ATTRACTING THE NECESSARY FUNDING FOR ROMANIAN AGRICULTURE

ATRAGEREA DE FINANȚĂRI NECESITATE PENTRU AGRICULTURA ROMANEASCĂ

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Abstract: *Romanian agriculture is a determinant factor of quality of the natural environment and rural areas, although considered the second largest EU country after Poland, Romania has a development potential but it is not used, lack of technology, labor and of course lack of funding is the main impediment for the maximum use of this potential. Attracting funding through the National Rural Development Program 2007-2013 of Romania should be the principal concern of investors in the Romanian agriculture.*

Key words: *funding, program, investment, subsidies*

INTRODUCTION

In 2007-2013 the Ministry of Agriculture and Rural Development in Romania has implemented the National Rural Development Program through which, with the support of the European Union, intends to achieve a convergence of income in agriculture with those made by other member states. Subject to a study, the Romanian agriculture came to the attention of the European Union because there were large discrepancies between the revenue from the Romanian agriculture and other countries, so if in 2005 Romania had less than 1% of GDP in the European Community registering a rapid growth of GDP per capita, but remains at 34% of EU average.

MATERIAL AND METHOD

"Financing is the entities' option destined for obtaining funds (liquidities) in order to cover temporary needs generated by commercial or

production activities, or for development the existent production capacity through unfolding investments projects.

Financing decision means choosing between personal funds and external fund for an investment project, and most part of the financial resources come from private sources (commercial banks, investment banks, investment funds), public sources usually occur in financing some important investment project and of general interest" [*].

In this study we have highlighted some important aspects as follows:[†]

▪ Romania's rural areas have substantial growth potential and have a vital social role;

▪ rural population is not evenly distributed;

▪ agricultural restructuring and revitalization of rural economy can be important levers of development;

▪ population decline in Romania is more pronounced in rural areas;

▪ aging process and natural decrease of population;

▪ the percentage of internal migration from urban to rural areas can not compensate for this decline;

▪ older migrants gradually replace younger population in rural areas;

▪ the net international migration rate is also significant and is mainly related to younger age category in rural areas;

▪ migration abroad has major economic and social implications particularly in rural areas;

▪ ethnic diversity in Romania is rather small;

▪ increased urbanization of the working population;

▪ increased participation and employment rates in rural areas mask hidden unemployment;

▪ agriculture has an important role in providing an income, through self employment, while rural diversification activities remains a problem to be solved;

▪ statistics on employment of labor underestimate the number of people involved in agricultural activities.

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[*] Nagy Cristina Mihaela, Trif Viorel, Cotleț Bogdan (2010) – „Accounting treatments for financing entities", The Annals of the University of Petrosani – Economics, vol. X, part. IV, pg 226

[†] National Rural Development Program 2007-2013, IV version, December 2009

RESULTS AND DISCUSSIONS

The study on Romanian agriculture has led to the conclusion that the intervention of decision makers from the European Union may encourage the development of this sector by implementing programs designed to finance investments, to encourage population migration from village to city and thus to achieve similar income to those achieved by other European countries.

The harmonization of accounting legislation and convergence to European legislation has led to apply IAS 20 Standard also in the Romanian accounting as follows:

"International Accounting Standard No. 20 Accounting for government subsidies and disclosure of government assistance formalizes the regulatory accounting discourse on the classification, recognition and specific accounting treatments for financial resources provided through funding from the budget, other interested public sources and from grants loans."[*]

The application of the restated accounting standard IAS 20, replaced the original Standard approved by Council in November 1982 but changes certain terms to match the, to the current accounting practice, it is applied to accounting and disclosure in the presentation of government subsidies and other forms of government assistance.

In terms of accounting policies which economic entities in the agricultural sector apply in their management, there are also accounting policies consisting in attracting funding of any nature, refundable as well as non-refundable grants for agricultural production in conditions of maximum economic efficiency.

Based on the accounting policies of the entities involved in agriculture, but also the financial and accounting laws applied to them and funding provided by the government and the European Union we distinguish several ways of highlighting the accounting of these funds, found in literature under the title of government subsidies.

[*] CECCAR ROMANIA - Guide for understanding and application of IAS 20, CECCAR Publishing House Bucharest, 2004

Thus with the advent of the Order 3055/2009 governing the accounting issues related to individual and consolidated financial statements with effect from 1 January 2010 these government subsidies are classified in subsidies related to assets and subsidies for income.

These subsidies are recognized as:

- income of the period if they are related to expenditures if they are going to compensate them;
- or subsidies related to assets which are presented as deferred income.

The registration in the profit and loss account is done by adding them to the income if they are related to the turnover and subtracting them from expenses if they are to cover the expenses.

In terms of IFRS's, an entity recognizes government subsidies depending on future performance conditions, they is recognized as income when it is a claim and the performance conditions are fulfilled, when they are received before the fulfillment of the performance criteria they are recognized as a liability.

So an entity must perform an assessment of subsidies at the fair value of assets that can be received or receivable.[*]

Receiving the subsidy is achieved through:

- transfer of economic benefits to the entity, it can take place either by receiving a specified amount of money,
- or receipt of property as consideration for the subsidy, and sometimes even by reducing a debt.

The subsidy will be the source of financing the entity when all conditions attached to it will be met, sometimes the fulfillment of conditions is extended over several financial years so that in some cases the recognition of the subsidy will be made before meeting the conditions required for which the subsidy can be reimbursed if the entity will not be able to meet the conditions.

Subsidies for assets are that form of government assistance that is characterized by providing a main condition to buy, build or acquire, in a way, long-term assets.

[*] Comparative Study between OMFP 3055/2009 accounting regulations in Romania and the International Financial Reporting Standard

In financial statements they can be presented as a separate item or as deferred income in the category of an element that corrects the input value of the asset subsidized, this latter method affects both the balance sheet values of fixed assets and amounts shown in the profit and loss account.

The acquisition of assets and receiving subsidies affect the cash flow of an entity in agriculture, so sometimes they are presented as separate items in the cash flow statement.

In terms of tax treatment, it has been found that the costs covered by subsidies are deducted from taxable income and incomes from subsidies are treated as taxable income.

It was found over the years that subsidies for assets proved to be more viable than those for covering incomes and expenditures because they are given for the purchase of assets and technologies, and not for making agricultural production in terms of old technologies with high costs and reduced labor force.

As these assets are depreciated, income from subsidies will be tax exempt since at the granting of these subsidies the amounts left to the discretion of the entity are untaxed.

CONCLUSIONS

The collection of government subsidies by entities in agriculture leads to the achievement of strategic goals set out by the Rural Development Program for the future period:

- knowledge transfer, modernization, innovation and quality in the food chain;
- human and physical capital investment in priority sectors;
- improving the environment and countryside;
- biodiversity, conservation and development of agricultural systems;
- creating conditions for growth and employment generation;
- improving local governance;
- climate change, energy from renewable sources;
- conservation and improvement of natural resources and habitats;
- increase the attractiveness of rural areas.

In addition to the achievements in regional and rural areas, attracting funding increases economic performance of agricultural entities, re-engineering and not least improves the living standards in rural areas of the existing population and its rejuvenation.

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5. *** Guvernul României - Programul Național De Dezvoltare Rurală 2007-2013, Varianta Consolidata Decembriei 2009
6. *** Legea 82/1991 legea contabilității republicată şi modificată cu ultimele modificari în vigoare;
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