The effect of funding the investments in the Romanian agricultural holdings through the pre-accession Programs

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ABSTRACT

In the pre-accession period, in addition to the support to all agricultural holdings by EU-funded programs, specific national measures were also applied, together with massive allocation of funds from the national budget in order to support the agricultural producers. The present paper is analyzing the results of SAPARD Program implementation (measure 3.1 "Investments on agricultural holdings"), as well as of the nationally funded programs. One third of the total funds were allocated for this measure. The present paper is analyzing the eligible projects, as compared to those under the nationally funded investment programs, their distribution by counties and development regions, investment types and volumes, and legal status of the applicant farms, as well as the impact of investments upon the establishment of new farms. At the same time, the private consultancy and design firms, as well as the agricultural consultancy offices at county level had an important contribution in supporting the farmers to carry out over 3600 eligible projects.

Keywords: investments on agricultural holdings, SAPARD Program, Romania

1 INTRODUCTION

The SAPARD program was designed to provide financial support to the development of rural areas and agriculture, so that, at the accession moment, the candidate countries from Central and Eastern Europe be prepared from the economic point of view to participate to the Common Agricultural Policy, and to easily adapt to the working modality specific to the European Union structures.

In Romania, the SAPARD Program measures had as main objective to facilitate the *Acquis Communautaire* implementation and to correct certain deficiencies that characterized agriculture and rural areas, before the accession to the European Union.

This program was adopted by the European Commission by Decision no. 372/2000, and implemented on the basis of the National Program for Agriculture and Rural Development (NPARD). The Program became operational with the accrediting of the first Measures (1.1, 2.1 and 4.2) by the European Commission, i.e. on July 31, 2002.

Measure 3.1 "Investments on agricultural holdings" was implemented in the period December 2003 - July 2006 in order to support the new investments and the modernization of the already existing ones, in conformity with the European Union norms.

This measure comprises:

- sub measures specific to the investment sectors proposed on crop production farms: 01-Field crops, 02-Horticulture (of which floriculture 1.5%), 03-Vine farming, 04-Fruit-tree farming and 05-Glasshouses;
- submeasures specific to investments on livestock and poultry farms: 06-Dairy cow/buffalo cow farms, 07-Cattle raising and fattening, 08-Sheep/goat farms, 09-Young male sheep fattening farms, 10-Pig farms, 11-Poultry farms and 12- other farms with different crop and livestock production activities.

2 MAIN ELIGIBILITY CRITERIA OF INVESTMENT PROJECTS

Only the Authorized natural persons, Family associations, Legal associations and the Commercial companies with private capital at least equal to or greater than 75% were considered as eligible applicants.

The value of projects ranged from 5 thousand to 1 million EUR, and from the investment projects on livestock farms the maximum limit could reach 2 million EUR, if the project objectives provided for the full implementation of the EU norms at farm level.

As a general rule, the European Commission proposed that the non-refundable financial support represent 50% of the total value of eligible projects.

The duration of investment projects in agriculture cannot be longer than two years, and these must be carried out only in the rural areas, except for the glasshouses, that can be also established in the urban areas.

At the same time, other extremely important eligible criteria, that had to be respected by all the applicants, were the following:

- demonstration of economic and financial viability of project;
- the farms will comply with the national standards;
- the investments will comply with the EU sanitary-veterinary, hygiene, animal welfare and environmental standards;
- the beneficiaries of supported projects have the land areas into their ownership, under concession (long-term lease) or leased land on a period of minimum 10 or 5 years for those that do not envisage any buildings;
- the beneficiaries of investment projects on livestock farms must prove that they have minimum fodder base areas specified (imposed) per animal head depending on species;
- the beneficiaries must prove that they already have and modernize or wish to build up under the projects new animal shelters with capacities corresponding to the envisaged livestock herds that comply with the veterinary and environmental requirements;
- in the technical specification sheet, minimum and maximum farm sizes (land area and/or number of animals) are imposed to beneficiaries (Table 1 and Table 2) depending on the legal status of farms, geographical area (relief unit), type of crops (grains, vegetables, orchards, vineyards, glasshouses) or animal species (dairy cows / buffalo cows, fattening bovines, sheep, pigs, poultry).

