

# FINANCING AGRICULTURE - BETWEEN MYTH AND REALITY

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**Abstract:** This article presents the way and mechanisms for financing agriculture both during the pre-accession period of Romania to the European Union and during the post-accession period, both in terms of their structure and the volume and size of the main sources of financing. The use of non-reimbursable pre-accession funds had in view the real absorption capacity of Romanian agriculture, a capacity that depends on the fulfillment of criteria regarding the economic size of the enterprise, the size of the holding, the degree of land merger and, last but not least, the level of competitiveness.

Keywords: financing, credit, subsidies, non-reimbursable external funds, state budget

## 1. INTRODUCTION

The present paper aims to present the main mechanisms for financing agriculture, both in terms of their structure and the volume and size of the main sources of financing.

There is a clear need to support the development strategies of the agricultural sector and the main agricultural policies through appropriate financial instruments, but their simple use is as inefficient as their absence, in the situation when the volume of allocated resources and especially their optimal dimensioning are not adequate to the degree of development of the agricultural sector at one moment or another of its evolution.

The issue of allocating and determining the appropriate volume of financial means was not so much about the choice of appropriate instruments and even the volume of resources, but one related to the efficiency of allocating these resources, depending on the priorities for the development of the agricultural sector.

## 2. ANALYSES

### **Financing agriculture during the pre-accession period**

The 2001-2006 period of time can be considered for agriculture in Romania what we are generically called the pre-accession stage to the structures of European Union. Without a qualitative leap compared to the previous period, meaning the 1990s, this one stands out as the beginning of a concentration of agricultural production towards the private sector and by the emergence of agricultural holdings which, due to their economic dimension, are suitable for intensive developments

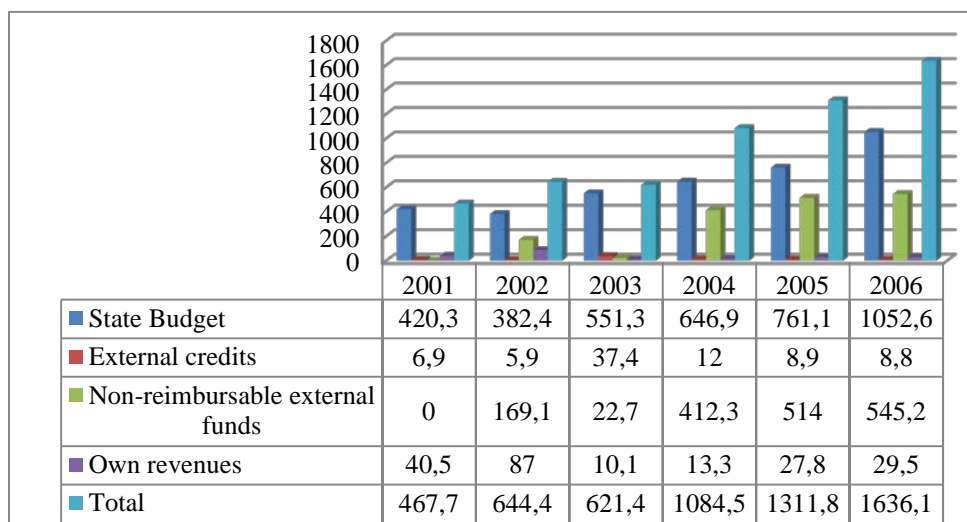
The novelty in terms of the structure of the sources used is the emergence of non-reimbursable external funds, called pre-accession funds, which have materialized in the PHARE, ISPA and SAPARD non-reimbursable programs.

Of course, the use of non-reimbursable, pre-accession funds, accessible through programs less demanding as regards the conditions for approving funding, took into account the real absorption capacity of Romanian agriculture, a capacity dependent on the fulfillment of some criteria regarding the economic dimension of enterprise, the holding's size, the degree of land merging and, last but not least, the level of competitiveness.

Nevertheless, the level of non-reimbursable external funds has risen steadily, from EUR 169, 1 million in 2002 to EUR 545, 2 million in 2006, according to Fig. no. 1. The only exception in the entire pre-accession period is the year 2003 when the non-reimbursable foreign funds absorbed in agriculture through the MADR budget amounted to only EUR 22, 7 million, the difference for the increase of the total budget of MADR being mainly due to the amounts allocated from the state budget compared to the previous year, from EUR 382, 4 million to EUR 551, 3 million.

The special contribution of the programs supported by the European Union in Romania for the pre-accession period is eloquent considering the weight that the non-reimbursable foreign funds had in the MADR budget structure for the whole period 2001-2006.

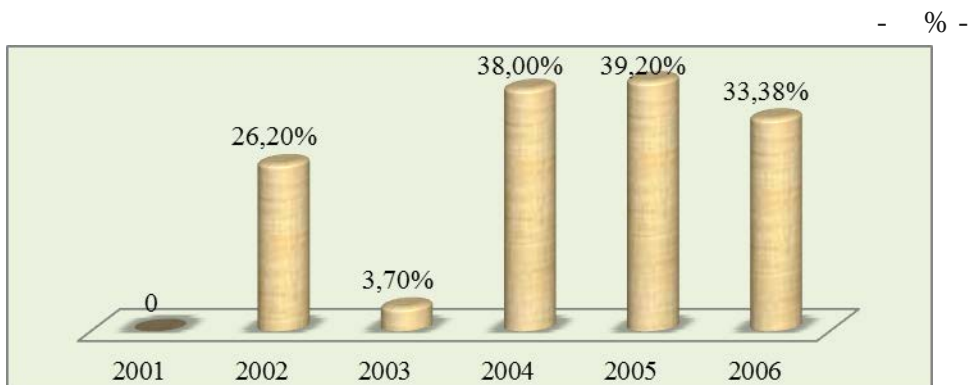
- milion euro -



Source: own projection based on the data of the Ministry of Agriculture and Rural Development, Annual Budget Execution Accounts

Figure no. 1 The budget of MADR in 2001-2006

From this point of view, we observe a constant dynamics corresponding to the obvious increase of the competitiveness of the agricultural sector, together with the increase of the volume of non-reimbursable foreign funds used, representing in the total budget 26,2% in 2002, respectively 38% in 2004, 39,2%, in 2005 and 33% in 2006, according to Fig. 2.

