

FINANCIAL INSTRUMENTS IN AGRICULTURAL POLICY

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Starting from the multiple challenges currently existing at the European level as well as from the general principles of the Common Agricultural Policy (CAP), the following policy brief presents, from a Romanian perspective, different scenarios for the following Multiannual Financial Framework (MFF), with particular attention to direct payments, using appropriate empirical and long-term research methods for the reform of the Cohesion Policy, namely the reform of the CAP. Given the timeliness of the topic, the paper has a strong analytical and pragmatic character, aiming at offering national decision-makers different positioning options in European negotiating formats. This paper aims to improve understanding of performance budgeting and the presentation of options for the future financial framework in the context of current challenges.

Keywords: Multiannual Financial Framework ; Cohesion Policy ; Common Agricultural Policy ; sustainability ; EU budget.

Introduction The overall objective of our research activity is to identify our priorities for the next multiannual financial framework after 2020), in the context of multiple risks and challenges, Europe and, implicitly, Romania must respond in the long term to cohesion policy and the common agricultural policy, to orienting resources from the budget EU to European strategic objectives (e.g. CAP, Cohesion, Security and Defense, etc.). In the light of the above, the evaluation is based on methodological research Q, i.e. the factors that are determinant and impacting on building an ambitious and balanced budget, to meet both the priorities that have led to a reduction of the gaps and the spread of economic growth in the EU, but also to the new priorities, so as to meet all the expectations of the Member States and EU citizens. At the national level, we have identified some risk items in the EU budget, impacting on the convergence of the Cohesion Policy and the Common Agricultural Policy. Although much has been done to make the EU budget system work towards performance, there remain many possibilities for improvement. This concerns in particular the quality and quantity of information and their role in budget decision-making. Budgetary performance principles can not only be a challenge, but also a way to improve the new EU financial architecture embodied in the revised Financial Regulation beyond the current Multiannual Financial Framework (MFF). In order to be in agreement with the European Commission's proposals, we need to know in detail what these are. The Commission proposal on the Multiannual Financial Framework (MFF) for the period 2021-2027 (MFF proposal) sets out the budgetary framework and the main guidelines for the Common Agricultural Policy (CAP). On this basis, the Commission presents a set of regulations that set the legislative framework for the CAP in the period 2021-2027, together with an impact assessment of the alternative scenarios for policy developments. These proposals provide for a date of application from 1 January 2021, from the European Union and Euratom under Article 50 of the Treaty on the European Union received at the European Council on 29 March 2017. The last reform of the CAP was decided in 2013 and implemented in 2015. Since then, the context in which this reform has been reformed has changed significantly. In particular: Agricultural prices have fallen substantially - depressed by macroeconomic factors, geopolitical tensions and other forces. The focus of trade negotiations has shifted more prominently from multilateral agreements to bilateral ones, and the EU has become more open to global markets. The EU has signed new international commitments – e.g. (via COP 21) and broad international development issues (through the UN Sustainable Development Goals - SDG) as well as efforts to respond better to other geopolitical developments, including migration. These changes have led to a public debate on whether the 2013 reform goes far enough to help the CAP respond adequately to the continuing challenges of the economic health of the agricultural sector, environmental care, climate action and social structure of the EU's rural areas - especially in the face of emerging opportunities for action in the areas of trade, bio-economy, renewable energy, circular economy and the digital economy. The CAP must be modernized to meet these challenges, simplified to do so with a minimum of administrative burden and even more coherent with other EU policies to maximize its contribution to the Commission's ten priorities and sustainable development objectives. Indeed, as the Commission recalled in its recent MFF Communication, a modernized Common Agricultural Policy will need to support the transition to a fully sustainable agricultural sector and the development of vibrant rural areas, providing safe, safe and high quality food for over 500 million consumers. Europe needs a smart, sustainable, sustainable and competitive agricultural sector to ensure the production of safe, high-quality, accessible, nutritious and diverse food for its citizens and a strong socio-economic structure in rural areas. A modernized Common Agricultural Policy needs to increase its European contribution by reflecting a higher level of ambition on the environment and climate and by addressing citizens' health, environment and