Table 1 Eligible farm size, by type of beneficiaries, geographical zones and types of crops

Farm type	Farm size (ha)		
	Type of beneficiaries		
	ANP	FA	CC, LA
1. Cereals and industrial crops			
- plain zone	10-50	50-200	200-1000
- hilly zone	5-30	30-150	150-500
- mountain zone	5-15	0	0
2. Field vegetables	1-20	4-40	10-110
3. Orchards	5-30	25-60	80-150
4. Vineyards	5-25	25-50	50-250

5. Glasshouses	0.2-1.5	1.5-3	10-20

Notes: ANP = Authorized natural persons; FA = Family associations; CC, LA = Commercial companies and other legal agricultural entities

Source: www.sapard.ro

Table 2: Eligible farm size, by type of beneficiaries, geographical zones and by animal species and categories

Farm type	Farm size (ha)		
	Type of beneficiaries		
	ANP	FA	CC, LA, etc.
1. Dairy cows/buffalo cows	12-25	25-50	50-150
- for the mountain zone	6-10	20-40	50-150
2. Fattening cattle	50-100	100-200	200-500
- for the mountain zone	25-50	50-100	200-500
3. Sheep/goats	150-300	300-500	500-1500
4. Lambs/fattened young male sheep/culling sheep	300-1000	500-1500	1500-7500
5. Breeding sows with closed circuit	30-50	50-100	100-200
6. Fattening pigs with closed circuit	200-1000	1000-3000	3000-10000
7. Laying hens	1000-2000	2000-10000	10000-20000
8. Broilers	5000-15000	15000-30000	30000-60000

Notes: ANP = Authorized natural persons; FA = Family associations; CC, LA = Commercial companies and other legal agricultural entities

