

THE IMPACT OF FUNDING RESOURCES ON AGRICULTURAL COMPETITIVENESS

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Abstract:

Financial support granted to agriculture from both community and national public funds, but also by means of credit from specialized banks (Agricultural Credit – France, Robobank – Netherlands, Raiffeisen Bank – Austria and Germany), has prompted the development of the process of sustainable capitalization of agricultural activities and the financing of intermediate consumption for the appropriate high-performance technologies manifested in a higher efficiency which, in turn, has led to lower unit costs, competitiveness and profitability.

Key words: *financial support, bank credit, commercial credit, public funds, direct payments*

JEL classification: *Q10, E0*

INTRODUCTION

Food security has always been a national priority for the rich countries of the world, which has stimulated various means of support in agriculture and of protection for farmers. With regard to the European Economic Community, shortly after signing the Rome Treaties in 1957, a Conference was held in Stressa (1958) where, following an analysis of the state of agriculture in EEC member countries, a common agricultural development strategy was set up; stipulated a few years later in the Common Agricultural Policy (CAP), it is obviously still valid at the present time in an adapted form – in order to meet the current requirements of the European Union.

Romania has come under this common agricultural policy without having a substantive national strategy; that explains why today we find that Romanian agriculture is far from the agricultural competitiveness of other EU member countries. There is a deficit in the agricultural products balance trade, while the country's agricultural potential is still neglected, to say nothing of the fact that the very concept of food security is being ignored.

Agricultural competitiveness in old EU member countries has been made possible by a very strong policy program supported by funding exceeding at some point 60% of the EEC budget.

Given all that, we deemed it necessary and useful to provide an analysis of the implications of financial resources granted to Romanian agriculture as compared to other EU countries, both by means of bank credit, as well as by direct payments from public funds and from the financing fund for the program of rural development.

RESOURCES AND METHODS

In determining the impact of funding resources on agricultural competitiveness, we have used data provided by the statistics of the European Commission (i.e., Eurostat) and by the national statistics, as well as by various national and international

publications – by dint of which we have then proceeded to calculations and interpretations.

The methods we have used are: analysis, synthesis, comparison, deduction and induction.

OUTCOMES AND DISCUSSIONS

Bank Credits

An analysis of the evolution of Romanian bank credits over the year 2009 reveals the fact that the balance of credits (in billion ROL equivalent) has increased from 215.3 billion lei in December 2008 to 246.7 billion lei in December 2009, as a consequence of an accelerated growth in the volume of government credit, from 17.2 billion lei to 46.8 billion lei (272%) over the same year, while the credit awarded to companies and individuals has remained relatively constant (Figure 1).

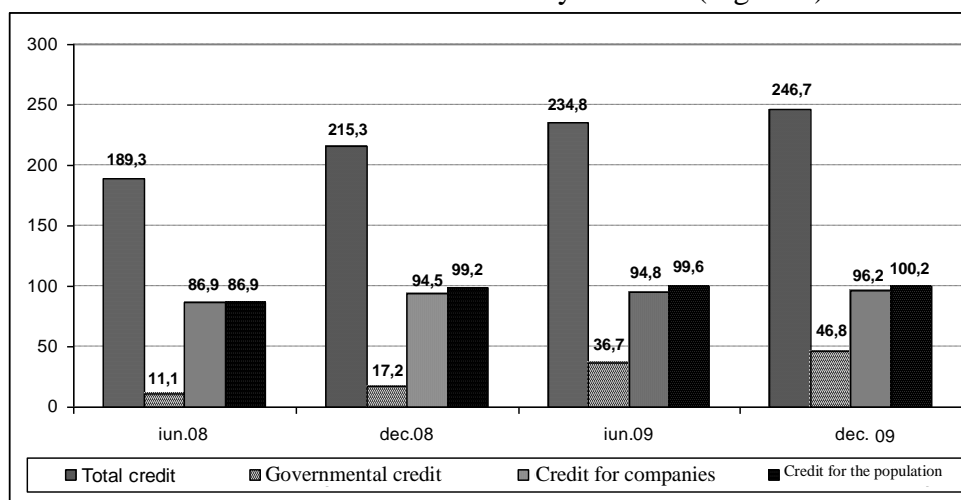


Figure 1. The evolution of the bank credit

Table 1

The evolution of the agricultural bank credit

Specification	M.U.	2005	2006	2007	2008	2009	2009/ 2005
Total credit, out of which:	Mil. €	17833.9	31129.6	46522.9	57408.6	54811.0	3.1
	%	100.0	100.0	100.0	100.0	100.0	
Agriculture, forestry, fishery	Mil. €	412.8	819.1	1047.8	1404.2	1512.9	3.7
	%	2.3	2.6	2.2	2.4	2.7	

Note: These data are referring to liability to a sole debtor, equal to or larger than 20.000 lei – consisting in 88.8% of the amount of credit granted by the banking system.