climate expectations. As set out in the Work Program, the Commission has extensively consulted on simplifying and modernizing the CAP in order to maximize its contribution to the Commission's priorities and sustainable development objectives (SDGs). It focused on specific policy priorities for the future, without prejudice to the financial allocations for the CAP in the next MFF. The process included a broad consultation as well as an analysis of the available evidence on CAP performance, including relevant REFIT platforms. The result was presented in the Communication adopted on 29 November 2017 entitled "The Future of Food and Agriculture". The Communication allows a structured dialogue on the future CAP in the EU institutions as well as with stakeholders. This policy document highlighted the challenges, objectives and possible pathways for a CAP that will prove the future, which must be simpler, smarter and more modern, and lead the transition to more sustainable agriculture. In particular, the Commission has identified higher environmental and climate ambitions, better support orientation and greater dependence on the virtual relationship between R & D and innovation as the top priorities of the post-2020 CAP. It also proposed as a way to improve the performance of the CAP, a new delivery model (NDM), to shift the emphasis on compliance from performance to policy and to rebalance the responsibilities between the EU and the Member States, with a higher subsidiarity. The new model aims to better achieve EU objectives based on strategic planning, policy interventions and common performance indicators, thus improving policy coherence in the future CAP and other EU objectives. In this context, I think we must prioritize our objectives with the amendment of the focus on local specificities and their integration at national and European level.

Methodology of research

In order to underpin the research methodology, the classical observation and examination instruments were used, research methods based on the basic principles of scientific research, respectively: "competence, objectivity, truth, methodical, demonstration, correlation, evaluation of results, utility and psychomoral" (Ristea and Franc, 2013). Procedures based on factual analysis, intensive documentation at the level of internal and international literature (European Commission and European Parliament) were used, including the databases as well as the scientific material existing in the libraries of the specific institutes in Romania and other international sources. The methodology of the paper has as direct instruments the collection of data and information from the literature and from the existing practice in public and private institutions, but especially scientific articles published by specialized research networks (ResearchGate, Academia.edu, etc.), published articles in various journals of the European Commission, European Parliament, relevant specialist books in the field of reference, legislation, analyses and studies, official documents of different European and national institutions, tax documents and interactive database of the National Bank of Romania, other relevant sources identified in the specialized libraries. Moreover, we will analyse the documents using the comparative, analytical, descriptive method, the non-participative and participatory observation, and the use of a set of information sources, the collection of financial data in the established databases. The paper will also use Q Methodology in research, which is a method of research used in social sciences to study people's "subjectivity" – that is, their point of view at European and national level. The research information support will be provided by the monographs, books, scientific articles, scientific conferences and other materials that are presented in the scientific papers and publications on the official websites of national and international research institutes, international financial institutions research etc. "Budgets are not bookkeeping exercises – they are about priorities and ambition. So, let's first discuss about the Europe we want." Jean-Claude Juncker, European Commission President, 8 January 2018.

Findings

Since its inception, the Common Agricultural Policy has evolved from a policy focused on subsidizing production to a policy aimed at supporting income rather than promoting rural development and protecting the environment. Some analysts (Ghinea, 2009) show that although "agricultural policies are the most integrated European economic sector", over 50 years of reform, the CAP faced the so-called "prisoner dilemma" : although the major objectives are agreed by to all Member States, in the process of intergovernmental negotiations, each country is seeking a more moderate or 'more forceful' support of its interests. Some analyses (European Commission – EC, 2014) show that, since its inception, CAP has evolved considerably in order to enable European farmers to meet the needs of over 500 million citizens. At present, in the literature (Bleahu, 2005), the CAP has as its primary objectives the provision of decent living conditions for farmers, the guarantee of the stability of food supply (safe and at affordable prices for consumers) and the favoring of a balanced development of all rural territories in the European Union. The most recent CAP reform has had a substantial impact on the financing instruments for the agricultural sector in the Member States of the European Union. Currently, the most used mechanism for financing agriculture in the European area is direct payments, which constitute the main means of supporting European farmers and sustainable rural development in the EU. Recent analyses (Dorfman, 2018) show that the new CAP has set ambitious targets, including increasing subsidiarity, more flexibility and adapting to the needs of farmers. In fact, at the horizon of 2020, the new CAP must guarantee a sustainable European agricultural production while protecting the interests of both farmers and consumers in the face of price volatility. Since there is a real global competition for technological advances, including in the agricultural field, a major CAP objective must be to support technological and innovative development. Funding under the CAP through direct payments – present and outlook

