, especially Eastern European and Western European countries. Agriculture is one of the sectors of greatest interest at both national and European level.

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Romania's agriculture is characterized by a multitude of entities having as main field of activity the agricultural production. The number of small farms in the Romanian sector is reflected in Romania's modest performance in the agri-food sector. Among the most important problems facing farms today is the search for ways to finance them. As evidence of the growing interest in this issue are the scientific and practical developments in recent years, the topics of scientific and practical seminars on improving the overall picture of public funding.

The Ministry of Agriculture and Rural Development has the role of Managing Authority for public funds for the development of Romanian agriculture, and under its subordination there are two agencies: the Agency for Payments and Intervention for Agriculture (APIA) and the Agency for Financing Rural Investments (AFRI) that make payments and interact with potential beneficiaries. The time of submission of payment applications and / or projects and up to the entire project implementation period.

The paper is structured as follows: a brief review of the literature on public funding, the research methodology, a presentation of the functionality and the role of the main public institutions that finance Romanian agriculture and the analyse of the number of Romanian farmers, the level of agricultural entrepreneurial income and the number of new farmers registered after Romania's accession to the European Union.

1. Literature review

Unlike most EU countries, agriculture has been and continues to be a sector of prime importance in Romania, both in its contribution to the economy and as a share of the employed population (Gelămancă and Zai, 2013). From the perspective of the contribution of agriculture to the economy, there is a convergence to the European Union average (1.7%), for the first time it fell below 10% in 2005 and reached 6.5% in 2010 (European Commission, 2017; Tosun, 2014). The process of consolidation of agricultural holdings involves increasing their physical size, and implicitly their economic (Alston et al., 1995).

Many governments and international financial institutions have tried to address issues related to barriers to public finance for companies by developing programs to support entrepreneurs (Ayadi et al., 2009; Onofrei, 2007). This is also the case of the Romanian government, which, since the country's accession to the European Union, has supported the creation of packages of financial instruments aimed at facilitating companies' access to finance, in accordance with European best practices. Although the European average regarding the decrease in the number of agricultural holdings was 20% in the period 2003-2010, in Romania their number decreased by 14%, but the land area exploited annually increased gradually after Romania's integration into the EU (Marcu, 2013; United Nations, 2015).

Most agricultural companies in Romania are considered to be subsistence, this income being very low before 2007, the public financings that were made in the post-accession period also increasing considerably the incomes of the farm managers (Anghel et al., 2018). A recent study (Scown and Nicholas, 2020) indicates that the performance of current organizations is a multivalent concept that incorporates the overall satisfaction perceived both at the organization level and externally by third parties, such as customers, suppliers or creditors. 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 (Brady et al., 2017).

2. Research methodology

In order to analyse the impact of public funding on the development of the agricultural sector in Romania, the coordinates of the topic proposed for debate were taken into account and were corroborated with methods that allow the substantiation of hypotheses, taking into account the specific literature. Thus, the nature of the present research is based on an interpretation of the institutional data on the financing and the evolution of the Romanian agriculture.

The research aims to demonstrate the following: Public institutions with a role in financing agricultural companies and highlighting the effects that public funding has on the development of companies in the field studied. Specifically, the study focused on:

1. Identification of public institutions that finance Romanian agriculture.
2. Analysis regarding the number of farmers and the area (in hectares) exploited by them.
3. Analysis of agricultural entrepreneurial income.
4. Analysis regarding the number of new farmers registered after Romania's accession to the EU.

3. Public institutions that finance Romanian agriculture

At the level of Romania, a particularly important role in financing Romanian agriculture from public funds is played by the Ministry of Agriculture and Rural Development. This ministry is organized and operates according to the provisions of Government Decision no. 1185 of December 29, 2014 on the organization and functioning of the Ministry of Agriculture and Rural Development, on the reorganization and functioning of the Ministry of Agriculture and Rural Development, as well as of some structures subordinated to it, with subsequent amendments and completions. The Ministry of Agriculture and Rural Development is a specialized body of the central public administration, with legal personality, subordinated to the Government. It develops specific strategies and regulations in its fields of activity, within the policy of the Government, and in accordance with the regulations of the European Union and with the principles of the common agricultural policy (CAP).

The Ministry of Agriculture and Rural Development also has under its subordination institutions whose main attribution is the financing of agricultural activities. The main institutions are: APIA and AFIR.

In accordance with the CAP, the Ministry of Agriculture and Rural Development draws up the National Rural Development Program. Starting with 2007, the intervention system in agriculture was placed on 2 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) operates under the Ministry of Agriculture, Forests and Rural Development based on Law 1/2004 with subsequent amendments and completions. From an organizational point of view, APIA

includes a central apparatus, 42 county offices and 266 local offices. Starting with January 1st ,2007, APIA has been running European funds for the implementation of support measures financed by the European Agricultural Guarantee Fund (EAGF).