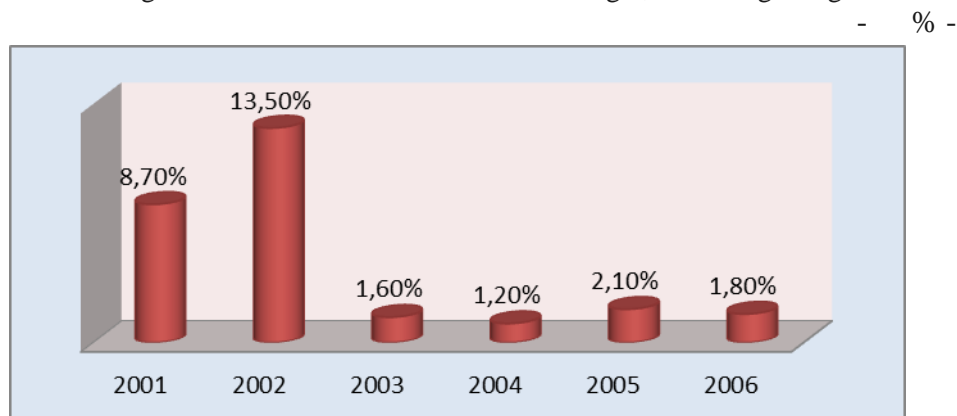


Source: own projection based on the data of the Ministry of Agriculture and Rural Development, Annual Budget Execution Accounts

Figure no. 2. The share of non-reimbursable external funds in the total budget in 2001-2006

This growth in the European funds rate of absorption has not, on the other hand, reflected on the dynamics of the use of own incomes, which is ultimately due to the low self-financing capacity of Romanian agriculture.

Thus, although for the first two years there was an increase in the share of own revenues in the total budget from 8.7% to 13.5%, for the period 2003-2006, their volume and weight were almost insignificant in the amount of 10.1-29.5 millions EUR, which corresponded to a weight of 1.6-1.8% of the total MADR budget, according to figure no. 3.

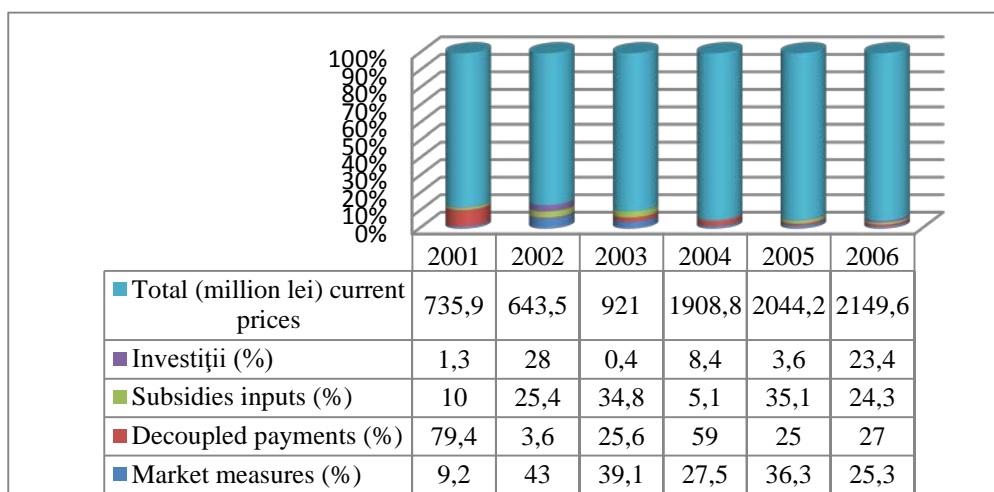


Source: own projection based on the data of the Ministry of Agriculture and Rural Development, Annual Budget Execution Accounts

Figure no. 3 Share of own revenues in the total budget in 2001-2006

From the analysis of the structure of budget support in agriculture for the period 2001-2006 we only note as positive the growth (notable at least, except for 2002) of the gross mass of this support, its total value in current prices being in 2001 of 735.9 million lei, reaching in 2004 to 1908.8 million lei, and in 2006 to 2149.6 million lei, according to figure no. 4.

However, the impression is totally unfavorable if we simply read the elements that constitute the structure of budget support, the basic feature of this period being the lack of consistency in applying coherent measures to the subsequent elements of budget support. Thus, the share of investments in total amount has a sinuous evolution, representing in this period 1.3% in 2001, 0.4% in 2003, 3.6% in 2005, but also 28% in 2002 and 23.45 in 2006, according to Fig. 4. Similarly, the share of input subsidies represents 10% in 2001 and 5.1% in 2004, as their share in total represents 35.1% in 2005 and 24.3% in 2006. Characteristic of the period is also the decrease in the share of the decoupled payment, decreasing from 79.4% in 2001 to 27% in 2006, but a decrease applied inconsistently taking into account that this budget support measure represents 3,6% in 2002 and 59% two years later in 2004. The only measures implemented with some consistency and supported by budget subsidies in agriculture, even in terms of the mass of funds used, had to consider the restrictions imposed by budgetary resources; these are market measures accounting for 25.3% in 2006 compared to 9.2% in 2001, while for the years 2002 and 2003 and even for 2005 they were around 40%. This is still evidence of the real inability of agricultural economic agents to cope with market conditions, obviously due to a low level of competitiveness, along with the lack of regulations at the legislative level that would create mechanisms able to influence intersectoral exchanges without state intervention through explicit market measures.



