

## AGRICULTURE FINANCING MEASURES AND INSTRUMENTS IN THE COUNTY OF GALATI

Nicoleta ANGHELUTA (STANCIU)<sup>1</sup>

e-mail: nico\_leta\_tecuci@yahoo.com

### Abstract

In this paper it is analyzed the goal of the agriculture development strategies, within a reasonable and realistic timeframe, to the high value added generating development model propelled by the interest for knowledge and innovation, oriented towards the continuous improvement of people's quality of life and of the relations between in harmony with the natural environment (SNDDR, 2008).

Strategic objectives are set in the short term (Horizon 2013), Environment (Horizon 2015) and Long (Horizon 2020).

In this paper, I will start from the idea that a state's taxation, coupled with other policies, has the potential to guide an economy's move towards achieving sustainable long-term economic growth. Our premise based on the analysis of the Romanian economy is that a model of economic growth that is not healthy creates a dangerous spiral that can affect the economies of the world and the evolution of the Romanian economy through the mechanisms of transmission of monetary policy.

In the paper, I will focus on identifying and analyzing taxation in Romania to achieve the ultimate goal according to the specifications of my own economy.

The purpose of this paper is to investigate how taxation affects macroeconomic stability, as well as the factors that might interfere with this issue. The degree of damage to the world's economies depends on the vulnerabilities of each economy and their exposure to toxic assets. The way in which the crisis responds depends on the fundamental principles we believe in, the resources available, the institutions and instruments that we can use.

**Key words:** tools, financing, agriculture, objectives, strategies

The studies have been conducted on aspects that characterize the development of agriculture in Romania and other countries.

It was analyzed the negative socio-economic aspects from Romania that limiting the agricultural development and different models of rural development policies, such as: the sectorial, multi-sectorial, territorial and local ones.

Since 2007, the funding instruments of the EU 27 agricultural budget are represented by the two funds established by EAGGF restructuring and unification of the structural funds for rural development, namely the European Agricultural Guarantee Fund (EAGF) for the financing of direct payments to farmers and measures to regulate agricultural markets, and the European Agricultural Fund for Rural Development (EAFRD), for the financing of the rural development programmers of the Member States. (Borlovan I.C. *et al.*, 2011).

The CAP is not only one of the first common policies, but also among the most important.

### MATERIAL AND METHOD

In the work, observation, investigation and experimental research can be used as methods of gathering information.

By observing individuals, actions and relevant situations, primary information is collected. The advantage of this method lays in its flexibility, hence the high frequency of its use in collecting primary information, sometimes being the only method used to conduct a study.

The assessment of the influence of subvention through Pillar I on the performances of the agricultural exploitations from the Galati County was performed starting from the data offered by RICA per categories of exploitations and they reflected high levels of concentration (GINI Coefficient trend to 1) and thus, a high inequity of the income distribution.

### RESULTS AND DISCUSSIONS

In relation to the potential, the poor development of the association in agriculture at this time can be attributed to the poor

<sup>1</sup> National College of Agriculture and Economics, Tecuci

communication of farmers within the same community, the lack of information on such functional initiatives, the poor involvement of the local authorities, the lack of knowledge of the programs governmental and European development of agriculture, especially in areas where there are no Local Action Groups. (Toderita A., 2015). These shortcomings come in some cases due to a state of apathy, lack of involvement and lack of confidence in the potential for success of associations with other producers, often caused by the failure of past initiatives. Among the causes may also be the "lack of democratic practice, mistrust, aversion to taxation (including the payment of contributions), difficulty seeing beyond self-interest, lack of vision, insufficient knowledge of business management, double taxation and lack of funds.

Romania is the EU country with the lowest rate of mechanization in agriculture. Many farmers have 1-3 hectares of land, insufficient to attract the financial resources needed for mechanization.

The inequity of income distribution between the very small and very large farms was accentuated, and the income distribution presents for the time interval 2010-2015 a reduced concentration within the classification per type of production or specialization. (Florescu Roxana., 2014). On the other side, the subventions granted based on Pillar I reflect a higher concentration, while only the free payments present a more equitable distribution at the farms' level. (Ungureanu G. et al, 2013).