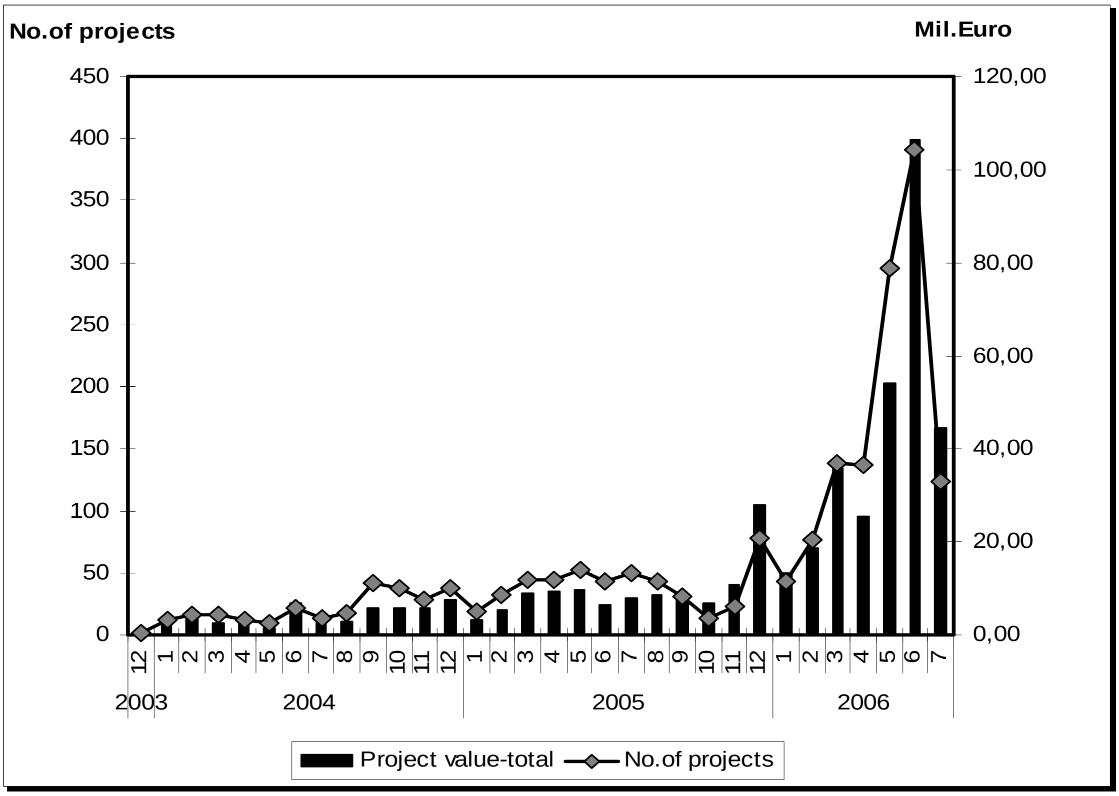
Source: www.sapard.ro

- the beneficiaries who buy fruit-tree and vine planting stock are obliged to choose high yielding varieties that are registered in the Official Catalogue of crop varieties from Romania and / or the European Union; if they buy animals, these should be only from high yielding European breeds, with pedigree or certificate of origin and productivity;
- the projects should estimate the production that will be marketed and provide data on the market and potential customers;
- it is compulsory to certify the existence of private co-financing in cash;
- the beneficiaries should make proof of their vocational training in the field where the investment is made or to make a commitment that they will participate to vocational training courses during the project period;
- the beneficiaries should certify their solvency and the fact that they do not have any debt to the state budget, state social insurance budget or to banks.

3 RESULTS OF SAPARD PROGRAM IMPLEMENTATION, UNDER MEASURE 3.1 "INVESTMENTS ON AGRICULTURAL HOLDINGS"

By July 31, 2006, i.e. in two years and eight months, all the funds allocated to this measure had been fully used (Figure 1).

Figure 1: Monthly evolution of the number and value of eligible projects under Measure 3.1. "Investments on agricultural holdings", in the period 2003-2006



Source: www.apdrp, own calculations

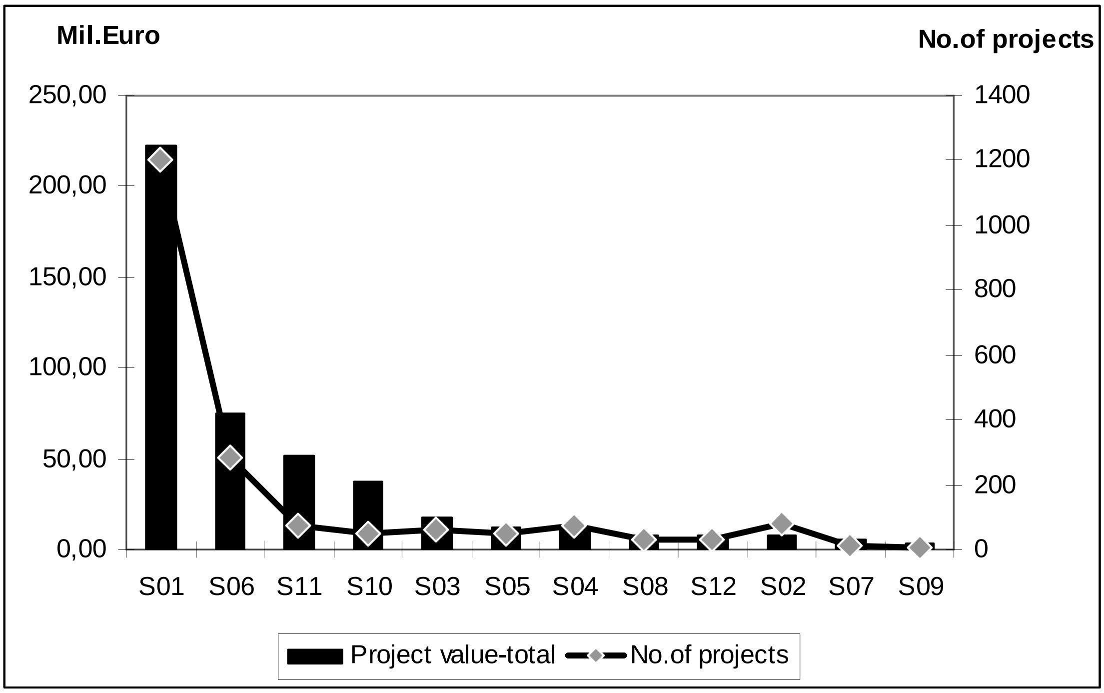
The submitting rate of project applications by the Romanian farmers was very low in the period 2004 - 2005, due to the lack or scarcity of their own co-financing resources and of the necessary guarantees for getting credit from banks.

