EU MEMBER STATES' AGRICULTURE AND RURAL DEVELOPMENT FINANCING

FINANŢAREA AGRICULTURII ŞI A DEZVOLTĂRII RURALE A STATELOR MEMBRE ALE UNIUNII EUROPENE

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Abstract: *EU Member States' agriculture and rural development financing is provided as a priority, from the Community budget, to which each Member State contributes annually a percentage of GDP (non-reimbursable financing to support farmers' incomes), from the national budgets for adjusting agriculture to the market requirements, farms' own sources, through credits, to supplement own sources. A functional and sustainable agricultural sector implies the management of the problems related to the climate and environment conditions and the adjustment of farmers to new market conditions. Providing a functional agricultural sector implies the existence of sustainable rural areas, where the economic development is the mainstay.*

Key words: *agriculture financing, rural development financing, the Common Agricultural Policy*

INTRODUCTION

A functional and sustainable agricultural sector implies the management of the problems related to the climate and environment conditions and the adjustment of farmers to new market conditions. Providing a functional agricultural sector implies the existence of sustainable rural areas, where the economic development is the mainstay. EU Member States' agriculture and rural development financing is provided as follows:

- as a priority, from the Community budget, to which each Member State contributes annually a percentage of GDP (non-reimbursable financing to support farmers' incomes);

- from the national budgets for adjusting agriculture to the market requirements;
- farms' own sources;
- through credits, to supplement own sources.

The Common Agricultural Policy (CAP) is a set of laws and practices adopted by the European Union to provide a unified, common direction for agriculture.

MATERIAL AND METHOD

Data are represented by the statistics budget funds: the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD).

Table 1

Part of the european agricultural guarantee fund - EAGF in the EU (commission) budget 2004 to 2010 financial years (*)

Commitment Appropriations

Budget year	2004	2005	2006	2007	2008	2009	2010
EU Budget **	100%	100%	100%	100%	100%	100%	100%
European Agricultural Guidance and Guarantee Fund – Guarantee Section	41,4%	42,5%	41,8%				
of which 1a	35,4%	36,5%	35,3%				
of which 1b	6,0%	6,0%	6,5%				
European Agricultural Guarantee Fund				33,0%	31,7%	30,7%	31,0%

(*) Financial years 2004 to 2006: European Agricultural Guidance and Guarantee Fund-Guarantee Section (EAGGF). Financial years 2007 to 2010: European Agricultural Guarantee Fund (EAGF).
(**) Commission Budget of the European Union Budget

Source: ***4th financial report from the Commission to the European Parliament and the Council on the European Agricultural Guarantee - 2010 financial year***

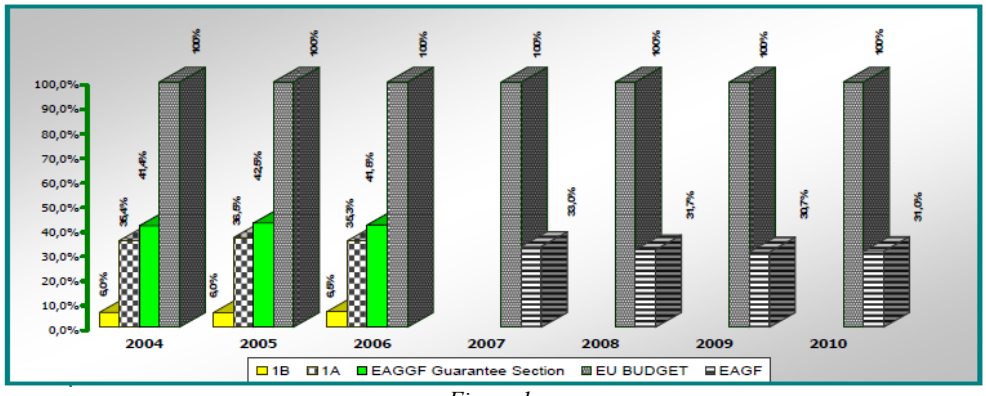


Figure 1.

The graph on the next page presents the financial implementation rate of rural development programmes (from the beginning to 2010, including Q4 2010) compared with the 2007-2010 appropriations. The average EAFRD financial implementation rate for all EAFRD programmes is 72.4%. The graph shows that most Member States have absorbed more than 60% of the 2007-2010 appropriations.