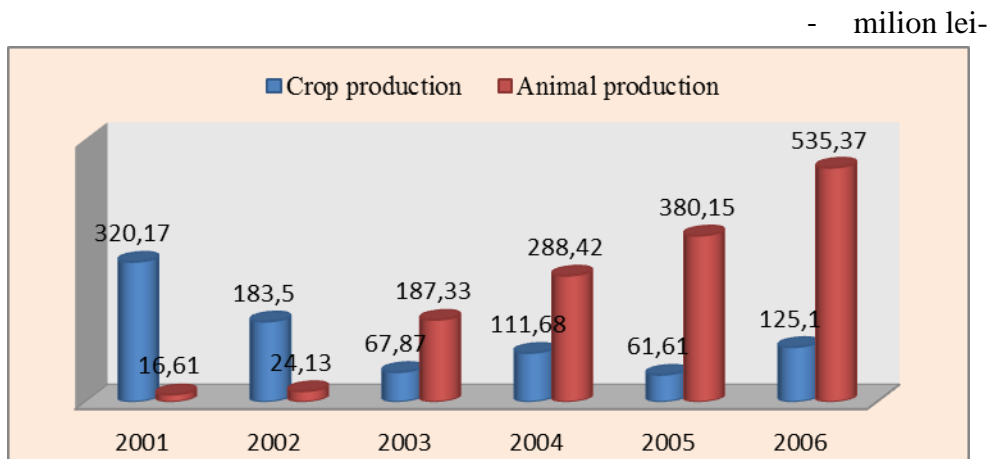
Source: own projection based on data from the Ministry of Agriculture and Rural Development

Figure no. 4 Structure of budget support in agriculture, 2001-2006

A specific feature of the period is the different policy of subsidizing the vegetal production, which is reflected in a decrease of the volume of direct subsidies granted to it, together with the increase in volume of subsidies granted to animal production.

The explanation is that, unlike the livestock sector, the vegetable sector has retained some of its competitiveness levels from the early '90s, continuing to produce resources capable of supporting somehow the self-financing. The livestock production sector had to be helped more and, in particular by measures to rebuild the livestock, even if the amount of funds allocated in this case was totally insufficient. By comparison, the volume of subsidies for crop production in the period 2001-2006 decreases from 320.17 million lei to

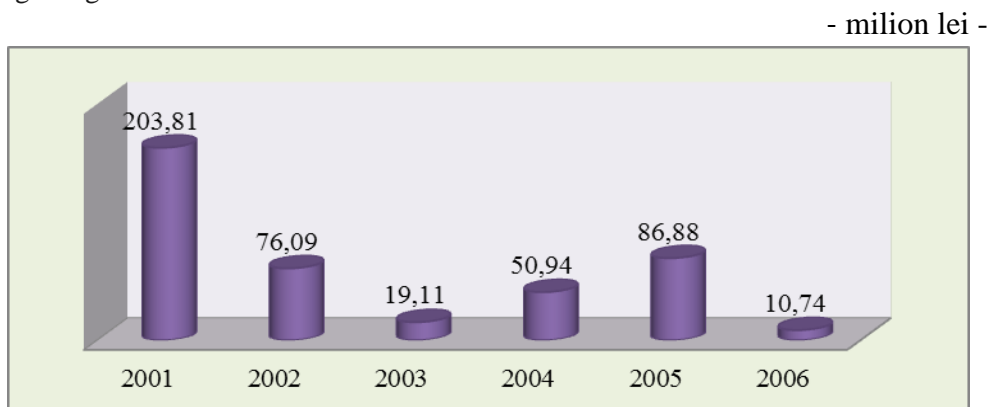
125.1 million lei, while for animal production the level of subsidies increases from 16.61 million lei to 535.37 million lei, according to figure no. 5.



Source: own projection based on data from the National Institute of Statistics, Economic Accounts in Agriculture, 2006, innse.tempo-online

Figure no. 5 Product subsidies for crop and livestock production in 2001-2006

In the case of crop production, the subsidies granted for cereals record the most drastic reduction, from 203.81 million lei in 2001 to only 10.74 million lei in 2006, according to figure no. 6.

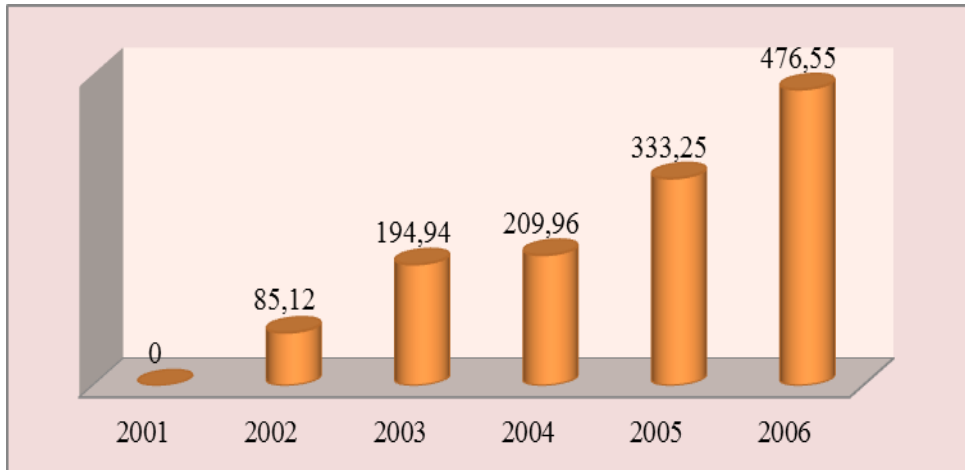


Source: own projection based on data from the National Institute of Statistics, Economic Accounts in Agriculture, 2006, innse.tempo-online

Figure no. 6 Grain Subsidies during 2001-2006

Reducing the volume of these subsidies is even more dramatic if we take into account that the data published by the NIS are calculated in prices comparable at the level of each reporting period. For the same period, the livestock subsidies, those referring strictly to the biological material, registered an increase from 85.12 million lei in 2002 to 476.55 million lei in 2006 according to figure no. 7.

- million lei -



Source: own projection based on data from the National Institute of Statistics, Economic Accounts in Agriculture, 2006, *innse.tempo-online*

Figure no. 7 Livestock subsidies during 2001-2006

Although the state's involvement in the development of agriculture was desired, the effects were not the expected ones. Until the accession of Romania to the European Union, no agricultural reforms have been implemented, thus the cause of delays.

During the pre-accession period to the EU, agricultural policies were not a factor of progress, their effects caused a decline due to the reduction of the cultivated land areal and the number of animals.