Source: Adaptation of data provided by monthly bulletins of the National Bank of Romania.

An analysis of the evolution of the Romanian bank credits over the last five years has shown a 3.6 times increase of agricultural credit – from 412.8 million euros to 1512.9 million euros, while the total Romanian credit has increased 3.7 times – from 17833.9 million euros to 54811.0 million euros.

The increase of agricultural credit is obviously a positive element, beneficial for the capitalization of agricultural activities, either by means of augmenting direct investments in agriculture, or by means of financing imports (an intermediate consumption), a premise for a higher efficiency and a greater profitability of agricultural activities.

We find it very important to analyze whether the level of agricultural bank credits is appropriate compared to other branches of national economy or compared to the level of agricultural bank credit in other countries.

On a comparative basis, in terms of crediting the main segments of the national economy in 2008, a year less affected by the economic crisis, we will notice that agriculture – whose contribution to the GDP formation was of 6.5% – benefited only from 2.4% of the overall bank credits, compared to services whose contribution to the GDP increased to 60.1% and which benefited from a bank credit of 72.3%.

Table 2

Contribution of economic segments to GDP and the importance of the funding level through bank credits (2008)

Specification	Agriculture, forestry, fishery	Industry and construction	Services
Contribution to GDP (%)	6,5	33,4	60,1
Importance of bank credit (%)	2,4	25,3	72,3
Nonconformities	-4,1	-8,1	+12,2

Table 3

Bank credits allocated to agriculture in several European countries in 2009

Countries	UAA (thousands of ha)	Overall bank credits for agriculture (mil. €)	Bank credits per ha (€/ha)	RO: countries in EU
France	27.477	46.600	1.696	1:15
Germany	16.932	36.000	2.126	1:19
Hungary	4.229	1.080	255	1:2,3
Romania	13.753	1.513	110	1:1

Source: our own calculations

By comparing the credit of Romanian agriculture to the agricultural credit in other EU countries, we shall see a huge difference between the aforementioned countries and Romania. Thus, if in Romania we have recorded 110 Euros / ha UAA, in Germany there are 2126 Euros / ha UAA, in France 1698 Euros / ha UAA and in Hungary 255 Euros / ha UAA.

Table 4

The comparative cost of commercial credits practiced by companies supplying agricultural inputs

Year	Price per corn seed (lei)		Interest Rate Commercial Credit r (%)	Interest Rate Bank credit r (%)
	31.03	01.11		
2008 Year of economic growth	200	235	28,0	11,0
2010 Year of crisis	230	255	18,6	15,0

The low level of direct bank credits allocated to agriculture has led to a rapid increase of the commercial credit (i.e., the supplier credit) – a financing alternative accepted “of necessity” both by beneficiaries (the farmers) and by input suppliers.

There are at least two characteristics that make the **commercial credit** stand out:

1) – it is more operational, which makes it attractive to beneficiaries (i.e., farmers);

2) – it is more expensive than a bank loan because credit risks are taken on by suppliers and that requires additional costs recuperated from beneficiaries. We take into account the fact that originally commercial credit was also indirectly covered, in general, by bank credits taken on by input suppliers, which, in one way or another, would recuperate the credit costs by means of the selling price of products offered to farmers.

Direct payments from the EU budget

Direct payments allocated from the EU budget to the agriculture of the EU member states have created and are still creating major discrepancies, which are greatly affecting agriculture, particularly the agriculture of those states that have just joined the EU (altogether twelve states), directly contributing to an imbalance of the agricultural products market – a free market, declared as such throughout the European Union – therefore dividing the member states into winners and losers

By calculating the average of direct payments per UAA hectare from the EU budget, we find out that over the entire programming period, i.e., between 2007 and 2013, Romania with its € 57 per hectare holds the last place in the EU-27 – having been allocated only 11.2% of the level granted to Greece (€ 507 / ha), 12.1% of the level granted to Netherlands (€ 469 / ha), 12.9% of the level granted to Belgium (€ 443 / ha), etc.