By an accurate policy supported by legislative instruments, the Government, the Ministry of Agriculture, Forests and Rural Development and the Ministry of Finance stimulated the financial uptake of the SAPARD funds through the establishment of the Agricultural Credit Guarantee Fund. This takes over the risk for 70% of the value of the banking credits for the small farmers. As a result, the submitting rate of funding applications for eligible projects under the 12 sub measures of Measure 3.1. obviously accelerated in December 2005, reaching a peak in the months of May, June and July 2006.

After the full absorption of the non-refundable financial support, 1945 projects were registered as eligible with a total value of over 490 million EUR, out on which only in 2006, 62% of the total number of eligible projects, with a value which reached 64% of the total value allocated under this measure.

The largest number of eligible projects (1200) was submitted under the sub-measure S1-investments on crop production farms, accounting for 48% of the total number of projects and 62% of the total value of Measure 3.1. At the same time, 15% of the applicants opted for investments on dairy cow farms, with a value representing 16% of the total value under the Measure, followed by investments on poultry farms, 4 % and 3% respectively of the total number, summing up 11% and 8% respectively of the total value (Figure 2).

Figure 2: Grouping of farms and project values by the sub-measures funded under Measure 3.1

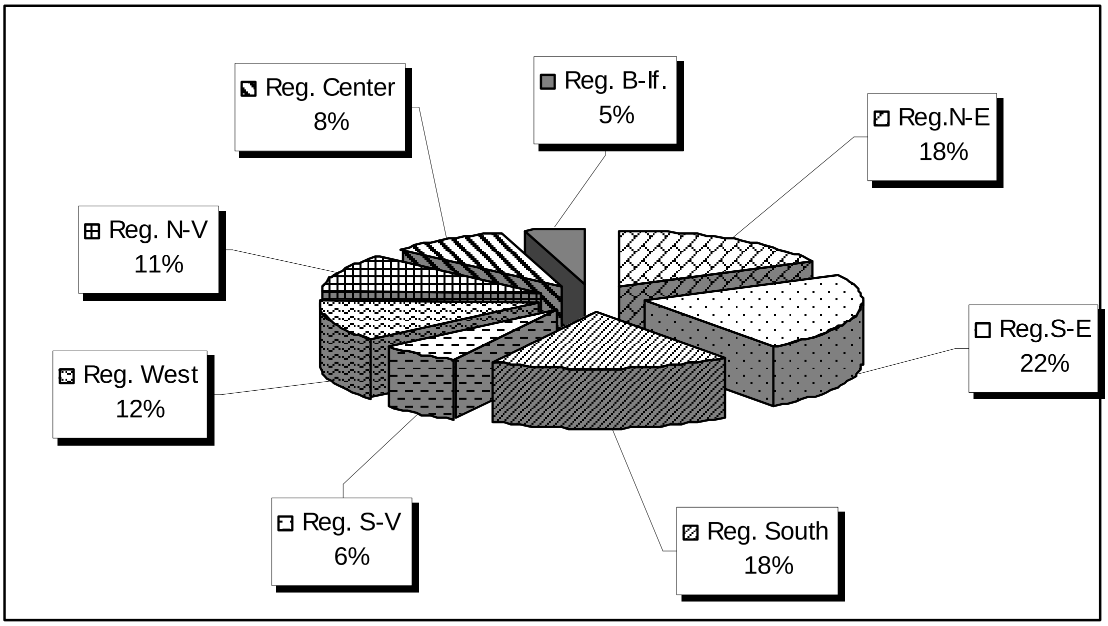


Source**:** www.apdrp**,** own calculations

Great differences were found between the farmers' decision to apply for funding and the funding body's expectations (indicative values by sub-measures). While under sub-measure S1- field crops, the total value of projects exceeded the indicative value by 29%, under S6- dairy cows by 2% and under S11-poultry by 6%, the situation was not the same under the other sub-measures, where the number and value of projects were under the expectations. The largest negative differences between the total value of projects and the indicative (expected) value were found under S7- cattle fattening (-13%) and S2-horticulture, S3-vine farming and S4-fruit-tree farming -(4-6%).