Another effect of poor agricultural policies has been the diminishment of domestic production and the increase of imports' volume in the field of agri-food products.

#### **Financing agriculture in the post-accession period**

In the absence of a realistic approach meant to start from resolving the problem of reshaping agricultural holdings, based exclusively on considerations of the profitability and efficiency of any agricultural holding, any strategy concerning the agricultural sector is, and will remain, unrealistic, regardless of the volume of funds allocated and facilities offered to agricultural producers.

In the end, the volume of allocations to agricultural sector development, which have as their source the farms and agricultural holdings' own incomes, represents the most relevant barometer in terms of both the efficiency of an agricultural holding and the result of sectorial policies or national strategies or Community strategies.

The forms of financial support, the structure of allocated funds and the total value of amounts given in the form of support (we are primarily concerned with direct support through budget allocations, and not the forms of indirect support made by relieving agricultural producers of fiscal obligations from the state budget) bore the mark of government policies, programmatic visions or simply the lack of vision of these programs' initiators.

In any case, and this is link between all the programs aimed at directly supporting agriculture, the common elements of all of them have resulted in a lack of continuity and,

even more in a lack of financial means and leverage through the main instrument of state intervention in agriculture, which is the state budget.

We can observe, in a structure similar to the budget allocations for 2009-2011, some common elements that can be found in the 2012-2014 support programs, only that the amounts allocated reflect either different views or a fold of these programs based on the actual funding opportunities that the state budget had in the various periods.

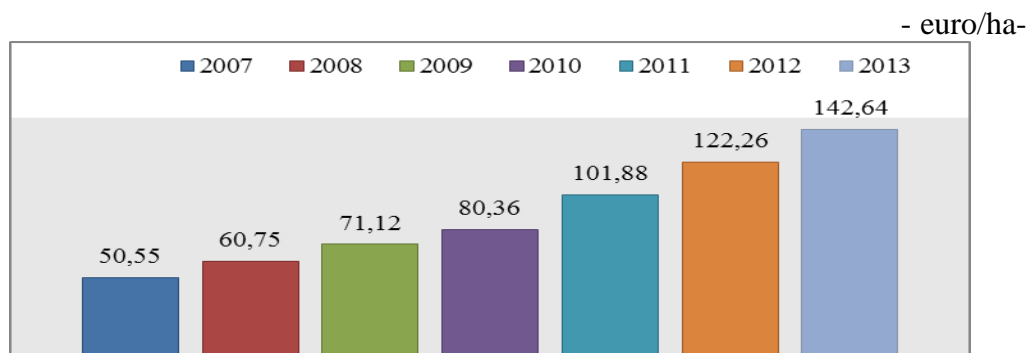
For example, the financing of Romanian agriculture in the period 2007-2013, although naturally dependent on the real capacity of the state budget and in accordance with the limitations imposed by its size, evolves towards the punctual financing of some agricultural activities, abandoning the global financing of this activity, without any considerations for the efficiency of resources' use. We observe an upward trend in the direct allocations from the state budget for subsidizing agriculture in the period 2007-2010 from 5.241 million lei to 7.973 million lei, but the volume of state budget allocations will gradually decrease during 2010- 2013, when their level reaches 6.394 million lei, according to Table no. 1.

**Table no. 1 Farming funding for 2007-2013**

Specification	U.M	2007	2008	2009	2010	2011	2012	2013
State budget	mil. lei	5.241	5.604	6.867	7.973	7.213	6.541	6.394
SAPS	euro/ha	50,55	60,75	71,12	80,36	101,88	122,26	142,64
Direct national complementary payments	euro/ha	47,00	46,71	44,64	50,64	32,42	35,00	21,00
Sugar payment schemes	euro/ha	77,20	111,24	165,89	204,80	237,00	284,46	331,78
Compensatory payment schemes for disadvantaged mountain areas	euro/ha	50,00	50,00	50,00	107,00	107,00	107,00	107,00

*Source: Ministry of Agriculture and Rural Development*

At the same time, the volume of allocations under the SAPS Scheme (single payment scheme per surface at ha) provides for a steady increase per unit area, with actual payments increasing from EUR 50.55/ha in 2007 to EUR 80.36/ha in 2010, reaching EUR 142.64/ha in 2013, therefore an increase exceeding the decrease rate of direct allocations from the state budget (see figure no. 8).

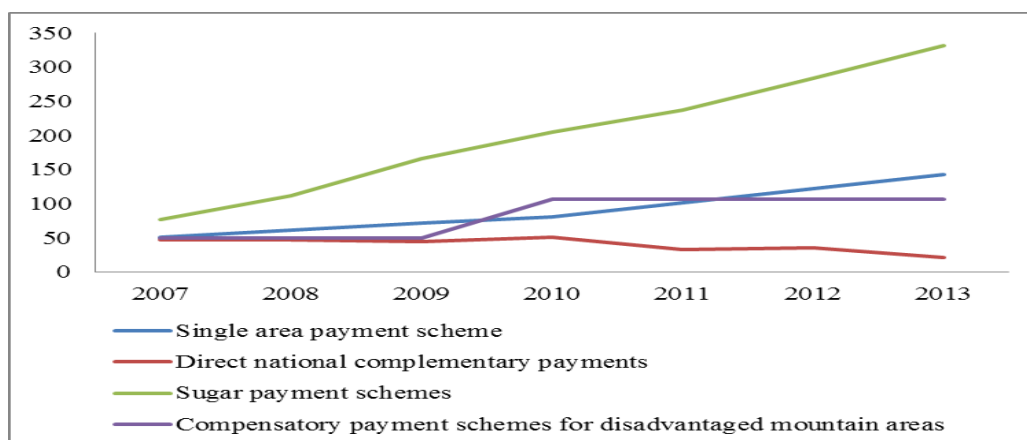


Source: Ministry of Agriculture and Rural Development

Figure no. 8 Financial support granted for the single area payment scheme per hectare for the period 2007-2013

The same is true in the case of the payment schemes for some agricultural products. This is illustrated by the data on the sugar payment scheme over the period 2007-2013, which rises from 77.2 euro/ha in 2007 to 331.78 euro/ha in 2013.