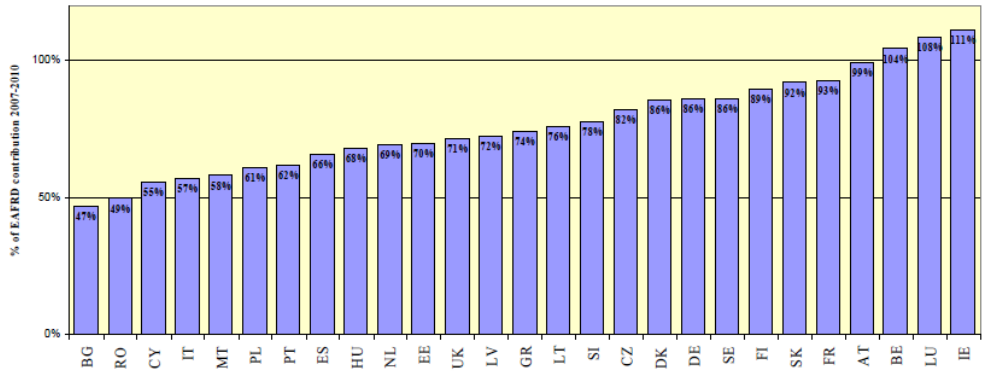


Figure 2. Financial implementation rate of RD programmes by Member State *
(% of the EAFRD 2007-2010 payments, including payment claims Q4 2010, compared with 2007-2010 commitments)

* - Payment claims Q4 2010 are included in the graph as they are paid in early 2011.

RESULTS AND DISCUSSIONS

The concept of "common policy" fairly reflects one of the defining features of the CAP, namely that, for approx. 90 % of the agricultural policies, the decision can no longer be made by the member states, but by the European Union. Initially, the basic instrument of the Common Agricultural Policy was represented by the "Common Market Organization" (CMO). In its present form, the Common Agricultural Policy is built around two pillars: the first one, the initial one, is the "common market organization" and the second, which has become widespread since the last decade, is the "Rural Development".

The adoption of the Common Agricultural Policy, as safety policy, was made taking into account the following: persistence of global phenomena and processes that can disrupt agricultural activity (natural disasters, market growth volatility), need to provide public goods and to ensure a sustainable rural environment.

The support granted by the European Union through CAP to all member states answers these needs, while providing economic and social cohesion premises that nevertheless reflect the diversity of the economic, ecologic and cultural values. The principles underlying the Community approach of the agricultural policy aim to ensure fair conditions for farmers and to set trans-national targets, allowing for a joint action, in the case of the need to solve trans-national problems.

The tools that are designed to meet different aspects of the CAP objectives are: common rules to ensure fair conditions for agricultural production at European level; basic direct payments, for maintaining agricultural activity when exposed to the challenge of market volatility; safety mechanisms , ensuring intervention in crisis situations; measures orientated towards specific needs, able to take into account the diversity of the rural areas (and needs).

For over 40 years, the Common Agricultural Policy (CAP) has been i allocated a large part of the EU budget (although the percentage has fallen steadily in recent years) because it was the most important common policy of the European Union (EU).

In order to support intervention measures, the European Union allocates to the Common Agricultural Policy funds representing approximately 40% of its total budget. The CAP budget is set annually by the EU Council and the European Parliament; the annual budgets are part of a financial framework for a period of seven years. The current financial framework (2007-2013) provides agricultural expenses through two funds that are part of the overall EU budget: the European Agricultural Guarantee Fund (EAGF), which finances direct payments to farmers and the measures regulating agricultural markets, such as export interventions and refunds; the European Agricultural Fund for Rural Development (EAFRD), through which the rural development programmes of the EU member states are supported.

The two funds operate based on a similar system, but each of them has certain specific elements. The financing of some of the measures concerned takes place under management shared with the Member States so that the Regulation text specifies the conditions under which the Commission may exercise its responsibilities for implementing the general budget and clarifies the cooperation obligations incumbent upon the Member States.

The Regulation sets the conditions for accreditation and withdrawal of accreditation of payment agencies and of the coordinating bodies of the Member States. The agencies are responsible for making payments, and the bodies are responsible with monitoring the accounting performed by payment agencies. These Regulations also provide the establishment of certification bodies, which are public or private legal entities designated by the Member States, responsible for the certification of the management, monitoring and control systems, implemented by accredited payment agencies and, and with the certification of their annual accounts. Member States are required to take all necessary measures to ensure the effective protection of the Community financial interests. In addition, only the expenditure incurred by the accredited payment agencies can be the object of Community funding and payments are fully paid to beneficiaries.

The Commission must ensure sound financial management of EU funds, especially through the clearance of accounts procedure in two stages: the settlement of accounts and the verification of the compliance. The Member States must provide the Commission with all information necessary for the proper functioning of the funds. In addition to scrutiny by the Member States in compliance with their national provisions, the Commission may carry out spot checks. The payments made by a Member State within EAGF or EAFRD can be reduced or suspended if serious finds and persistent deficiencies are found.