The regional distribution of eligible projects submitted under this measure proves the more active participation of farmers from the South-East regions (south Moldova and Dobrogea) and South (Muntenia), which applied for non-refundable financial support through 41% of the number of projects, totaling 41% of the total value allocated to this measure. The farmers from the regions West (Banat), North-West (Crişana and Maramureş) and Center (central Transilvania) asked for funds through 33% of the number of projects, which represents 34% of the total value. As a result of this hierarchy, region North-East is on the third position (north and central Moldova) with 18% of the number of projects and 16% of total value, while in the region South-West (Oltenia), the farmers developed eligible projects representing 6% of the total number of projects and 7% of the total value under this measure. The region Bucharest-Ilfov is on the last position, with 1% of the number of projects and of the total value allocated under this measure (Figure 3).

Figure 3: Share of the number of projects under M 3.1 and the regional distribution



Source: www.apdrp, own calculations

From the available SAPARD program information, under Measure 3.1, the classification of eligible projects by the legal status of applicants revealed a great participation of the agricultural commercial companies (64% of the total number of projects), followed by authorized natural persons (19% of total projects), family associations (13%) and legal associations (4% of total number).

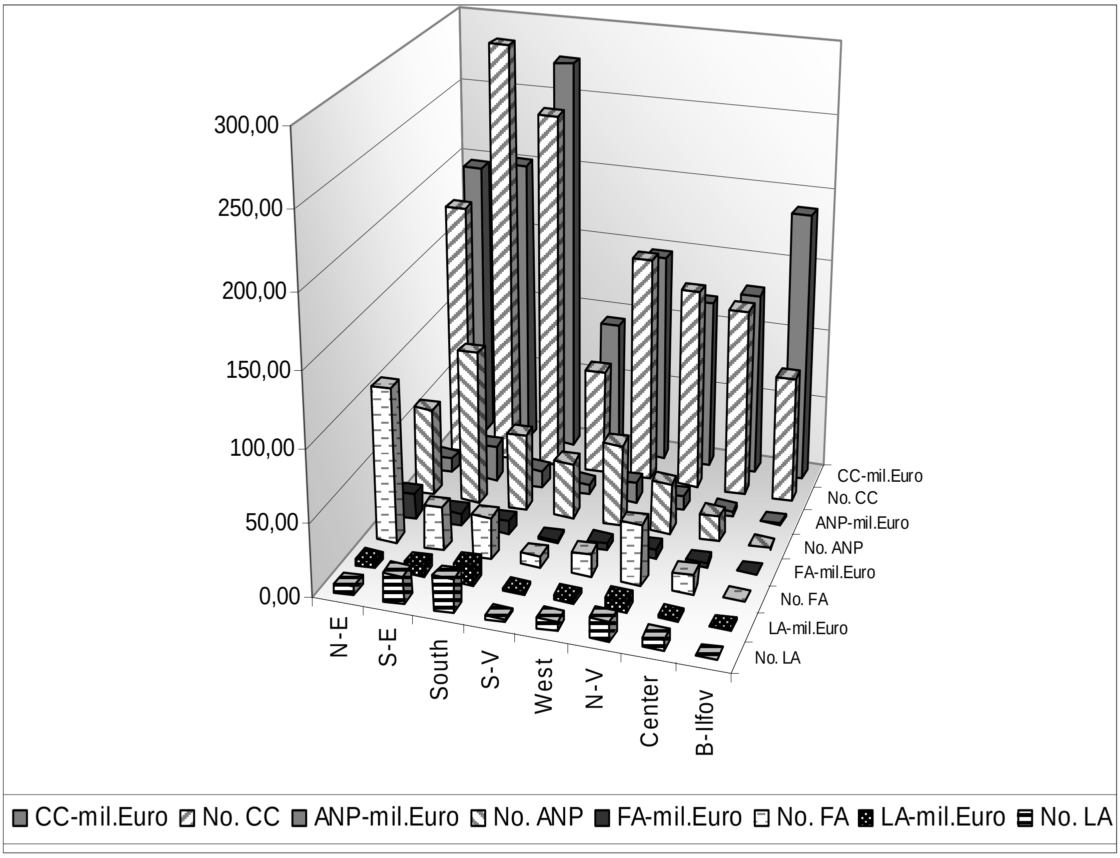
Most of the eligible projects were developed for the modernization of farms by the commercial companies under sub-measure S1-investments on crop production farms (63% of the number of projects under the sub-measure) and under S6- investments on dairy farms (55% of the number of projects under this sub-measure). A large share was held by the projects of commercial companies under the sub-measures S7-cattle fattening, S9-young male sheep fattening, S10-pigs, and S11-poultry.

