The Second Pillar Improved Delivery to Resolving the Challenges for Agriculture and Rural Areas: Romanian Case

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Abstract. Agricultural sector faces several challenges, such as the increased need for management of production risks, fighting climate change, more efficient management of water, pressing concerns in relation to food security, territorial balance and the pursuit of sustainable growth. There is a broad agreement than the new shape of CAP fully considers global challenges. The best way of adjusting the CAP in order to meet these challenges is through Rural Development Pillar. Common argument is that using rural development measures can avoid some unintended consequences of agricultural policy, especially the increasing inequality within agricultural sector.

The farms’ capability of income generation and its competitiveness could be therefore increased, while strengthening rural economy. This paper is trying to highlight the choice made by EU farmers in order to take the advantages of different EU support actions. We will proceed to a comparative analysis of the content of the programmes and of their implementation at the level of some member states. Based on the existing databases and reports as of 30 September 2009 (Eurostat databases, European Environmental Agency databases and reports, DG AGRI statistical, monitoring and financial reports) we will try to assess the possible advantages of Romanian farmers.

Keywords: CAP, rural development measures, EAFRD contribution, rural areas, sustainable agriculture.

INTRODUCTION

Farming sector faces several challenges, such as the increased need for management of production risks, fighting climate change, more efficient management of water, pressing concerns in relation to food security, territorial balance and the pursuit of sustainable growth. There is a broad agreement than the new shape of CAP fully considers global challenges. One the best way of adjusting the agricultural policies in order to meet these challenges is through Rural Development Programme. There is a great amount of literature on the effects of agricultural policy from various aspects (Gardner and Rausser, 2002). Literature on the CAP reform stresses the increasing role of second pillar during reform procedure. Common argument is that using rural development measures can avoid some unintended consequences of agricultural policy, especially the increasing inequality within agricultural sector.

Considering that the agricultural support in Romania is to a large extent determined by European agricultural policy, we will try to detail some of the issues at the European level. The current rural development policy operates on the basis of a multi-annual programming approach where Member States design and co-finance rural development programmes (RDPs). The programming exercise works in a decentralized way (there are 94 national and regional programmes operating in the current period) in a framework of partnership between the EU and the Member States and regions concerned. This allows rural development...
programmes that are tailor-made to the situation of a specific country needs, based on a set of 42 measures. This array of measures, targeting social, economic and environmental outcomes, could be considered to maintain a degree of coherence if they are regarded as mutually supportive and based on strategic analysis at national and regional level to maximize value.

This paper looks into the role of rural development policy today, and how it can best respond to the challenges for agriculture and rural areas in the future.

**MATERIAL AND METHOD**

The paper provides a qualitative and comparative analysis of the programmes content and of their implementation at the EU level. The paper is based on the existing databases and reports as of (Eurostat databases and Environmental Agency databases - CORINE Land Cover, Farm Accountancy Data Network (FADN), Farm Structure Survey (FSS), European Environmental Agency reports, DG AGRI statistical, monitoring and financial reports, MARD Rural development report, Statistical Projects situation at 19.02.2010). As a first step, the rural development measures are analyzed and compared, mainly by means of data analysis and literature study. Two types of information are used in this purpose: statistical and administrative information on the status of the implementation of Rural Development Policy (physical and financial monitoring of the measures). Finally the study touches upon the future configuration of rural development policy.

**RESULTS AND DISCUSSIONS**

Within the framework of the new Financial Perspectives, rural development was allocated 77.6 billion euros from EAFRD envelope over the period 2007-2013(1). This amount is distributed among Member States.

![Fig. 1. Community support for rural development in the 2007-2013 programming period](image)

Rural Development Programme 2007–2013 is divided on four axis:– Improving the competitiveness of the agriculture and forestry sector, – Improvement of the environment and the countryside, – The quality of life in rural areas and diversification of the rural economy, – Leader.

Graph 2. presents the relative importance of the 3 main axes, as percentage of the EAFRD contribution devoted to these 3 axes. Despite the common minimum percentages, the picture looks quite different in the various Member States.
Romania has one of the most important percentages allotted to the measures of Axis 1 (40.13%), lesser however than Belgium, Latvia, Hungary, Portugal Spain, Cyprus, Greece contribution to this axis. The contribution allocated to Axis 3 is also one of the highest (25.6%), superior only in Malta and in the Netherlands (33.7%), Bulgaria (27.9%), Germany (28.5%).

