

CHALLENGES AND OPPORTUNITIES FOR ROMANIAN AGRICULTURAL COMPANIES

<https://doi.org/10.47743/jopaf1-2022-25-04>

Andrei-Cristian MATEI

Alexandru Ioan Cuza University of Iași, Faculty of Economics and Business
Administration
Iași, Romania
mateiandrei135@gmail.com

Florin OPREA

Alexandru Ioan Cuza University of Iași, Faculty of Economics and Business
Administration
Iași, Romania
foprea@uaic.ro

Abstract: *The purpose of this research is to highlight the factors that have implications in the financing of agricultural companies, to present the impact of investment funds on the development of agricultural companies and, at the same time, to estimate the potential of merging agricultural lands in Romania, in the period 2021-2027. The study highlights the challenges, causes and solutions of agricultural company managers who make the decision to finance investments. In this sense, we present to you the importance of investment funds and their advantages for agricultural companies. The research methodology is based on qualitative methods using the inductive and deductive approach. Finally, the research results can provide important guidelines in substantiating the financing needs of the agricultural sector for public decision-makers, as well as its importance for the economy.*

Keywords: *Financial decision, Agricultural companies, Mutual funds.*

JEL Classification: *F36, G23, G32, Q14.*

This Article was presented as a paper at the 14th edition of the Annual International Conference Globalization and Higher Education in Economics and Business Administration (GEBA 2021), which was held at the Alexandru Ioan Cuza University, Faculty of Economics and Business Administration in Iasi, Romania from the 20-22 October 2022.

Introduction

Financing is considered one of the most risky decisions because it involves significant amounts of money as well as a detailed plan to create that desired income (Hou, 2020). Agricultural financing requires long-term planning and the banking industry actively promotes agricultural financing, which enables farmers to carry out their tasks efficiently and without impediments (Bengtsson, 2013). It is known that the Romanian economy is based on agriculture. Proper use of stocks is a key component in ensuring the viability of farms. In this situation, access to timely, adequate and reasonable financing for agriculture is essential (Lapinskaite et al., 2020). Unlike most EU countries, agriculture has been and continues to be a sector of prime importance in Romania, both through its

contribution to the economy and as a share of the population working in this field. From the perspective of the contribution of agriculture to the economy, there is a convergence towards the European Union average (1.7%), for the first time it fell below 10% in 2005 and reached 6.5% in 2010 (Matei and Onofrei, 2021). The process of consolidation of agricultural holdings implies increasing their physical size, and implicitly ensuring their sustainability (Fulkerson and Timothy, 2017).

Recent studies have shown that access to financial resources has a significant impact on agricultural productivity. Farming that is profitable is more likely to be sustainable, that much is certain (Agovino et al., 2019). For example, microfinance emerged as a result of the reluctance of governments and the market to provide farmers with access to capital (Chen and Nan, 2017). Some argue that farmers, like other business people, must adjust to supply and demand and constantly make choices between larger, higher-risk production and smaller, more stable production (Rakowski, 2010). Others argue that the agricultural sector is a special one in need of public support, given its role in addressing a basic human need (for which no substitute is available): ensuring an adequate food supply in a sustainable manner, which means fighting the protection of the environment, animals and climate change (Hagemann, 2019). It is almost certain that, given the decline in public support, market-based risk management tools will play an increasingly important role (Brzozowska et al., 2017). The EU can encourage the development of agricultural holdings by providing training and education to farmers, ensuring the availability of market information, an appropriate surveillance regime and possibly promoting their use among risk-sharing cooperatives (Cordier and Santeramo, 2019).

Materials and methods

The study is based on various reports, official statistics, macroeconomic analyses, case studies, the analysis of documents issued by representative organizations of the SME sector and the business environment, from all the economic development regions of the country, reports of some national conferences and direct contacts made within the various institutions/authorities of the central, local public administration and NGOs regarding the subject concerned. For information on the financing of Romanian agriculture, secondary sources were also consulted, such as research papers, journals and articles using the academic Google search engine.

The objectives of this research are:

- A. Identification of the factors affecting the financing of agricultural holdings;
- B. Financing of enterprises through mutual funds;
- C. The land consolidation;

Results and discussions

A. Identification of factors affecting the financing of agricultural holdings

Identifying the right mix of financing for the stage the business is at must be one of the growth objectives. A balance between internal financing sources (generated by activity) and external ones (attracted or borrowed) is an important premise for the sustainable growth of agricultural enterprises.

