

AN ANALYSIS OF AGRICULTURAL FINANCING MECHANISMS IN ROMANIA FROM 2008 TO 2023

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Abstract: *The importance of the agricultural sector in a country's economy cannot be overstated. Supporting the agricultural sector through financing can be in two forms: through non-reimbursable grants (from national or European funds) and through bank loans. This study aims to show the forms of support for the agricultural sector in Romania for the period 2008-2023.*

Key words: *agricultural sector, non-reimbursable grants, bank loans, national or European funds*

INTRODUCTION

Agriculture remains a fundamental pillar of the Romanian economy, particularly in terms of rural employment, land use, and socio-economic stability. Following Romania’s accession to the European Union in 2007, the agricultural sector became increasingly integrated into the Common Agricultural Policy (CAP), which reshaped financing mechanisms and support instruments. Traditional state subsidies were gradually replaced by a complex framework combining direct payments, rural development funds, and private financial instruments [1,12,13].

Between 2008 and 2023, Romanian agriculture benefited from substantial inflows of European funds administered mainly through the Agency for Payments and Intervention in Agriculture (APIA) and the Agency for Financing Rural Investments (AFIR). At the same time, the domestic banking sector adapted its products to agricultural specificities, introducing subsidy pre-financing and state-guaranteed credit schemes. Despite these developments, structural challenges persist, including demographic decline, land fragmentation, bureaucratic complexity, and limited access to credit for small and medium-sized farms [2,3,4,5].

The objective of this study is to analyze the evolution of agricultural financing mechanisms in Romania from 2008 to 2023 and to evaluate their impact on structural changes within the sector. The research also aims to identify key constraints and to formulate recommendations for improving the efficiency and inclusiveness of agricultural finance [7,8].

MATERIALS AND METHODS

The research is based on a qualitative and quantitative analysis of secondary data. The materials used include:

- official statistical data provided by the National Institute of Statistics (INS);
- annual reports and strategic documents issued by APIA and AFIR;
- European Commission, World Bank, OECD, and FAO reports [6,7,10,13];
- academic literature on agricultural finance and rural development.

The methods applied consist of descriptive statistical analysis, comparative analysis over time (2008–2023), and structural interpretation of financing trends. Data on population, utilized agricultural area, and agricultural credit were analyzed to identify long-term dynamics and interdependencies between financial capital and physical resources.

RESEARCH RESULTS

The following forms of support were studied for this study: bank loans, non-repayable loans, and subsidies/direct payments.

Results of the Analysis of Agricultural Financing Mechanisms in Romania (2008–2023). The research examined financial support systems for Romanian agriculture from 2008 to 2023, focusing on non-reimbursable funding and bank credit.

I. The financing environment for Romanian agriculture transformed significantly after EU membership, according to the research findings.

The Romanian agricultural financing system underwent a complete transformation during the study period from 2008 to 2023.

The previous state subsidy system has given way to a new system which combines Direct Support for income and stability with Rural Development for investment and modernization.

The European Agricultural Fund for Rural Development (EAFRD) received its funding through the CAP 2014-2020 and 2023-2027 programming cycles to support strategic goals, including farm modernization, product processing, and rural infrastructure development.

II. Non-Reimbursable Funding: The Role of Key Institutions. Two institutions controlled more than 95% of European agricultural funding to execute CAP objectives.

1. APIA (Agency for Payments and Intervention in Agriculture)

- Main Function: The organization handles Direct Payments (Pillar I of the CAP) through SAPS/BISS area-based payments and national transitional aid (ANT).

- The program maintains steady income payments for farmers, which helps them achieve financial stability and short-term planning goals. Payments from APIA build trust with banks, enabling them to provide loans to farmers.

2. AFIR (Agency for Financing Rural Investments)

- Main Function: The organization executes the National Rural Development Programs (PNDR) through funding of essential investments under Pillar II of the CAP.

- The agency enabled farmers to obtain funding for acquiring modern equipment and building facilities and processing facilities, and supported young farmers to establish their operations, which helped achieve generational succession.

III. Bank Credit and Sector Liquidity The research findings demonstrate how the Romanian banking system evolved to create financial solutions that support European funding programs for agriculture.

1. The Pre-financing of Subsidies Mechanism

- Key Instrument: The APIA Credit (Subsidy Credit) enables farmers to receive immediate short-term funding (up to 90% of their APIA certificate value) through their future subsidy as security.

- The credit solution helps farmers manage their cash flow because it bridges the time gap between their agricultural expenses and their subsidy payments during peak production seasons.

2. Commercial banks have modified their lending practices through state-backed guarantees from FGCR, which decreased lending risks for banks to provide agricultural financing to farmers.

- Banks provide payment plans that match agricultural production schedules because they understand farming operations require specific payment periods for interest-free periods during non-income-generating times.

IV. The research shows that the system faces ongoing structural obstacles that prevent funding growth:

- The complex access procedures at APIA and AFIR create significant barriers for small farmers and inexperienced project managers to obtain funding.
- The financial system provides unequal access to funding because small and medium-sized farms struggle to get bank loans because they lack collateral and short credit histories.
- The current insurance coverage for agricultural risks remains insufficient because it does not provide adequate protection against climate change and market fluctuations.

The agricultural financing system in Romania evolved from 2008 to 2023 by combining EU funding with banking credit solutions. The sector needs better access to financing and simplified procedures to achieve sustainable growth for all producers.

Table 1.