*Analysis per categories of standard value* of the decomposition per income sources showed us that the value of the agricultural production leads to around 56, 7% of inequity, the remaining one being under the influence of subventions. Among these, the most important contribution was held by the free payments (26, 2%). The assessment of the effects generated by the modification of the income sources on the total income:

- Free payments, subventions for intermediary consumption and other subventions lead to the inequity increase between farms of different economic dimensions;

- The increase with 1% of the incomes from the agricultural production leads to the inequity increase with 2% while the increase of the free payments with 1% leads to the increase of inequity with 2,17%.

*The analysis per types of production* of the separation per sources of incomes, revealed us that the support through Pillar I – subventions for the vegetal and animal production – was more equally distributed among farms. The contribution of the income sources to forming the total income

emphasized that the value of the agricultural production leads to around 67.1% of inequity, the remaining being under the influence of subventions. (Toderita A., 2015). Among these, the most important contribution was determined by the free payments (21, 3%), these being followed by subventions for intermediary consumption and other subventions. The assessment of the effect of the modification of the income sources on the total income:

- Incomes from the agricultural production and other subventions lead to the increase of inequity among farms that obtain different products (grains, wine, horticultural products, etc.); increase with 1% of the incomes from the agricultural production leads to the inequity increase with 5.76%;

- The subventions lead, generally, to the decrease of inequity between them, especially subventions for the animal production (decrease of 3, 33%) and direct payments (with 2, 17%);

*The analysis per types of specialized farms* concerning the discomposure on income sources showed us that the value of the agricultural production leads to 68.8% of inequity, the remaining ones being under the influence of subventions. Among these, the most important contribution was of the free payments (20,8%) and the subventions for the intermediary consumes. The assessment of the effect generated by the modification of the income sources on the total income:

- incomes from the agricultural production, other subventions and subventions for breeding, lead to the increase of the inequity between the specialized farms; the increase with 1% of the incomes from the agricultural production leads to the increase of inequity with 6,85%;

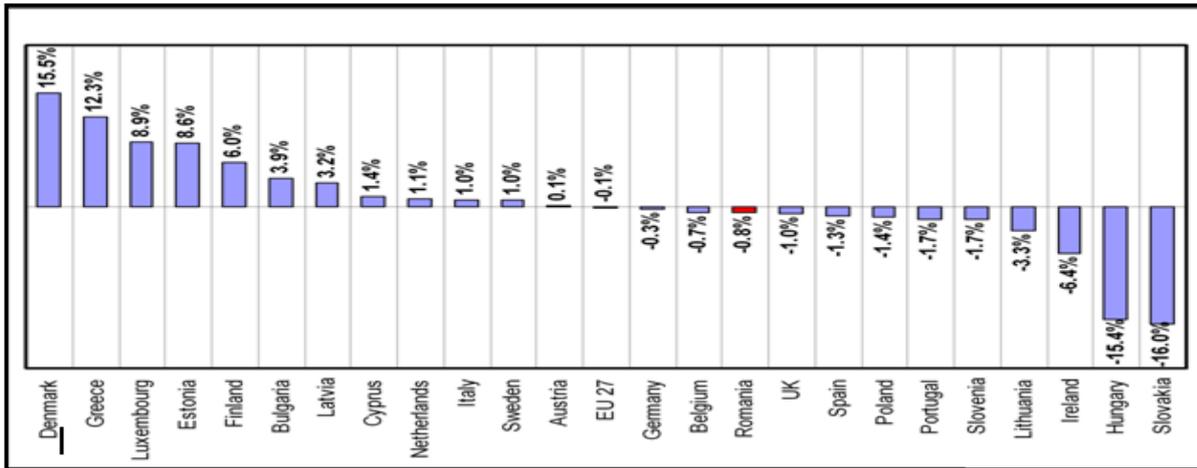
- the subventions generally lead to the decrease of the inequity between them, especially in regard to the subventions for breeding (decrease of 4,1%) and direct payments (with 3,04%).