Agriculture, one of the most important branches of the economy, returns to public attention especially in times of crisis. We have a war on the border with Ukraine that came immediately after the pandemic crisis. In such moments, the problem of food is much more visible, and even now new opportunities for development are opening up. We need a sustainable agriculture that is able to respond not only to current challenges, but also to future ones. For this, however, we need to know what the main advantages and disadvantages are at the moment.

Table no. 1 Challenges facing agricultural companies

Nr. Crt.	Challenge	Causes and solutions
1.	Small size of agricultural holdings	Public policies (such as collectivization); The characteristics and restrictions of the agricultural sector; The institutional and organizational models that were explored and designed in Romania were designed to support small and medium-sized farmers;
2.	Access to finance	Initiatives to increase access to credit by small farmers are targeted; In order to increase the efficiency of financial institutions, not only the legislation, but the structures and the way of organization must be reformed.
3.	Agriculture - developing sector in Romania	This is an intention to understand the origins and nature of the Romanian agricultural sector, as well as the revolutionary change towards intensive agriculture and the concerns it faces; The impact of using modern techniques in agriculture; The level of education, disadvantaged socio-economic sector, lack of technology and excessive bureaucracy are some of the impediments facing the agricultural sector and developing economies in general.
4.	The degree of poverty is directly proportional to the development of specialized knowledge	Poor people frequently act in ways that could exacerbate poverty; Farmers' cognitive abilities can influence the productive level of crops, this implies that poverty-related anxieties deplete cognitive capacities, reducing the potential for other tasks.
5.	Financing the entire (production) value chain	Farm connectivity and extended involvement along the value chain are evident for the sustainable growth of smallholder farmers; It is ideal to finance the implementation of an integrated value chain for the long-term growth and development of farms and income generation.
6.	Challenge in the agricultural marketing	Farmers face a lack of cold storage and face intense rivalry within distribution channels.

Sustainability becomes a development model only if countries, economic sectors, companies and citizens become aware, take ownership and use its principles. The variability of farm income depends on the variability of prices, production, costs and public support, but it is also influenced by the connection between all these factors, combined with the diversification of production. In a variety of situations in different countries, large farmers are expected to face price and yield variability in the future due to the changing global context as well as the gradual dismantling of classic market management tools.

Low productivity is influenced by the small size of farms, but also by the low degree of integration of digital technologies. The access of agricultural enterprises to financing is inextricably linked to the cost of financing methods and the applicant's financial structure. Many times, however, financial intermediaries question the ability of companies to present viable projects in which to invest. The financing sources of enterprises differ between countries due to the specific characteristics of enterprises, the level of development of the financial system and the governing institutional environment.

Agricultural firms are more and faster interested in becoming sustainable, due to the pressures exerted by numerous "megaforges" which constitute challenges for them, forcing them to overcome them. The challenges for companies will be to feed this market middle classes, at a time when resources are most likely insufficient and their prices increasingly volatile. The advantages held by many firms in the last two decades, as a result of cheap labor, will likely be eroded by growth and the power of the global middle class. Government regulations will become more harsh and more numerous. As the public and governments become concerned with climate change, industrial pollution, food security and mitigation natural resources, they will intervene with unprecedented new regulations and policies.

Agricultural finance enables small farmers to improve their incomes by providing substantial credit guarantee schemes for financing in the agricultural sector. In the offseason, a strategy to meet crisis financing requirements for agricultural and household needs. By paying a proportion of the total cost of the program, the government urges farmers to engage initiatives in key sites. All these schemes are associated with significantly higher investments capital, long-term income and jobs in national strategic sectors. Grants are given to the financing banks as they are received from the line ministry. Improved availability of loans, improved extension services and investment in irrigation and transport infrastructure should be the top priorities for the sector and government entities. Farmers should be made aware of credit shortfalls resulting from informal sources of credit.

The government must ensure that the financial system has sufficient openness and mobility to providing financial derivatives required by rural areas Government should ban high interest loans and adopt tough rules against them to promoting security and anti-poverty initiatives. Policies should be adaptive to increase productivity and improve the welfare of farmers and the interest rate should be lower for small farmers than for large farmers because small producers it rarely addresses their basic needs.