There are interesting conclusions when one analyses the measures each SM chooses to emphasize within the three axes. Axis 1 measures are primarily intended to improve the efficiency of agriculture and forestry sector, to enable them to confront the competitiveness issues resulting from an open external trading environment. The results will be a better trained agricultural workforce, with an improved age structure, a better land structure, subsistence farms entering the market, modernized commercial agriculture, improved value added and produce quality, which will further enhance the productivity and competitiveness of agricultural and forestry sector. The support will mainly be oriented towards the small and medium enterprises, considered to be better able than big commercial enterprises to develop new products, to valorize the local resources through innovation and adaptation. At EU-27 level, within axis one, the measure "121 – Modernisation of agricultural holdings" shares 30.3% of the EAFRD, being the most relevant almost in every Member States. Romanian allocation to this measure range below to this average, which is quite an opposite to Latvia, Hungary and Lithuania approach, but similar to Spain, the Netherlands, Portugal, Slovenia, Finland approach. For Romanian programme, the most valued measure within this axis, is "123 - Adding value to agricultural and forestry products", followed by "121 – Modernisation of agricultural holdings", together sharing about half of axis resources.

The low level of specialization of Romanian agricultural holdings and lower production effectiveness are the important factors to provide adequate support to cover the costs of agricultural holdings adjustment to increasing Community requirements.

We also find that some considerations could be done concerning the economic efficiency of targeting a relatively large share of the Axis I allocations on semi subsistence farms. We must expect that competitiveness, modernization and restructuring are core issues under this axis, but we do not expect that this particular measure will contribute to this overall objective. It could be justified by the importance of the semi subsistence farming in Romania (78%, the highest percentage in EU), but we also notice different approaches undertaken by countries with similar conditions (Hungary, where 77.5% of farms are considered as semi subsistence) and where no allocation for this measure was allotted.

Within axis 3 measures, the "322 – Village renewal and development" has the highest share with 25% in the EU-27. This share is the highest in Romania, representing 63% of the EAFRD contribution allocated to axis 3). In fact, this measure aimed at improving the quality of life in rural area and creating synergy which positively influences the rural populations it is the most relevant of all RNDP. We notice quite a variety of approaches that SM uses in order
to fulfil the objectives of this axis: Italy and in Finland devote 40% of the total EAFRD contribution of the axis 3 to for the measure "311 – Diversification into non agricultural activities"; the measure "321 – Basic services for the economy and rural population" plays the major role within axis 3 in Denmark (58%); and Ireland has no EAFRD financial allocation to the axis 3 (this objective is fully implemented using axis 4 (Leader) measure 413).

Concerning the implementation of selected measures, Romania has one of lowest ratio between the planned expenditure and the amount of declaration of expenditure (graph). Among the causes of the financial execution is the late implementation, the first measures being started in Mars 2008, but we can also specify, the composition of the programme (types of chosen measures), the previous experience in the implementation of measures etc.

A more detailed analysis shows strong discrepancies between assigned values and those required in the projects submission sessions.

### Tab. 1

Comparison between the planned expenditure (financial plan) for the period (2007-2013) and the requested amount, per measures, at 19.02.2010, in %

<table>
<thead>
<tr>
<th>Measure</th>
<th>Applied projects/financial plan %</th>
<th>Selected projects/financial plan %</th>
<th>selection rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td>26.80</td>
<td>4.23</td>
<td>15.22</td>
</tr>
<tr>
<td>121</td>
<td>192.12</td>
<td>69.94</td>
<td>34.71</td>
</tr>
<tr>
<td>Measure</td>
<td>1st Pillar</td>
<td>2nd Pillar</td>
<td>TOTAL</td>
</tr>
<tr>
<td>---------</td>
<td>------------</td>
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<td>-------</td>
</tr>
<tr>
<td>123</td>
<td>72.67</td>
<td>45.36</td>
<td>65.68</td>
</tr>
<tr>
<td>141</td>
<td>13.39</td>
<td>13.02</td>
<td>97.21</td>
</tr>
<tr>
<td>142</td>
<td>1.25</td>
<td>0.08</td>
<td>37.50</td>
</tr>
<tr>
<td>312</td>
<td>109.70</td>
<td>5.96</td>
<td>5.18</td>
</tr>
<tr>
<td>313</td>
<td>32.80</td>
<td>9.95</td>
<td>27.37</td>
</tr>
<tr>
<td>322</td>
<td>600.65</td>
<td>66.61</td>
<td>9.58</td>
</tr>
<tr>
<td>431.1</td>
<td>10.27</td>
<td>10.08</td>
<td>99.11</td>
</tr>
<tr>
<td>TOTAL</td>
<td>129.33</td>
<td>25.70</td>
<td>45.78</td>
</tr>
</tbody>
</table>

Thus the amount requested for the projects submitted until 19.02.2010, exceeds the amount allocated to Romania for 2007-2013 (129.33%).