In conclusion, the subventions granted based on Pillar I present the highest level of importance in obtaining the incomes and therefore influence more and directly the inequity between farms. The obtained results show us that a modification with 1% of the subventions granted through Pillar I: they have a negative effect leading to the increase of inequalities between different size farms; they have a positive effect leading to the reduction of disparities between the farms from different sectors or specialized on certain products.

In 2010, in the EU, the agricultural sector declined by a total of 0.1% to € 175.3 billion or 1.5% of EU GDP. (Borlovan I.C., et al, 2011; Florescu R., 2014).

In Romania agriculture fell by 0.8%, while in Hungary and Slovakia it fell by over 15%. The opposite is Denmark with an increase of 15.5% and Greece with an increase of 12.3%. In terms of the share of total production in the same year, Eurostat data were not yet available, but France had a weight of 18% in 2015, followed by Italy and Spain by about 15% and Germany by 8.6%. Romania has a weight of 4.2%, the value added in agriculture totaling 7.4 billion euros in 2015. In

Poland, agriculture generated 10 billion euros, in Hungary 2.2 billion euros, and in Bulgaria only 1.5 billion euros (*figure 1*). In the process of allocating payments a major problem, especially in the first years after EU accession, mainly due to double declarations (by different beneficiaries), constituted the error rate, the high rate of control to be performed (10%, but also 25 % in the case of large errors), etc., which led to major penalties of over 128 million Euros for 2007 and 2008.



Source: [www.businessday.ro](http://www.businessday.ro)

Figure 1 Development of agriculture in the EU in 2015

The amount of direct payments of € 1231 million is in fact the financial support from the EU allocations, which is likely to be achieved in the horizon of 2017. (Florescu R., 2014). Until then, the financial allocations for agriculture will be

allocated in the percentages negotiated with the EU. The forecast for the annual allocations for arable crops, possibly granted to Romania from the EU budget, shows the amounts presented in *table 1*.

Table 1

Value of direct payments for arable area, from the EU budget between 2007 and 2017-Million Euro-

Year	% negotiated out of total allocated amount	Direct payments for field crops (thousand euros)	EUR / ha arable eligible
2007	25	292691	41,74
2008	30	351230	50,09
2009	35	409768	58,43
2010	40	468306	66,78
2011	50	585383	83,48
2012	60	702459	100,17
2013	70	819536	116,87
2014	80	936612	133,56
2015	90	1053689	150,26
2016	100	1170765	167
2017	100	1231623	170

Source: Processing based on data provided by the Payment and Intervention Agency for Agriculture

As we can see, the use of market-based Analyzing the amounts paid by the Agency for

Payments and Intervention for Agriculture in the period 2007-2010, it results that they were higher

than expected and that the threshold of 170 euro / ha will be reached in 2017. (Ungureanu G. *et al.*, 2013).

Below we detail the organization of agricultural holdings in 2015 compared to 2007, depending on several criteria.

1. Number of holdings (percentage of total):

- on individual agricultural holdings decreased from 96,832 units (99.49%) in 2007 to 91,726 units (99.32%) in 2015;

- in other agricultural holdings without legal personality (authorized individuals, individual enterprises, family associations) increased from 90 units (0.45%) in 2007 to 178 units (3.94%) in 2015;

- there are no cooperative units in Galati county.

2. Average area of holdings:

- on individual agricultural holdings decreased from 2.39 ha in 2007 to 1.32 ha in 2015;

- other agricultural holdings without legal personality (authorized natural persons, individual enterprises, family associations) increased from 16.54 ha in 2007 to 75.45 ha in 2015;

- in agricultural companies decreased from 505.51 ha in 2007 to 471.57 ha in 2015;

- at companies decreased from 361.34 ha in 2007 to 349.68 ha in 2015;

- to the public administration units increased from 119.13 ha in 2007 to 355.01 ha in 2015.