The tasks of APIA are extremely complex, starting from the management of public funds allocated to agricultural entities, verification of payment requests received from beneficiaries, administration of the import-export certification system of agricultural products to ensuring all conditions of public information on activities etc.

Pillar II. Agency for the Financing of Rural Investments (AFIR)

Considering the obligation of Romania to designate for each rural development program an accredited payment authority and the need to absorb the mentioned funds, it is necessary to establish the institutional framework of the Agency for Financing Rural Investments, public institution with legal personality, subordinated to the Ministry of Agriculture and Rural Development, as well as the preparation of the institutional construction for the management of the Community financial allocations within the EAFRD. The purpose of the Agency is the technical and financial implementation of the European Fund for Agriculture and Rural Development, hereinafter referred to as the EAFRD.

The Agency has as main attribution the technical implementation, under the conditions of delegation of functions by the Ministry of Agriculture and Rural Development, through the Managing Authority for the National Rural Development Program, as well as the financial implementation (payment) EAFRD through the National Rural Development Program for 2014- 2020 (PNDR 2014-2020).

In order to establish an overview of the usefulness of the institutions presented above, the chart below shows the degree of absorption of European funds in the period 2014-2020 per Member State.

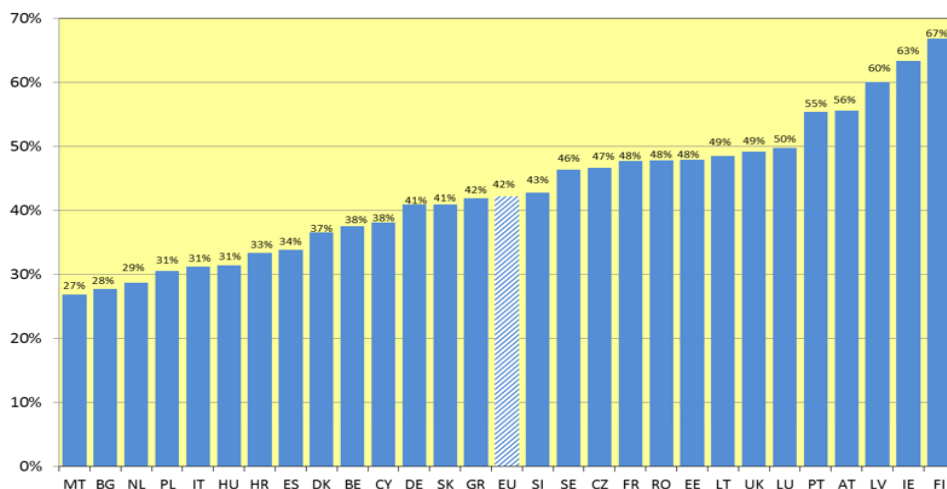


Figure no. 1. The degree of absorption of European funds in the period 2014-2020 per member state

Source: MADR

The average of the European Union was 42%, Romania being above this average, with a percentage of absorption of European funds in the period 2014-2020, of 48%. If we make a comparison with Bulgaria, the country that joined the EU in the same year with Romania (2007), we can see that BG is at the bottom of the ranking with a rate of absorption of European funds of only 28% of the total allocated for it.

4. The effects of public financing on Romanian agriculture

In order to highlight the impact that the public funds destined for the Romanian agriculture had, an analysis was made regarding the number of farmers benefiting from the public funds and the land surface exploited by them, in the period 2007-2019.

Table no. 1. The number of farmers and the area exploited by them in the period 2007-2019

Number of farmers	Area (ha)	The year
1.166.123	8.753.308	2007
1.085.379	8.921.359	2008
1.083.771	9.323.648	2009
1.070.398	9.376.561	2010
1.076.969	10.616.256	2011
1.071.212	9.753.167	2012
1.034.457	9.795.118	2013
1.011.771	9.823.088	2014
944.107	9.160.830	2015
901.507	9.177.354	2016
885.929	9.381.496	2017
869.185	9.477.767	2018
796.021	9.748.666	2019

Source: Authors' own calculation.

Of the total number of farms registered statistically in 2016 of 3,422,030, only 901,507 are applicants for area payments, the total area requested for payment being 9,177,354 ha. The exploited areas increased annually, in 2019 reaching a total of 9,748,666 ha, with the decrease in the number of farmers, which demonstrates a slight process of land consolidation.

In this research, the agricultural entrepreneurial income in Romania (income from agricultural activities) was reported per annual unit of work (AWU) and was observed to have increased steadily in the period 2007-2018 (from 1287.5 EUR / AWU at 4334.8

EUR /AWU). However, the agricultural entrepreneurial income in Romania is very low compared to the EU28 average, which ranks our country on the penultimate place among the EU 28 countries.