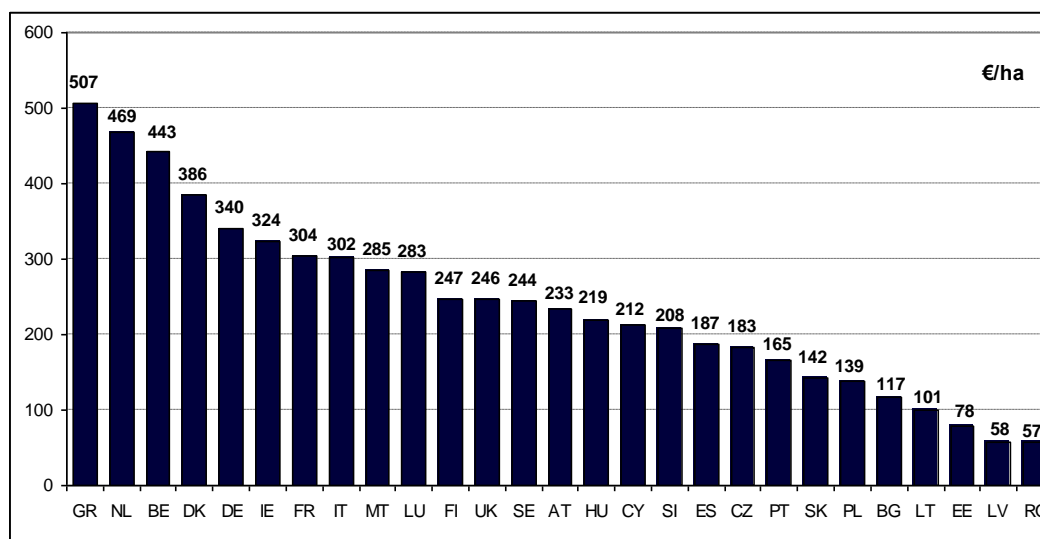


Figure 2. Direct payments from the EU budget per 1 UAA ha – on average between 2007 and 2013 in EU countries-27

With regard to financial resources from the EU budget transferred through the **Rural Development Fund**, directly destined for Romanian agricultural exploitations, we observe the low level of these resources – that is, only 1174.3 million euros over the entire period (2007-2013), representing only 14.7 % of the overall sum of 8.0225 billion euros, which is the financial contribution of the EU to NRDP. The aforementioned amount cannot have a major influence over the process of capitalization of agricultural exploitations in Romania.

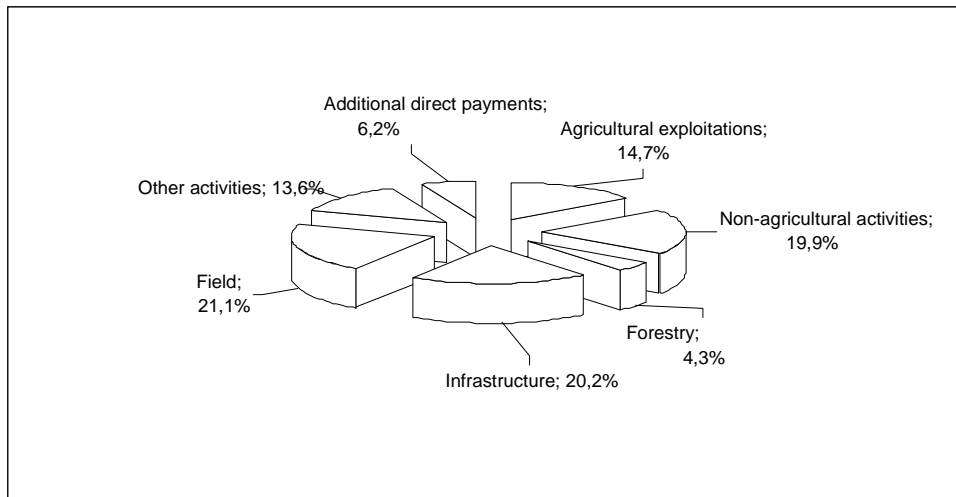


Figure 3. The importance of allocations from the EU budget divided by areas of development

CONCLUSIONS

1. As stated above, **intermediary consumption** as an expression of the real level of financial support by production technologies has a direct impact on efficiencies; with regard to EU states, we should specify that there are great differences from one country to another in this respect. The distribution resembles that of direct sums allocated on the average to a SAU ha. Consequently, as compared to Holland, Romania has registered an intermediary consumption of 715 euros – 8369 euros (8,5%), as compared to Belgium – 3987 euros (17,8%), and as compared to Denmark – 2843 euros (25,1%).