The authorized natural persons stand out by investment projects in farm modernization or establishment of new farms under S1-field crops (22% of the projects of the sub-measure), 56% of S2-field vegetables, 62% of the projects of sub-measure S3-vine farming and 25% of the number of projects in the modernization and establishment of vegetable and flower glasshouses.

The family associations focused upon the development of projects for setting up dairy cow farms (42% of the number of projects under sub-measure S6) and on the modernization of crop production farms (9% of S1), while the agricultural legal associations participated only by 4%, the great majority focusing upon the modernization of crop production farms.

The graphic representation of project classification under measure 3.1 according to the legal status and regions (Graph 4) reveals the high share both in number and value of the agricultural commercial companies in the regions N-E, S-E and South and in value terms in the region Bucharest-Ilfov. At the same time, the projects developed by the authorized natural persons are more numerous in the South-East region, while in the North-East region the investment projects of the family associations are prevailing.

Figure 4: Value and number of eligible projects funded under M 3.1. by legal status and regions, in the period December 2003 –July 2006



Source: www.apdrp, own calculations

A classification of eligible projects by the type of proposed investments revealed that 80% of total projects under this measure target modernization and 20% target the establishment of new farms. Among the latter, 2/3 are newly established farms by the commercial companies and 1/3 by family associations. Out of total projects, 72% envisage procurement of machinery and equipment specific to their type of activity, 21% contain new buildings designs (administrative, storage-conditioning, animal shelters, etc.), 15% intend to buy animals with high genetic potential, and 1-2% of total projects focus upon the establishment or rehabilitation of vine and fruit-tree plantations or upon organic farming (Table 3).

Table 3: Number of eligible projects, share of investment types proposed by types of beneficiaries

Investment type	No. of projects	Share of investment types (%) – Types of beneficiaries			
		FA	ANP	LA	CC
Total number of projects targeting:	**1938**	**13**	**19**	**4**	**64**
- establishment of new farms	380	33	9	0	58
- modernization of existing farms	1557	8	22	5	66
- procurement of specific machinery and equipment	1403	9	8	0	83
- new buildings or modernization of existing ones	417	29	5	1	65

- irrigation systems	6	33	17	0	50
- organic farm production	22	9	9	0	82
- establishment of fruit-tree plantations	52	0	15	0	85
- rehabilitation or modernization of vine plantations	29	0	17	0	83
- procurement of breeding animals	302	39	3	1	58

Source: www.apdrp, own calculations

In early 2006 the legislation on the stimulation of investments in agriculture and of the absorption of SAPARD funds came into effect, through risk taking by the guarantee funds. Thus, the Program the "Farmer" was created for the support to small farmers in carrying out investment projects in agriculture and in obtaining non-refundable financial support from SAPARD. With the support of specialists from the Agricultural Consultancy offices at county level, the small farmers with feasible projects could obtain credits from the banks agreed by MAFRD for the coverage of the co-financing share in SAPARD projects. As a result, under this Program, 821 projects were submitted, totaling over 150 million EUR, out of which 75% by comfort letter[1] .