Simultaneously with the sub-sectoral policies related to agriculture, are initiated programs that focus on zonal policies that are reflected in the payment schemes specific to these programs, such as the compensatory payment scheme for the less-favored mountain area, payments which have more than doubled per unit area, growing from EUR 50/ha in 2007-2009 to EUR 107/ha, a level which is still maintained. At the same time, national payment programs that are not specifically targeting zonal policies or economic performance criteria are reduced, as is the case with complementary national direct payments, which, after an increase in the amount of €47/ha in 2007 to €50,64/ha in 2010, is declining to €21/ha in 2013.



Source: Ministry of Agriculture and Rural Development

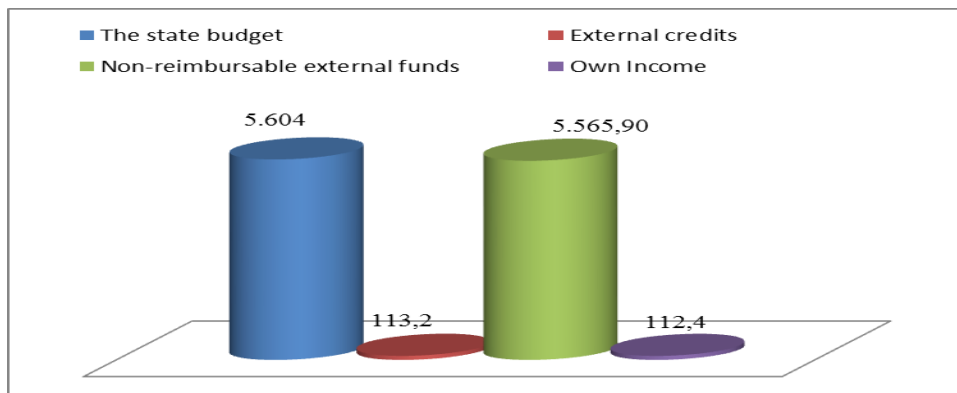
Figure no. 9 Financial support for agriculture through the 2007-2013 schemes

The amounts allocated from the state budget to the Ministry of Agriculture and Rural Development should in principle be harmonized with the corresponding strategic directions stipulated in the European, regional and national sectoral programs, the fact



being that these allocations are drastically adjusted mainly due to the low dimensions of Romanian budget.

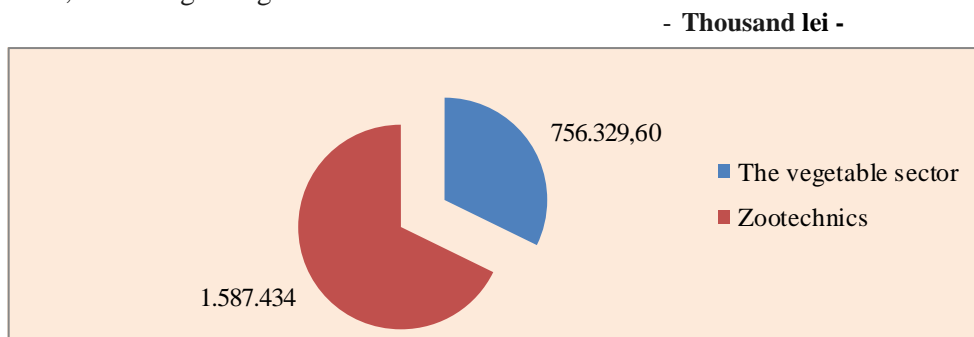
It is true that the amounts allocated to the MADR increase in the first years after the accession to EU, doubling from 5.241,3 million lei in 2007 to 11.395,5 million lei, but this is largely a consequence of the funds allocated by the European Union, funds reaching 5.565,9 million lei in 2008, the budget allocations within the total budget of the ministry rising slightly from 5.241,3 million lei to 5.604 million lei. At the same time, the Ministry's own revenues reach 112.4 million lei, being exceeded even by credits from external sources, which in the same year reached 113.2 million lei, according to figure no. 10.



Source: own projection based on data of the Ministry of Agriculture and Rural Development, 2009, p. 54

Figure no. 10 MADR Budget Structure in 2008

In 2009, the Ministry of Agriculture and Rural Development allocated 2.343.763 thousand lei, direct allocations from the state budget of Romania, of which 756.329.6 thousand lei for the farming sector, and for livestock breeding the amount of 1.587.434 thousand lei, according to Fig. 11.



Source: own projection based on data taken from the Ministry of Agriculture and Rural Development, Activity Report, 2009, Main forms of support granted to agricultural producers in 2009, page 34

Figure no. 11 Amounts allocated from the state budget for the farming and livestock sector in 2009

We note that for this first period, the state pursued the re-launch of the livestock sector by means of complementary national direct payments in the livestock sector, especially for

cattle, sheep and goats, with direct allocations reaching the ROL 410.211 thousand threshold, while the direct financial support granted to the agricultural producers in the livestock sector for 2008, included in the financial year 2009, was 225.574,4 thousand lei.

Apart from this, money was allocated for the purchase of rams or goats for breeding in the total amount of ROL 1.633 thousand and ROL 3.260 thousand for the year 2008, representing compensation for animals slaughtered for the control of epizootic diseases. Direct and complementary national payments for the livestock sector were calculated on the basis of a tariff differentiated per species which at that time reached the highest level since 1989, namely 495 lei/head of bovine animals and 43.9 lei/head of sheep and goats. Turning to the vegetable sector, the structure of financial support for agricultural producers included:

- de minimis aid for the establishment of agricultural crops in the autumn of 2008. There is a logic for this structure used in budgeting, expenditure on the unfinished production for the 2008-2009 agricultural year being included in the budget for 2009;

- financial support for the acquisition of gas oil, bonuses granted to the volume of loans committed and repaid to the financing banks at the level of 30% of the volume of committed and repaid credits (thus resuming an older practice that was used in certain periods and during the '90s for loans committed and reimbursed from the state budget and carried out through the old Agricultural Bank)

- direct financial support to agricultural producers in the plant sector in 2008. We are not discussing now whether the magnitude of the financial effort has been felt to a greater or lesser extent on the state budget, but the intention behind this budget was to intervene directly in favor of the producer at a time as close as possible to his own financial effort which concerned either productive investment or unfinished production.