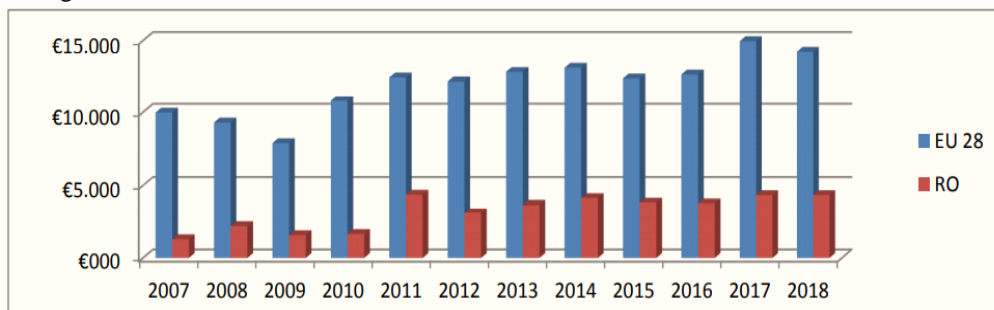


Figure no. 2. Agricultural entrepreneurial revenue (euro/annual work)

Source: MADR

From the point of view of the evolution of the incomes from agriculture, following the tendency of constant growth, we can affirm that the public financings have contributed considerably to the increase of the agricultural entrepreneurial income.

In 2007, with the accession of RO to the EU and the start of direct payments, during the first campaign for submitting payment requests, a number of 1,166,123 new farms with an area of 8,753,308 ha were registered.

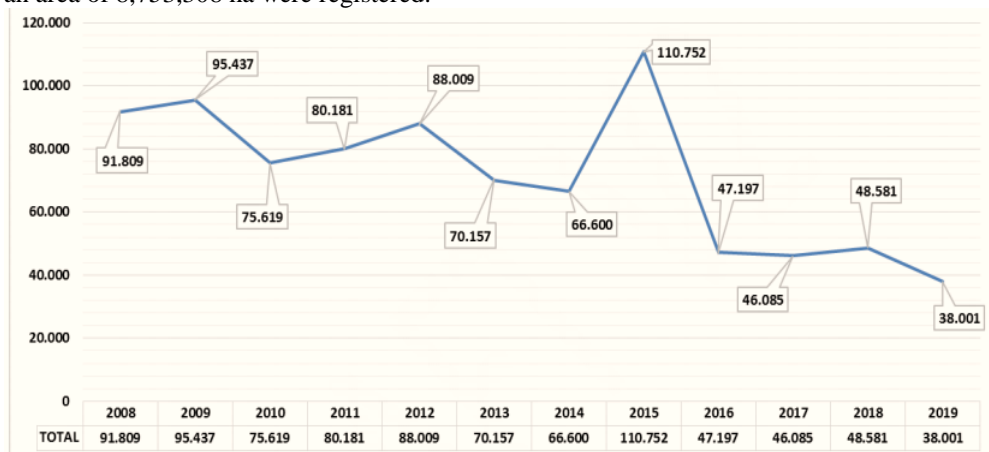


Figure no 3. Number of newly paid farmers

Source: APIA

From Figure 3 we can see that after Romania's accession to the EU, with the increase of public funding, people's interest in starting a business in agriculture increased, most applications submitted to APIA by new farmers being registered in the first years after joining the European community. The year 2015 represented a new beginning for a number of 110,752 new farmers, this high number of people interested in public funding

we attribute to the fact that a new financial year was opened in the period 2014-2020, the largest amounts being granted in 2015.

Following this study on some of the effects of public funding on Romanian agriculture, we identify the following:

- The decrease of the number of farmers but in accordance with the increase of the exploited land surfaces, observing a slight tendency to merge the agricultural lands;
- The increase in agricultural entrepreneurial income;
- The increase in the interest to open start-ups in the agricultural sector.

If the research allowed in a very modest way, the construction of theoretical frameworks capable of identifying the impact of public funding on the development of Romanian agriculture, it is considered that without public funding, the agricultural sector would suffer greatly by registering a slow and unsustainable development.

Conclusions

Public funding can be the "cornerstone" for the operation of business in Romanian agriculture, and institutions such as APIA and AFIR, directly involved in this process must function as properly as possible. Following the analysis regarding the number of farmers, a decrease was found, but a slight degree of aggregation of the agricultural lands was observed, the exploited area increasing from year to year even if the number of farmers decreased. The research highlights an increase in agricultural entrepreneurial income and at the same time an increase in the number of new farmers who started a business in agriculture, due to public funding for the agricultural sector, thus increasing the confidence of entrepreneurs in public institutions. Future research pathways can focus on the financial evolution of small and medium enterprises in agriculture that have benefited from public funds but also the sustainability of enterprises after the financing stage. The limits of research can be represented by the volatility of agricultural product prices and climate change.

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