Financing of enterprises through mutual funds

Romania is one of the hottest spots on the global arable land investment map given the fertility of local soils and the undervaluation of assets compared to those in the West. The price of arable land has increased 25-fold in the past decade, with an average rate of annual appreciation of 40%. Romania is also a strong player on the raw materials market through the export surplus it has almost every season and an import logistics center through the Black Sea port. Many governments and international financial institutions have tried to address the problems related to the barriers to financing agriculture by developing programs to support small entrepreneurs. This is also the case of the Romanian government, which, since the country's entry into the European Union, has supported the creation of packages of financial instruments (guarantee funds, credit products, etc.) aimed

at facilitating the access of agricultural holdings to financing, in accordance with the most good European practices. The initiatives in this field, carried out so far, have tried to strengthen the capacity of financial intermediaries (microcredit institutions, banks, venture capital funds, etc.) to support, at the national and regional level, the investments carried out by the private sector. In addition, the membership status of the European Union ensures Romania the right to benefit from financial transfers aimed at facilitating access to knowledge and innovation, increasing the clarity and predictability of the business environment, education and training in the targeted field.

In addition to European funds, agricultural holdings can also benefit from other sources of financing such as financial leasing, Business Angel, Crowdfunding, Agricultural Credit, Investment Funds, etc. The creation of mutual funds in agriculture would help Romanian farmers to better protect themselves from risks not covered by insurance, if the legislation were clear, and the experience of other countries, such as France, demonstrates how this system can work for the development of agriculture.

The French model

The mutual fund in agriculture has already been successfully implemented in France, this being the only country that reported the attraction of European funds in the amount of 84 million euros in the period 2010-2013, according to special report no. 10/2013 of the European Court of Auditors. The model established in Romania is of French inspiration, but there are some considerable differences, which can make the difference in the future, in terms of functionality and efficiency. For example, in France it is mandatory, starting October 1, 2013, for farmers to be affiliated to an accredited mutual fund. The penalty for not complying with this obligation is the payment of a considerable fine related to the contribution that an affiliated member must pay. The initial Romanian regulation established as a sanction, for non-adherence to a mutual fund until March 1, 2014, obtaining only 20% of the supported forms of support from the national budget. This sanction was eliminated in the current regulation, through the law approving the ordinance. In addition, through the new regulation in Romania, there is the possibility for members of mutual funds to obtain incentives granted by the Government, depending on the available budgetary resources. According to French legislation, the environmental incidents that can be compensated through mutual funds in agriculture are those determined by the contamination of a production of animal or plant origin. Also, the economic losses generated by a fire - with the exclusion of forest or green waste fires - or an accidental discharge of pollutants from an industrial activity or an accident involving road transport of dangerous goods can also be compensated.

In Romania, the company Agrinatura Group Nanov Teleorman is controlled by the American investment fund Paine&Partners, which is considered the largest investor in Romanian arable land. The American investment fund Paine&Partners acquired in 2021 Spearhead International, the umbrella under which the local company Agrinatura Nanov is also located. Spearhead International is one of the largest agricultural producers in the EU with a portfolio of 85,000 hectares in several countries. Spearhead very discreetly entered the arable land market in Romania at the beginning of the 2000s, leasing increasingly large areas of land in Dolj and Teleorman counties from individuals and legal entities. For example, in 2002, the company took over around 3,000 hectares of land in Dolj. Also, the British manufacturer owns 100% of the shares of SC Agrinatura SA from Nanov,

Teleorman, a profitable company (8.3 million lei net) with a turnover of 68 million lei and 90 employees in 2014. Also, in April 2014, Spearhead International Ltd announced that its Romanian subsidiary, Agrinatura SA, took over 100% of the shares of SC Agronica SRL (Teleorman), SC Agritac SRL (Prahova) and assets of SC Moara Voievoda SRL (Teleorman). The area of land exploited by the company then increased by 1,680 hectares, up to approximately 17,700 hectares.