Romanian Agricultural Dynamics (2008–2023)

Year	Resident Population (as of January 1)	Utilized Agricultural Area (thousand hectares)
2008	21.462.186	13.993
2009	21.411.411	13.844
2010	21.359.811	13.754
2011	20.147.245	13.435
2012	20.076.653	13.308
2013	19.988.752	13.313
2014	19.919.243	13.311
2015	19.861.424	13.321
2016	19.760.314	13.310
2017	19.645.717	13.336
2018	19.523.621	13.302
2019	19.414.458	13.305
2020	19.317.984	12.763
2021	19.186.201	12.763
2022	19.051.562	12.716
2023	19.054.548	12.550

Source: [11]

The data tables provided reveal a structural transformation in the Romanian agricultural sector, characterized by a contraction in physical resources, an expansion of financial capital, and a clear trend towards market consolidation.

1. Declining resource base

The sector faces significant challenges in terms of demographics and land use:

- **Population decline:** The resident population fell by more than 2.4 million people (-11.3%) between 2008 and 2023. This reduction in the human capital base signals an increase in the labor shortage in rural areas and diminishes the traditional structure of small-scale agriculture.

- **Land contraction:** The utilised agricultural area (UAA) reflected this trend, decreasing by -1,443 thousand hectares (-10.3%). This loss of land, particularly the sharp decline after 2019, suggests challenges such as land abandonment or reclassification, directly limiting the sector's productive capacity.

2. Financial compensation: the EU and the credit injection

Despite the decline in its resource base, the sector has experienced a massive influx of capital, driven by European subsidies and domestic bank loans:

- **Increased EU funding:** direct financial support has grown exponentially. APIA (Pillar I) payments increased by +108.7%, ensuring income stability. More importantly, EAFRD/AFIR (Pillar II) payments, which finance modernization and investment, increased by +219.0%. This external funding is the main driver of technological change.

•Credit market boom: domestic lending has grown even faster. New loans to agriculture recorded an exceptional increase of +336.1%. This demonstrates high demand for capital expenditure (e.g., machinery, irrigation) and strong bank confidence in the sector's profitability, despite demographic trends.

3. Structural Consolidation: Credit Concentration

The distribution of the loan stock clearly indicates that the benefits of this financial boom are not evenly distributed, favoring large-scale commercial farming:

- Increased Concentration: The share of credit allocated to Large Enterprises increased from 47.5% in 2015 to 51.6% in 2023 (a gain of +4.1 percentage points). This signifies banks' financial preference for businesses with greater scale and collateral.

- Micro-Enterprise Marginalization: Over the same period, the share of credit going to Microenterprises decreased from 12.0% to 7.9% (a drop of -4.1 percentage points). This structural shift suggests that the financialization and modernization of Romanian agriculture are accelerating the consolidation of land and production into the hands of fewer, larger entities, potentially marginalizing smallholder farms.

Table 2.

Resident Population and Utilized Agricultural Area (UAA)

Year	Resident Population (as of January 1)	Utilized Agricultural Area (thousand hectares)
2008	21,462,186	13,993
2015	19,861,424	13,321
2023	19,054,548	12,550
Change 2008-2023	-2,407,638	-1,443

Source: [11]

The summary data shows Romania lost its core resources at a critical rate between 2008 and 2023. The Resident Population and Utilized Agricultural Area (UAA) experienced similar declines of 10% to 11%, indicating severe structural problems. The population reduction of 2.4 million people amounts to an 11.2% decrease, creating major demographic issues and reducing the number of agricultural workers. The UAA decreased by 1,443 thousand hectares during this period, which represents a 10.3% reduction. The agricultural land distribution between residents has maintained a constant level at 0.652 ha/person in 2008 and 0.659 ha/person in 2023. The population reduction rate exceeds the land reduction rate, indicating the sector underwent structural changes through land consolidation by fewer large-scale operators to replace declining small-scale farming operations and rural populations. The sector faces essential resource constraints, which explain its future financial and modernization patterns.

Table 3.

Agricultural Sector Financing Boom

Year	New loans granted to agriculture (millions of Lei)	Total stock of loans granted to agriculture (millions Lei)
2008	1,757	10,698
2015	3,365	11,598
2023	7,665	13,778
Increase 2008-2023	+336%	+28.8%

Source: [11]

The table (Table 3) shows a substantial financial boom in the Romanian agricultural sector between 2008 and 2023.

- New Loans Granted saw an explosive rise of +336% (from 1,757 million Lei to 7,665 million Lei). This demonstrates a massive increase in demand for capital investment and the rapid modernization of farming practices.

- The Total Stock of Loans (outstanding debt) grew more moderately by +28.8% (from 10,698 million Lei to 13,778 million Lei).

In essence, financial capital has become the leading driver of change. The sector is rapidly shifting to a highly capitalized model, heavily reliant on debt to fund technological upgrades and maintain productivity despite shrinking land and labor resources.

CONCLUSIONS

Following a comprehensive analysis of agricultural financing for the period 2008-2023 and a survey on public perceptions of investments, the study concludes that Romania has considerable investment potential, but this remains hampered by structural obstacles.

1. The agricultural sector, supported by financing and modernization APIA, ensures that incomes remain stable thanks to direct payments. AFIR: provides funding for investment and modernization. Key barrier: Progress is hampered by overwhelming bureaucracy and uneven access to capital, which particularly affects small- and medium-sized farms.

2. Perception of investment (from the perspective of the general public) There is a deep and well-rooted optimism among educated young people, but this often does not translate into action: Major barrier: 74.2% of respondents have never tried to invest. Causes of the barrier: Behind this barrier lies primarily a lack of financial resources and field-specific skills, not necessarily a fear of taking risks.

Strategic recommendation: To maximize potential, we need to streamline bureaucratic processes and launch financial inclusion programs that give young people and small producers the chance to overcome the obstacles that prevent them from accessing funds and knowledge.

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