Having in view that by the end of July 2006 the SAPARD funds allocated through the yearly financing agreements had been fully used up, as well as the fact that a very large number of eligible (conform) projects had been submitted that exceeded the Program financial allocations, it was necessary to ensure from the state budget the non-refundable public co-financing share for carrying out these investment projects, under equal opportunity conditions for all the beneficiaries. Thus, a number of 859 projects were registered as eligible, totaling over 250 million EUR.

As a result, 3620 projects of investments in agriculture were submitted and are in different contracting and achievement stages, with an eligible value of about 870 million EUR (Table 4).

Table 4 : Share of number and value of eligible projects under M 3.1 from the pre-accession stage, by funding sources and development regions on 01.04.2007 (%)

Region	SAPARD-EU		SAPARD-RO		"Farmer" Program		Comfort letter mil EUR		Total projects M3.1	
	No. projects	Mil. EUR	No. projects	Equiv. Mil. EUR	No. projects	Mil. EUR	Total	Out of which. Farmer	No. projects	Mil EUR
N-E	18	16	17	17	18	15	15	14	18	16
S-E	23	19	21	17	25	20	22	27	23	18
South	18	22	17	16	22	23	25	24	19	21
S-V	6	7	6	5	7	6	6	7	7	6
West	12	13	12	14	10	12	8	9	12	13
N-V	12	11	12	13	9	13	13	10	11	12
Center	9	10	14	17	8	8	8	7	10	12

[1] The comfort letter is a document by which the bank firmly commits to provide the co-financing credit, if the project is considered eligible by the SAPARD Program specialists

Bucharest -Ilfov	1	1	1	2	1	4	4	2	1	2
Total = 100	**1940**	**466.6**	**859**	**251.9**	**821**	**150.9**	**113.7**	**80.6**	**3620**	**869.4**

Source: www.apdrp, own calculations

In order to provide support to the small farmers (authorized natural persons and family associations) and to stimulate the young farmers' participation (under 40 years old) and the investments in the mountain areas, certain facilities were provided by the differentiated increase of the non-refundable support share to 55%, 60%, reaching 65% for the investment projects of the young farmers under 40 years old from the mountain areas. At the same time, for the eligible projects from the areas affected by natural disasters (flooding), the non-refundable public support share reached 75%.

As a result, 11% of total projects benefited from the decrease of the private co-financing shares, out of which 1% were projects of farmers under 40 years old from the mountain areas, 2% belonged to farmers over 40 from the mountain areas, and 8% were projects of farmers under 40 from other non-mountain areas.

In order to develop projects that require laborious feasibility studies, technical projects and complex design, the funding body permitted the coverage of these costs from the non-refundable quota up to 12% from the total eligible cost of the project and 3% respectively for those projects that do not include buildings. Thus, 6% of the farmers developed their projects on individual basis, 4% resorted to authorized natural persons and family associations of architects, engineers or economists, 60 % of projects were developed by 440 private consultancy and design firms, and 30% of the projects were conceived with the support of specialists from the 41 Agricultural Consultancy offices at county level.

4 CONCLUSIONS

Although the pre-accession funds were fully absorbed in the allocated time period, their concentration in the last part of the period proves the superficiality with which this issue was approached throughout the first part of the period. In the absence of an interventionist policy from the part of the state meant to support farmers, applied with delay, only since 2006, the EU non-refundable pre-accession funds could not have been fully uptaken. The very low rate of pre-accession funds uptake, in the first two years, is a proof. Certain incentive measures were necessary for the banking system, for risk assuming by the state and last but not least, an important role was played by the private consultancy/design firms and the National Agency for Agricultural Consultancy network under MAFRD.

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