Not all measures seem to be attractive for farmers, the pressure decreasing from 600% for the measure 322 – “Village renewal and development”- and 192% for the measure "121 – Modernisation of agricultural holdings", to 1.25% for 142 measure - “Producer groups”.

The emerging context for the post-2013 CAP. A declining share of the EU budget.

The budget for the CAP for 2014-20, in 2011 constant prices, is €372 bn, €387 bn including allocations for research and innovation. Comparing to €417bn in the current financial perspectives, the total budget taken by total CAP expenditure will continue decline, from 39% in 2014 to 33% in 2020 €281.8bn of that is first pillar and €89.9bn second pillar). There were not any changes regarding the current two Pillars structure of CAP. An integrated strategy for territorial development, supported by all of the relevant EU structural funds, including rural development will, linked to the objectives of the Europe 2020 strategy, will stay at the base of the Partnership Contracts between the Commission and each Member State. If there were not any changes regarding the current two Pillars structure of CAP, questions arise concerning the distribution of the budget among pillars and among MSs.

As the graph no 5 presents, 73% of the support is distributed through Pillar 1. This focus on Pillar 1, although declining from 76% meaning that direct payments will be retained as the vital element in supporting ongoing food production, in the detriment of an other suggestion proposing a gradually transfer support to Pillar 2 to focus on the delivery of public goods. The distribution of funds across MS. The distribution of RD funds across Member States has not yet been decided. Recent official declarations emphasise the need to move away from the historic approach: "maintaining historical criteria is no longer an option … The signposts of the past will not enable us to prepare for the future and help the sector modernise".
As with direct payments, the distribution of support among Member States is at present based on historical considerations reflecting the origin of the funding that is now allocated to the 2nd pillar.

As this graph shows, 61% of the CAP budget (Pillar 1 and Pillar 2) goes today, according to the past performance of their agricultural sector to just 7 of the 27 Member States (France, Spain, Germany, Italy, UK, Poland and Greece). Sucha disparity leads to a distortion of competition, contrary to the view of the European Commission (2009b) about the future of CAP. In the future, it may be envisaged to use more objective criteria on the basis of the future policy objectives, preventing nevertheless a very sharp redistribution of resources between the Member States.

The current system of distribution of support across countries (mainly based in EU-15 on the historical levels of production, i.e. agricultural area and livestock, and in the new Member States on eligible agricultural land, i.e. farm structure), as well as the competitive structure of the agricultural sector in the various EU Member States is reflected also by the wide variation of the share of direct payments in the agricultural factor income. it ranged from less than 10% Romania to more than 50% in Denmark, comparing with an EU average of 29% reflecting the high level of dependence of agricultural producers in the EU on the granting of public, it making up an important part of farmers’income.
A very important aspect to be considered when deciding the redistribution of funds concerns the purpose of direct payments. As described by the European Commission [7], direct payments provide a basic income support for EU farmers. The income support function of direct payments contributes to ensure the longer term economic viability, and a smooth structural adjustment, of the farming sector. This is particularly important given the relatively low level of income in the agricultural sector. But agricultural producers face very different economic conditions across the EU.

Paying income support encourages farmers to help deliver of basic public good. The most significant of these are environmental, such as agricultural landscapes, farmland biodiversity etc. Appropriate methods of production, such as extensive farming, may also support biodiversity. Extensive arable crops and extensive grazing represent on average 15.8% of the total utilized agricultural area in the EU-27.
CONCLUSIONS

The paper contributes to the analysis of the rural policy development. We tried to capture the different approaches used by member states concerning the financial allocation per axes, choice of the most appropriate measures and, further, the financial allocation to each of them. We also tried to have a first assessment of how they match the needs identified at national and local level and contribute to the achievement of national strategies.

The agricultural industry is being asked to contribute towards addressing a range of global challenges, including food security, climate change and biodiversity, while being pressured to reduce the cost. Success in overcoming these issues is influenced by the way of distributing money between Member States, Pillars and objectives. Rural development perspectives should take into account changes in direct payments and market instruments, as well as the broader policy context.

The distribution of support among Member States, based on historical considerations, should consider more objective criteria on the basis of the future policy objectives.

REFERENCES

6. European Commission, DG Agriculture and Rural Development, EAGGF/EAGF Financial reports, Eurostat data (agricultural factor income and subsidies)