The names of the beneficiaries of agricultural funds must be disclosed to the public *a posteriori*, as well as the amounts received by them.

The implementation of the Common Agricultural Policy in Romania starting with 2007 brought about a radical change in the agricultural market support mechanisms in our country. The support schemes implemented by 2006 were changed and replaced with the Community rules on the operation of Common Market Organisations system for most agricultural products. The prices will be gradually adjusted to the current prices single market prices. The measures to support agricultural markets and producers' incomes include direct payments to farmers and subsidies arising from the Common Market Organizations requirements, such as the operation of intervention prices, the purchase of products from public funds to reduce surplus on the markets, export subsidies , import protection schemes and other quantitative restrictions on imports or exports.

In relation to the agriculture support mechanisms, it was anticipated that the implementation of direct payment schemes will prevent (or slow down) the farms restructuring and amalgamating process. The direct payment system has led to the increase in land prices, in the rent value and therefore has not stimulated old farmers to sell or to rent their agricultural land to younger farmers who are more interested in increasing agricultural efficiency.

A new reform of the Common Agricultural Policy has as a deadline the year 2013 and its purpose is to map out new directions to meet the objectives of the Europe 2020 strategy of the European Union. Before setting policy guidelines for this strategic sector, the Directorate-General for Agriculture and Rural Development of the European Commission launched in 2010 a public debate online (on the website of the Directorate-General for Agriculture) on the future CAP, structured around four general topics: the reasons of a common policy, the reasons of its reform, proposing new tools, and the citizens' expectations regarding agriculture. The debate was addressed to the general public, to the stakeholders (farmers' organizations and professional bodies, environmental associations, consumers, animal welfare stakeholders, other interested non-governmental organisations) and think tanks, research institutes etc.

The over 5700 contributions reflecting the views of the respondents were summarized in a report that led to the Commission communication entitled 'CAP towards 2020 ". It showed: the main challenges and key issues concerning the EU agricultural policy and for the rural areas and possible policy directions and options for a more sustainable, balanced, focused, streamlined, efficient and accountable common agricultural policy.

The challenges identified relate to the issues related to: food security, environment and climate change, territorial balance. By providing solutions to these challenges, the CAP can contribute to the Europe 2020 strategy for a smart, sustainable and inclusive growth. In this context, the European Commission's proposals for the CAP pursue three objectives: reliable food production, sustainable management of natural resources and the adoption of new climate policies; and the balanced territorial development.

The achievement of the objectives of the future common agricultural policy also involves the adoption of new tools or the improvement of the current instruments that have proved their utility in the current policy (direct

payments, market management tools, instruments of rural development policy).

In terms of global agriculture of the CAP, the Commission's proposals are converging with those of the majority of the respondents who participated in public debate and concern the maintenance of the current structure, supported by two pillars, where the first pillar includes grants paid to farmers and the second pillar remains the support tool dedicated to Community objectives.

The guidelines of the public debate outline three possible broad policy directions, as follows: *Option* 1, which suggests a continuation of current CAP, but also involves adjustments for certain chapters (e.g., in terms of the issue of the equity of the distribution of direct payments problem in the Member States), *Option* 2, which recommended a major review of the policy in order to ensure sustainability and to achieve a balance among the various objectives among farmers and among Member States, *Option* 3, which refers to a wider reform of the CAP, based on a series of environmental objectives and climate change and the gradual elimination of the income support and of most market measures.

CONCLUSIONS

Romania's position concerning the future directions of the CAP is presented in a *Memorandum* prepared by the Romanian Government. The document provides a series of recommendations concerning the main instruments of the Common Agricultural Policy. With In relation to direct payments, Romania supports the idea of their equitable distribution among Member States and the elimination of the existing discrepancies, as well as the small-scale agriculture support to active farmers, capping direct payments to large farms is not agreed by the Romanian state.

In relation to the market measures, Romania shall decide to maintain the current instruments of intervention used as a safety net and encourages the development of new tools able to maintain a competitive EU agriculture compared to third countries. In relation to the rural development policy, from the Romanian perspective, it must remain within the CAP, and within Pillar II a consistent level of budget must be maintained. In relation to the creation of packages of measures meant to meet the needs of specific groups or areas, the Romanian state supports the adoption of measures to meet the

problems affecting rural Romanian areas: depopulation, agricultural land abandonment, etc.

European funds are, at present, the main line of development of agriculture, not only in Romania but in all Member States.

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