For the year 2010, the total cumulated amount allocated to agriculture both from the state budget and European funds was 12.953,6 lei<sup>1</sup>, respecting the structure of budget allocations made in 2009.

Even if the amounts allocated reached only the level of 70-90% in the case of direct payments made, in some situations, from the amounts initially approved by the state budget, we notice as a novelty the payments made in the form of aid granted to agricultural producers through market measures and interventions in agriculture, as well as payments per area as support for less-favored zones, as well as the 50% advance of the 80.64 euro / ha subsidy for 2010. At sectoral policy level, measures are being considered to address the possibility of state's intervention when spending is being expended, in particular to finance the costs of unfinished production, particularly in the plant sector by providing advances to cover these costs, but it seems however that for the Romanian state budget it represents a much too great effort compared to its real possibilities and is a waste of resources if we take into account from an economic point of view the fractured structure of the land property and the lack of economic efficiency of subsistence farms.

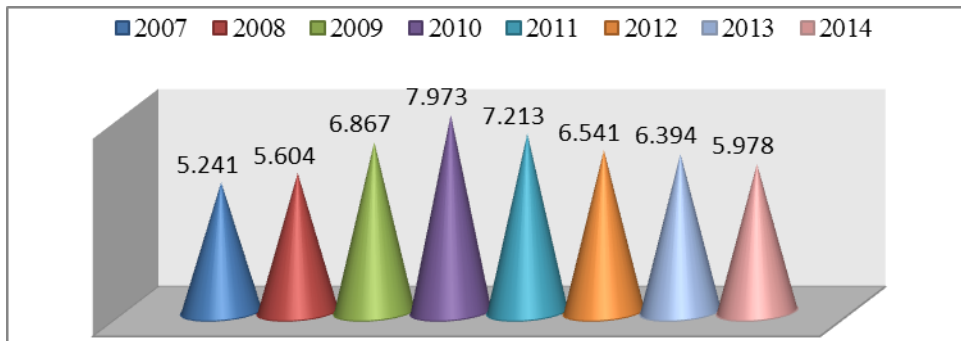
The reduced self-financing capacity of Romanian agriculture is the direct result of an inappropriate size of the agricultural holding and, in any case, the effect of scattering the Romanian land fund on individual farms of modest size and without any technical or material support.

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<sup>1</sup> Ministerul Agriculturii și Dezvoltării Rurale, *Raport de activitate, 2010, Principalele forme de sprijin acordate producătorilor agricoli în anul 2010*, pag. 38

During the years 2010-2014, the volume of state budget allocations gradually decreased, from 7.973 million lei in 2010 to 7.213 million lei in 2011, reaching 2014 to 5.978 million lei according to figure no. 12.

- milion lei -



Source: Ministry of Public Finance, Macroeconomic Situation Report for 2014 and its Projection for 2015-2017, p. 55

Figure no. 12 Financing of agriculture from the state budget in the period 2007-2014

As if the result of agricultural policies is not yet clear, the governments of Romania continue to waste public money using the same damaging direct payment schemes on the area without any qualitative performance criteria and without pursuing optimization objectives.

The share of funds earmarked for direct payment schemes per area was 49,55% in 2012 and, indeed, 31,5% in 2015, slightly decreasing but increasing in terms of volume of allocated amounts from 6.255.012,4 lei in 2012, to 9.807.761,2 thousand lei in 2016, according to table no. 2.

Table no. 2. MADR Budget in 2012-2016

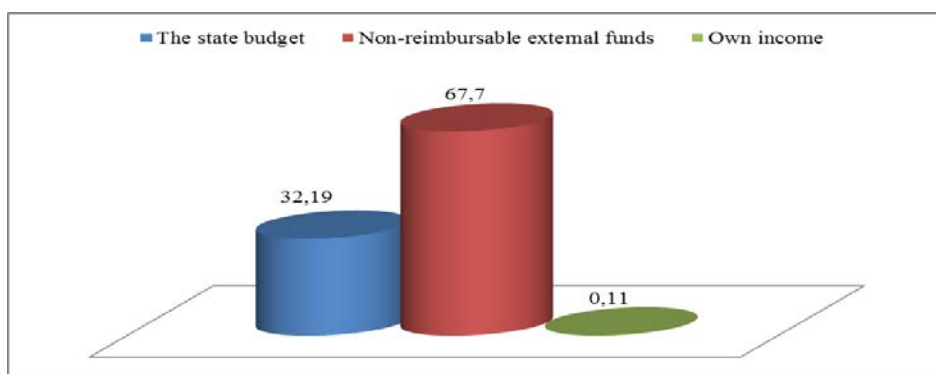
Specification	2012		2013		2014		2015		2016	
	Thousand lei	%	Thousand lei	%	Thousand lei	%	Thousand lei	%	Thousand lei	%
State budget	2.072.3781,1	16,4	1.386.474,2	8,8	1.559.190,3	9	2.513.432,9	16,6	2.194.169,4	13,5
Area direct payment schemes, market measures and intervention in agriculture	6.255.012,4	49,5	6.856.403,8	43,3	6.970.842,9	40,2	4.780.287,7	31,5	9.807.761,2	60,3
Funding from non-reimbursable external funds and co-financing from the state budget related to the National Rural Development Program	4.216.304,8	33,4	7.522.989,3	45,6	8.571.086,2	49,4	7.516.656,4	49,5	4.162.200,9	25,6
Funding from non-reimbursable external funds and co-financing from the state budget related to the Operational Program for Fisheries	88.072,7	0,7	79.481,4	0,5	248.290,4	1,4	362.406,4	2,4	103.878,4	0,6
<b>Total</b>	<b>12.631.761</b>	<b>100</b>	<b>15.845.348,7</b>	<b>100</b>	<b>17.349.409,8</b>	<b>100</b>	<b>15.172.783,4</b>	<b>100</b>	<b>16.268.009,9</b>	<b>100</b>