3. Used agricultural area (UAA)

- on individual agricultural holdings, as a share of the total agricultural area used, decreased from 69,78% in 2007 to 48,76% in 2015;

- to other agricultural holdings without legal personality (authorized individuals, individual enterprises, family associations) increased from 0.45% in 2007 to 3.94% in 2015; (Toderita A., 2015).

In the southern area of Galati County, the main agricultural holding is also the individual agricultural holding with an average area of 2.08 ha in 2015 and a share of 99.58%. In 2007, the individual agricultural holding had an average area of 1.76 ha and a share of 54.75% of the agricultural area of the southern area, close to the county average (*table 2*).

Table 2

**Evolution of agricultural structures in the southern area of Galati County in 2015**

Legal State of the agricultural holdings	Number	Surface owned (Ha)	Area. agricultural used (Ha)	Area. average (Ha/expl)	% to total number	% to total surface area. used
Units without legal personality, out of which:	<b>28438</b>	<b>51951.89</b>	<b>50942</b>	<b>1.79</b>	<b>99.45</b>	<b>55.73</b>
individual agricultural holdings	28401	51047.94	50047	1.76	99.33	54.75
P.F.A., individual enterprises, family associations	37	903.95	895	24.19	0.13	0.98
Units with legal personality, out of which:	<b>156</b>	<b>41104.89</b>	<b>40469</b>	<b>259.42</b>	<b>0.55</b>	<b>44.27</b>
agricultural companies	16	4084.5	3890	243.13	0.06	4.26
commercial companies	114	35035.89	34689	304.29	0.40	37.95
units of public administration	26	1984.5	1890	72.69	0.09	2.07
cooperative units	-	-	-	-	-	-
<b>Total agricultural holdings</b>	<b>28594</b>	<b>93056.78</b>	<b>91411</b>	<b>3.20</b>	<b>100</b>	<b>100</b>

Source: Processing based on APIA data

In the southern area of Galati County, the total number of agricultural holdings in the year 2015 was 28,594 exploitations which used an agricultural area of 91,411 ha, averaging 3,20 ha, less than the county average. Below we detail the organization of agricultural holdings in 2015, compared to 2007, in the southern area of Galati County.

1. Number of holdings (percentage of total):

- on individual agricultural holdings decreased from 30,332 units (70.42%) in 2007 to 28,438 units (55.73%) in 2015;

- in other agricultural holdings without legal personality (authorized natural persons, individual

enterprises, family associations) increased from 18 units (0.16%) in 2007 to 37 (0.98%) units in 2015;

- in agricultural companies increased from 12 units (3.78%) in 2007 to 16 units (4.26%) in 2015;

- in companies increased from 61 units (24.15%) in 2007 to 114 units (37.95%) in 2015;

The structures of the holdings, two specific modules were developed for each exploitation structure in the southern area of Galati County, in line with the existing situation in the agriculture of Galati County and considering the average dimensions. For this purpose several variants of farm sizes were created, by types of organization and technological systems, the results of which

show an optimal orientation regarding the spatial dimension, the economic size and the viability of the agricultural holding. For each module a system of technical-productive and economic-financial indicators was determined, on the basis of which the overall economic efficiency was assessed (table 3).

The "individual holding" module highlights:

- at a farm size of 3 ha - a profit rate of 4.27% and an average of 60.33 Ron / ha (on condition of non-granting of the subsidy) and a rate of 42.90% and a profit of 548, 82 Ron / ha (subject to the award of the grant);

- at a farm size of 5 ha - a profit rate of 19.95% and an average of 215.33 Ron / ha (without the grant) and a rate of 74.48% and a profit of 802, 82 Ron / ha (subject to grant);

For the same size of the exploitation, the fund for the resumption of the production process is 161.49 Ron (2.99% of the expenditures), under the conditions of not granting the subsidy, and 602.86 Ron (11.17% of the expenses), under the terms of the grant.

If the profit is fully utilized to resume the production process, it covers 35% of the production costs under the grant award and 9.37%, on condition that the subsidy is not granted, to a farm size of 5 ha.

The module has a low economic viability in the case of the dimensions of 3 ha and 5 ha, under the conditions of the programmed yields, and has losses in the case of 1 ha and 2 ha.