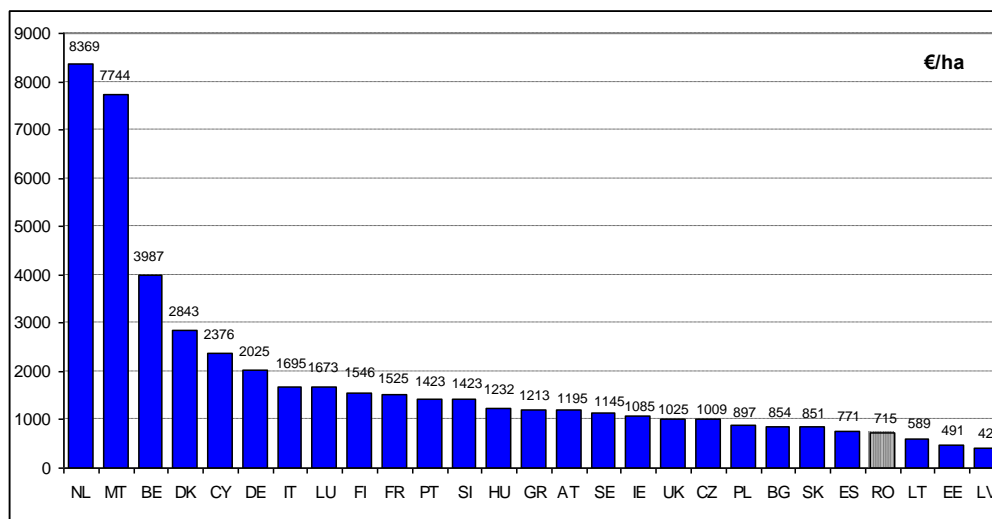


Figure 4. Intermediary consumption per 1 ha SAU (€)

2. The evolution of the added gross value is closely connected with the value of intermediary consumption or to put it differently, the agricultural BAV is strongly influenced by the financing level of agricultural activities.

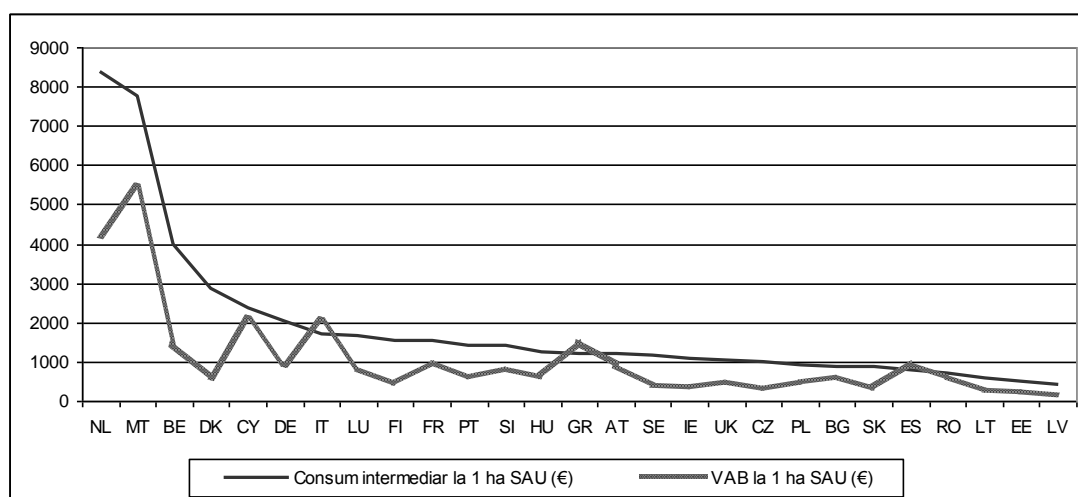


Figure 5. The relationship between intermediary consumptions and BAV

3. We estimate that reducing the aforementioned imbalances is one of the fundamental problems that the CAP is facing. Consolidating a free market – not only with a view to providing the free circulation of goods, but also with a view to dealing equitably with the principles upholding the agricultural products offered – is a matter of the utmost importance. In this way, we would avoid a differentiated sustenance from public funds of factors impacting on efficiencies, of unitary costs, and finally of the prices for agricultural products.

4. Straightening these imbalances depends to a great extent on the national agricultural policy adopted by each member state. Seen from this angle, Romania is bound to define its own national agricultural policy based on the communitarian agricultural policy, provided of course it benefits from adequate financial resources.

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