*Source: Data taken from the Ministry of Agriculture and Rural Development, MADR Activity Report, 2016*

Without further analysis of the causes of direct waste of funds for subsidizing subsistence farming, we are still making the right remark for the substantial increase in the funding from non-reimbursable foreign funds, as well as the increase in the amount of funds allocated from the state budget to the co-financing of the National Rural Development Program. Thus, the funds for this latter type of financing amounted in 2012 to 4.216.304.8 thousand lei, which corresponded to a weight of 33.4% of the total funds allocated through the MADR budget for the 2012 budget year, while for 2013 the funds allocated to this budget chapter reached the ceiling of 7.522.989,3 thousand lei, which corresponded to a weight of 45.65 of the total funds allocated by the same ministry budget for the 2013 budget year. The 78% increase in this budget chapter is in this case a positive thing and this is corroborated with the increase of the funds allocated for 2013 in order to feed the MADR budget from 12.631.761 thousand lei in 2012 to 15.845.348, 7 thousand lei in 2013. Based on the allocations made by the Romanian Government at the end of 2013, from the sum of ROL 1.386.474,2 thousand (decreasing compared to the amount allocated in 2012 of ROL 2.072.378,1 thousand), representing state aid granted from the state budget, has been reduced a significant part of the state aid granted to agricultural producers for diesel in order to carry out the autumn agricultural works in the fourth quarter of 2013, as part of the unfinished production 2013-2014 in the vegetal sector, as well as other agricultural sub-sectors. However, the subsidy was not made directly by allocating amounts from the state budget source but by reducing the excise duty on gas oil, which was more a decrease in the payment obligation, i.e. an increase in the resources available for agriculture by exempting from payment some taxes. However, regarding the topic of direct subsidy from the state budget by the mean of funds directly granted to agricultural producers, we should mention the slight increase registered in the field of direct and complementary national payments in the livestock sector for the cattle species, increasing from a budget allocation direct payment of 593.128,1 thousand ROL in 2012 to 793.243,7 thousand ROL in 2013 and for sheep and goat from 295.070,2 thousand ROL in 2012 to 331.702,8 thousand ROL in 2013.

According to the data published by the Ministry of Agriculture and Rural Development, the structure of the weights of the different financing components according to sources of origin shows that for the year 2013, 32.19% of the total sources used to finance agricultural activities represented funds from the state budget source, 67,7% represented external non-reimbursable funds, while only 0,11% represented funds from own farms and agricultural holdings' incomes (see Figure 13).

Although the table of direct allocations to the livestock sector may be impressive in terms of the amount of disbursements made to make these payments, we should also note the lack of funds (at the same time with the programs' inconsistency) used to ameliorate the breeds, their volume and amount decreasing at the end of the analyzed period from 1.869 thousand ROL (from the allocated ceiling of 3.000 thousand ROL) in 2012 to 1.311 thousand ROL at the end of 2013.



Source: own projection based on data from the Ministry of Agriculture and Rural Development, MADR Activity Report, 2013

Figure no. 13 Source of funding in 2013

We can conclude without the fear of mistaking that the entire financial effort of the state budget for agriculture has not yet another destination than the preservation of a pool of inefficient and poor agricultural population, or even consumption of these funds, in fact a form of hidden social assistance for reasons not covered by this paper.

Regarding the support from the state budget to the agricultural producers, through MADR budget for 2014, we see in table no. 3 that out of the total amount of state support of 2.191.246 thousand ROL, the sums allocated for the complementary national direct payments in the vegetal sector, namely the total amount corresponding to the direct payments of EUR 21/ha, is up to 663.200 lei or 30% of the total assigned amounts.

The practice of granting diesel fuel aid under the reduced excise policy is preferred, with the amount of this aid amounting to 485.031 lei for the year 2014, while the national direct payments complementary to the livestock sector are reduced from the sums registered in 2012 and 2013 to 585.000 thousand lei for cattle, respectively 348.610 lei for goats.

Table no. 3 Support from the state budget granted to agricultural producers in 2014

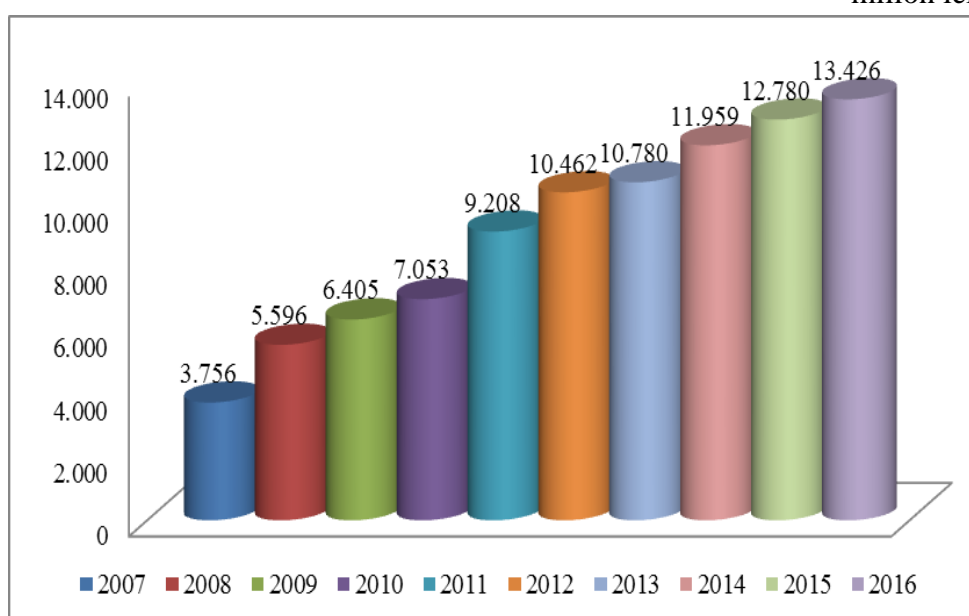
Specificare	Value
Support agricultural producers, out of which	<b>1.528.046</b>
Greening actions	1.453
Diesel fuel (low excise duty)	485.031
De minimis aid for the purchase of milk cooling tanks	70.879
Direct national complementary payments in the livestock sector for the sheep/goat species (40,8 lei/animal head)	348.610
Direct national complementary payments in the livestock sector for the bovine species of which:	585.000
Decoupled production scheme in the milk sector	96.200
Decoupled production scheme in the meat sector	488.800
Improving animal breeds	37.073
Insurance premiums	37.073
Direct national complementary payments in the vegetable sector (21 euro / ha)	<b>663.200</b>
<b>TOTAL SUPPORT</b>	<b>2.191.246</b>