Table 3

**Main technical and economic indicators of exploitations modules, in the southern area of Galati County, grain system, type of organization "individual exploitation" - version without subsidy**

No.	Typology of technical and economic indicators	Individual holding - Ron			
		1	2	3	5
	Physical size (ha)				
1	Value of primary and secondary production	1067.50	2467	3868.50	6722.50
2	Subsidies	-	-	-	-
3	Gross product	1067.50	2467	4018.50	6472.50
4	Total expenses	1368.72	2558.35	3837.52	5395.87
5	Total Profit (3-4)	-301.22	-91.35	180.98	1076.63
6	Profit (Ron / ha)	-	-	60.33	215.33
7	Profit rate (5: 4x100) (%)	-	-	4.72	19.95
8	Development Fund (60% of profit)	-	-	36.20	129.20
9	Fund for resuming the production process (15% of profit)	-	-	27.15	161.49
10	Fund for capitalization (20% of profit)	-	-	36.20	215.33

Source: Own calculation based on APIA data

We can conclude that for the first pillar, € 3.28 billion allocated by the EU for the period 2007-2015 has so far been spent € 2.444 billion, so a 74.5% absorption rate. Taking into account the penalties of about 128 million euros, which must be reimbursed and borne from the national budget, the rate of absorption of direct payments in Romania for the years 2007-2014 is reduced to about 70%. (Florescu R., 2014). However, it can be said that in comparison to other EU funding, the absorption in agriculture is a very good one. For Romania, the reduction of farmers' incomes in the period 2007-2016 reveals that the rate of increase of prices paid by farmers for inputs of industrial origin is higher than the rate of increase of the prices of agricultural products sold, thus decreasing the phenomenon of "scissors" prices ". Due to this situation, Romanian farmers cannot provide the financial resources needed to resume the production process. Romania does not yet have a market-oriented price policy for agricultural products and negotiations between all the partners

in the product line. In Romania, there is no institutionalized contract system and transparent trade in the stock exchange and wholesale markets is not developed. (Toderita A., 2015). Analysis of agricultural productivity should take into account that the effective competitiveness gap between agricultural productions is also a result of differences in the policy of supporting agriculture. The low profitability in this sector in the Central and Eastern European countries led production units to decapitalization and constituted the main factor of stagnation or decline in agricultural production, and budgetary constraints drastically limited the ability of states to provide support. Although the large agricultural units produce large profits in many cases, in many cases the level of profit is low due to high taxation and high interest rates. On the other hand, it is possible to make profit from a series of economic activities, such as: trading of purchased goods, self-marketing of agro-food products, services rendered to third

parties, etc. The development of multifunctional agriculture and the organization of product lines create conditions for achieving high profits and profit rates both as a result of product diversification and rationalization of production costs.

## CONCLUSIONS

The Community Agricultural Policy proved to be one of the most successful communitarian policies, having also a high degree of complexity. Exactly this success shall determine the difficulty of the reform, considering the changes in the initial conditions that represented the fundament of its elaboration. The need to increase the competitiveness on the European Agricultural Market, the creation of an integrated rural development program to accompany the reform process, the simplification of the legislative framework at the European level and the substantial decentralization in implementing the measures shall lead to a reform in phases, whose effects shall mark the entire European construct.

However, given the high share of subsidies in profits, we can emphasize their important role in restructuring agricultural units and achieving a certain level of economic performance.

The European model was often compared with the agriculture supporting system from other countries, being emphasized the weaknesses and the advantages of such organization model. United States of America were often considered the benchmark, the profound reforms from this country allowing a reduced number of farmers to assure a sufficient production at equitable prices.

The integration in the European Union was one of the key-priorities of the Romania's foreign policies. As a substantial part of this strategy, Romania had to adopt, step by step, an agricultural policy and an institutional framework fully compatible with the communitarian agricultural

policy (CAP) of the European Union. The two pillars of the Community Agricultural Policy of the European Union are to support of the market and incomes and the rural development, and their funding shall be performed through EFAG, respectively EAFRD.

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