Recently, the Agrinatura Group Nanov Teleorman Company announced its intention to give up several tens of hectares of land. This strategy shows that the intention of the Americans is to clean up the portfolio of locally controlled assets. The names of the Spearhead International group of companies have previously been linked to spectacular acquisitions of arable land locally. They took over almost 1,700 hectares in Teleorman in early 2021 and another 3,000 hectares in Dolj in 2012. Companies under the Spearhead International umbrella locally control approximately 18,000 hectares of arable land, with strong production points in Teleorman and Dolj. They are among the largest foreign investors in Romanian arable land alongside German groups such as Agrar Invest (16,000 hectares), Germanagrar, Agrarius, the Austrians from Bardeau Holding (21,000 hectares) or the British from Insight Investment (14,000 hectares).

The creation of mutual funds in agriculture would help Romanian farmers to better protect themselves from risks not covered by insurance, if the legislation were clear, and the experience of other countries, such as France, demonstrates how this system can work for the development of agriculture. But in our country, the legislation has a series of ambiguities that can delay the appearance of these instruments. On Friday, January 10, 2014, the Law approving the Ordinance on the establishment and accreditation of mutual funds in agriculture was published in the Official Gazette. The amendments brought by this law to the text of the Ordinance issued by the Government in the summer of 2013 do not, however, come with the clarifications and additions expected by the business community, despite some progress it is making. Partnership is good because it brings together capital, labor, suppliers and customers. By partnering, farmers can have a larger portfolio of suppliers and customers. Increase the size of the business and automatically the bargaining power becomes greater. There are advantages related to a greater capacity to adapt to the market and, last but not least, the training of association members can be improved because they "borrow" experience from others.

The land consolidation

Land consolidation or is considered a prerequisite for large-scale mechanization to improve efficiency, optimize land use and increase crop productivity. It is expected to increase farmers' incomes and contribute to sustainable agricultural productivity. An estimate of the "potential" for land consolidation, for the period 2021-2027, can be made starting from the data on the dynamics of the physical structure of holdings in recent years, provided by the General Agricultural Census (RGA) for the period 2002-2010 and from the bases of data from the Agricultural Payments and Intervention Agency (APIA) for the post-accession period for farms eligible for direct payments. Analyzing the recent developments, it is found that the main resource of holdings with a high merging potential is in the size category of 1-5 ha and 5-10 ha, holdings that occupy 30% of the area eligible for payments (according to APIA data) and 34 % of the agricultural area used, according to the provisional data of RGA 2010.

The second important thing to bear in mind is the fact that the advanced age of the chief farm owners perpetuates the rigidity of the farm structure in Romania. From the detailed analysis of the APIA database, in 2010 only 1% of beneficiaries eligible for direct payments were under 30 years old and farmed less than 100 thousand ha, while 58% of direct payment beneficiaries were over 60 years old, working 2.3 million hectares. Corroborating these data, it is found that over 87% of the beneficiaries over 70 years old and 83% of those aged between 60-70 years have holdings of 1-5 ha. All these farmers exploit 1.3 million ha. In this situation, options should be found to release the land areas exploited at a low level of productivity, by offering alternative income opportunities to those who would leave the sector.

Partially, this goal is achievable through the two pillars of the support granted through the Common Agricultural Policy, therefore it is very important that Romania negotiates and uses in an optimistic version the following measures regarding the European support granted after 2013:

- the simplified scheme for small farms (Pillar 1);
- additional payment of 25% of the basic payment, in the first five years for young farmers (Pillar 1);
- the transfer of the amounts resulting from the capping of direct payments (from Pillar 1) to Pillar 2 for innovative projects aimed at increasing competitiveness (without co-financing of beneficiaries);
- payments linked to production for a series of difficult agricultural products and activities, but which are particularly important for economic and/or social reasons;
- measures for the development of farms and businesses (Pillar 2);
- accessing projects for investments in physical assets (funding source: Pillar 2);
- support for cooperation and for the establishment of producer groups (funding source: Pillar 2) etc.;

However, even after joining the EU, the process of natural consolidation proceeded very slowly, therefore the necessary means must be found to boost this process. From the point of view of national policy, it is possible to propose the establishment of a land bank that will have the role of merger by purchase or lease, the granting of support from the state budget for the registration of land according to the existing or amended laws in the future (source: the national budget), the establishment of a state aid scheme (with funds from the national budget) whose beneficiaries could be farmers registered with APIA, land owners or heirs in succession, who sell/lease the land to buyers/tenants (including the land bank), in order to create compact surfaces, which allow exploitation and obtaining high-performance productions. Under the conditions of the introduction of these national measures and in conjunction with the effective use of the instruments from the two Pillars of European financial support, some of the small or elderly farmers could opt to leave agricultural activities, significantly decreasing the number of holdings of up to 5 ha and increasing emphasized especially the farms in the 10-50 ha categories (where a doubling of the number and an expansion of the exploited area by up to 60%), respectively 50-100 ha (where the calculations indicate a potential increase in the number of about eight times, and of the total exploited area, by 250%).