Source: Ministry of Public Finance, Macroeconomic Situation Report for 2014 and its projection for the years 2015-2017, p. 12

The mere quoting of the amounts of these budget subchapters denotes by its inexplicable variations the lack of coherent strategies that allow, on one hand the support of investment programs at the sectoral level and, on the other hand, to relieve the state budget burden of significant amounts by increasing, on the ultimate basis of increasing productivity and competitiveness of the sector, self-financing capacity.

Compared to the total volume of the state budget effort to directly support agricultural activity, credit institutions managed to select agricultural projects (overwhelmingly productive investment projects and almost no projects targeting the setting up of crops, or strictly aimed at covering related costs) the total investments made by commercial banks in Romanian agriculture are following an upward trend since 2007, reaching the end of 2014 to almost triple the reference year, in absolute terms from 3.756 million lei in 2007 to 13.426 million lei in 2016, according to figure no. 14.

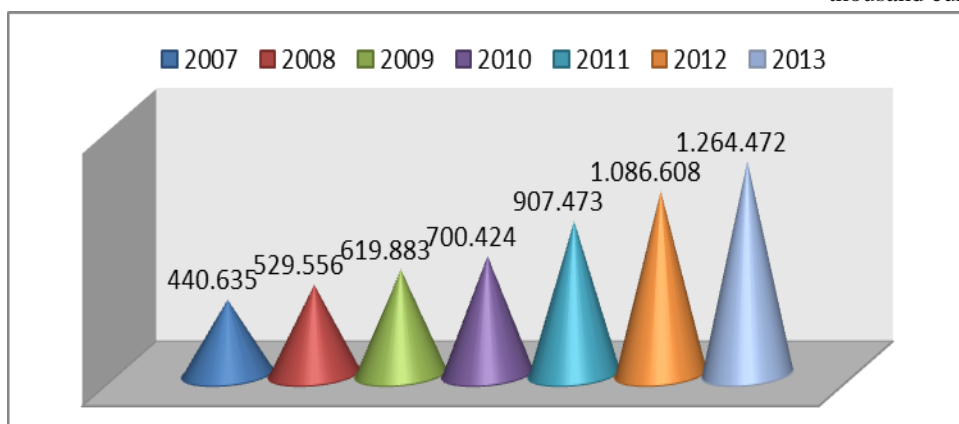
- milion lei -



Source: National Bank of Romania, Monthly Bulletins, May 2017, statistical section, page 62.  
Figure no. 14 Total loans to agriculture, forestry and fish farming for the period 2007-2014

The explanation for this dynamics would be the fact that, without being the result of direct and exclusive involvement for agriculture, the investments made in this sector of activity are loans granted in addition to own funds to finance investments made through EU funding schemes or they materialize to cover non-eligible expenditures related to the same funding schemes. Corresponding to these developments, we also have an upward trend in the financing of agriculture from the European Agricultural Guarantee Fund, the volume of these funds rising from 440.635 thousand euro in 2007 to 1.264.472 thousand euro in 2013 according to figure no. 15.

- thousand euro-



Source: Agricultural Payments and Intervention Agency, Support Measures Funded by the EAGF

Figure no. 15 Funding of agriculture from the EAGF (European Agricultural Guarantee Fund) for the period 2007-2013

### 3. CONCLUSIONS

The advantage of this financing mix represented on one hand by the non-reimbursable financing component and on the other hand by loans granted by the specialized institutions consists of both the dissipation of credit risk and the identification of a reliable source of credit repayment, as is the case with bridge credits. Another major advantage, meant somehow to lower the credit risk in the agricultural sector, is the two-fold selection of beneficiaries who must cumulatively meet the eligibility conditions imposed once by the originator of the financing program in the case of funding programs that have as their source the European Union funds and, on the other hand, the beneficiary must meet the eligibility and creditworthiness conditions of the creditor bank, which in this case gives credibility and exigency in selecting beneficiaries of funding projects.

Another advantage in terms of increasing performance through the application of the financing-lending binom is the follow-up of the financing contract at the same time as the loan contract; both the financier and the creditor have a common interest in fulfilling all the criteria and objectives that underlined the selection of the beneficiary. Seen from the perspective of the beneficiary, the financing-credit procedure may seem cumbersome and, in any case, restrictive for a large number of applicants, and this is the reason why a large part of the approved amounts for projects submitted and admitted to funding remain unused, due to the simultaneous non-fulfillment of the selection criteria for both the financier and the lending institution.

The financing instruments from the European Union source, both during the pre-accession period and, especially, in the post-accession period, as well as the grants and subsidies granted from the state budget source (truly, insufficient and lacking continuity in supporting their economic programs), due to their targeted character, through cohesion and continuity made possible some reversal especially registered between 2003-2004 and from 2007 to the present. In addition to providing support to agricultural producers to

make productive investments, funding programs offer them the advantage of low access costs, which exclude interest rates, as in the case of loans from commercial banks. In fact, funding programs from the European Union source, far from covering all expenses related to the materialization of an investment project, open the way for accessing credits for agriculture, when they complement the producers' own sources and those attracted by EU funding, and which represent a variable volume of up to 20-30% within each eligible project to cover the funding requirement for ineligible expenditure. Consequently, accessing European funds, as well as attracting other sources of funding, far from excluding agricultural credit, will only open new perspectives for its use, the volume of credits granted for agriculture, especially for the realization of investment projects, will increase as the absorption rate of these funds increases.

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