Following this study on some of the effects of public financing on Romanian agriculture, we identify the following:

- The decrease in the number of farmers, but in accordance with the increase in the exploited land surfaces, observing a slight tendency to merge agricultural lands;
- Increasing agricultural entrepreneurial income;
- Increasing interest in opening start-ups in the agricultural sector;

Conclusions

Farmers' challenges caused by certain public policies or legislation in force can be minimized by applying a rational financial management combined with the implementation of modern technologies. Public financing can be the "cornerstone" for the operation of businesses in Romanian agriculture, and the institutions directly involved in this process must function as well as possible. If the research would allow, in a very modest way, the construction of theoretical frameworks capable of identifying the impact of public financing on the development of Romanian agriculture, it is considered that without public financing, the agricultural sector would suffer greatly by recording a slow and unsustainable evolution. But, in addition to European funds, agricultural holdings can also benefit from other sources of financing, such as financial leasing, business angel, crowdfunding, agricultural credit, investment funds, etc. Future avenues of research can focus on the financial evolution of small and medium-sized agricultural enterprises that have benefited from public funds, but also on the sustainability of enterprises after the financing stage. Research limits may be represented by the volatility of agricultural product prices and climate change.

References

1. Agovino, M.; Casaccia, M.; Ciommi, M.; Ferrara, M.; Marchesano, K. (2019). Agriculture, climate change and sustainability: The case of EU-28. *Ecol. Indic.*, 105, 525–543; <https://doi.org/10.1016/j.ecolind.2018.04.064>
2. Bengtsson, Elias, (2013), Shadow banking and financial stability: European money market funds in the global financial crisis, *Journal of International Money and Finance*, 32, (C), 579-594; <https://doi.org/10.1016/j.jimonfin.2012.05.027>
3. Brzozowska A., Bubel D., Kalinichenko A., Nekrasenko L. (2017). Transformation of the agricultural financial system in the age of globalisation. *Agricultural Economics – Czech*, 63: 548–558. <https://doi.org/10.17221/155/2016-AGRICECON>
4. Chen, Yong and Nan Qin, (2017), The Behavior of Investor Flows in Corporate Bond Mutual Funds, *Management Science*, 63, (5), 1365-1384; <https://doi.org/10.1287/mnsc.2015.2372>
5. Cordier J., Santeramo F.G. (2019). Mutual funds and the income stabilisation tool in the EU: retrospect and prospects, *EuroChoices*; <https://doi.org/10.1111/1746-692X.12210>
6. Fulkerson, Jon A. and Timothy B. Riley, (2017), Mutual Fund Liquidity Costs, *Financial Management*, 46, (2), 359-375; <https://doi.org/10.1111/fima.12157>
7. Hagemann, C., (2019), *EU Funds in the New Member States: Party Politicization, Administrative Capacities, and Absorption Problems after Accession*; Palgrave Macmillan: Cham, Switzerland. https://doi.org/10.1007/978-3-030-02092-7_1
8. Hou, J. (2020). *Research on the Contractual Relationship of Contract Farming: Based on the Perspective of Behavioral Economics*, Social Sciences Academic Press: Beijing, China;
9. Lapinskaite, I.; Skvarciany, V.; Janulevicius, P., (2020), Impact of Investment Sources for Sustainability on a Country's Sustainable Development: Evidence from the EU. *Sustainability*, 12, 2412; <https://doi.org/10.3390/su12062421>

10. Matei A.C., Onofrei M., (2021). Financial management practices for farm profitability, *Journal of Public Administration, Finance and Law (JOPAFI)*, Issue 21 Special, pp. 33-38;
11. Rakowski, David, (2010), Fund Flow Volatility and Performance, *Journal of Financial and Quantitative Analysis*, 45, (1), 223-237; <https://doi.org/10.1017/S0022109009990500>



This article is an open access article distributed under the terms and conditions of the Creative Commons Attribution - Non Commercial - No Derivatives 4.0 International License.