The Direct Payments Facility has been designed to support and stabilize farm incomes in the European area facing systemic risks induced by agricultural product price volatility, as well as the unpredictability of weather phenomena, which can have a negative impact on the quality and quantity of production farm. Direct payments are allocated in the form of annual financial support received by the

beneficiary European farmer provided he complies with a set of agricultural rules and practices complying with environmental, animal welfare, food safety and traceability standards. However, some analyses (Dewbre et al., 2001) have shown that besides the potential stimulus of direct payments for the development of the European Community's agricultural sector, they also have a negative effect on trade, given that European farmers may sometimes be disadvantaged compared to international competitors, because compliance with "green" (ecological) standards involves higher production costs. It is worth noting that in the new financing context, a solution has been sought to address the above-mentioned negative aspects through the "green direct payments" mechanism, a mandatory system to be applied in Member States that primarily finance agricultural activities with the condition that the environment requirements are respected. In order to avoid distorting free competition on the internal market, these direct payments are not based on the level of production but on the land used and the type of agricultural practice. In this context, it should be made clear that enhancing the environmental performance of CAP funding through the mandatory "green" element of "green direct payments" requires a reconsideration of the priorities for action aimed at the same time meeting the climate objectives and those of environmental policy. These may take the form of simple, generalized, non-contractual and annual environmental actions that go beyond cross-compliance requirements and which are related to agriculture (e.g. permanent pasture, plant cover, crop rotation and set-aside for commercial purposes, ecological). In addition, the possibility of including requirements for the current NATURA 2000 areas and improving certain elements of GAEC standards should be considered in the Member States' rural development programs. Although "green direct payments" are already (since the latest CAP reform, from 2013) a priority in the Member States' funding programs, the experience of the previous financing context (2007-2013) has shown that other direct payment targets are also important. For example, in order to take account of the specific problems of certain regions, where certain types of agriculture are considered to be particularly important for economic or social reasons during the period 2014-2020, voluntary coupled aid may still be granted but subject to certain limits clearly defined (support based on established elements: areas, productivity level or number of animals). In the view of some authors (Pedersen, 2014), in order to increase competitiveness and contribute to the vitalization of rural areas and to reduce bureaucracy, the current system could be replaced by a simple and specific aid scheme for small farmers. The same analysis highlights the need for simplification of cross-compliance rules by developing a simpler and more comprehensive set of rules for the benefit of farmers and administrations, without restricting the scope of the cross-compliance concept. According to the provisions of the last CAP reform, through the Flexibility Mechanism, over 2014-2020, it will be possible to transfer up to 15% of the funds between the two pillars (agriculture and markets – Pillar I and Rural development – Pillar II), which will allow Member States to more easily achieve their specific rural development objectives. In concrete terms, it is about the new architecture of direct payments, which is better targeted and fairer, while preserving the "ecological component" and aiming at strengthening rural safety networks. In this context, it should be recalled that the mechanism for meeting the criteria for direct payments, the so-called "cross-compliance", which is the general legal framework guiding Member States to obtain funding under the Common Agricultural Policy, has become, since January 1, 2015, better geared to the environmental component, by introducing a new instrument – "green direct payments". This type of financial support will reach up to 30% of the total direct payment allocation and will be accessible to farmers who respect three mandatory agricultural practices: maintaining permanent pasture, organic production-based crops and crop diversification. It should be noted that direct green payments are mandatory components of the Member States' rural development programs because they have the advantage of stimulating environmentally friendly farming practices and ecosystems. Some analyses (Was et al., 2014) indicate the huge potential existing in the current financing context of the Common Agricultural Policy in 2014-2020 regarding the sustainability and greening of agricultural practices of community farmers. As these analyses indicate, the new CAP financing context for the 2014-2020 period is a major opportunity for Community farmers because it pays particular attention to the process of increasing the sustainability and greening of EU farmers' farming practices. The funding framework includes some mandatory regulations for Member States (such as "green payments" per hectare), but also provides room for manoeuvre for national authorities to meet priority rural development objectives, including building a sustainable economic environment through respect for environmental objectives and combating climate change. As a result of the changes induced by all the reform processes that have shaped it in half a century of existence, the Common Agricultural Policy has become more adaptable to changes and external challenges (as was the case with the Russian embargo which affected agricultural markets and because of which, through the Flexibility Mechanism, the EU mobilized exemplary support funds for its farmers), but also more capable of boosting a competitive development of rural space. According to DG Agriculture & Rural Development, between 2015-2020, EU-28 has allocated 252.2 billion euros for direct payments, the countries with the largest funds being France (over €45 billion), Germany (over €30 billion) and Spain (over €29 billion). As far as Romania is concerned, it is in a medium position in the overall ranking, with an allocation of over €10 billion (see Table 1). According to the most recent EU statistics (Direct Payments 2015-2020 – Decisions taken by Member States), by 31 January 2016, most Member States had notified decisions on payment schemes for young farmers, the use of national reserves to supplement the funds for the single payment scheme on the surface, as well as those on the transfer mechanism in the "greening" process. Under the greening transfer mechanism, five Member States

(France, Austria, the Netherlands, Poland and Ireland) have notified the transfer of funds while the European Commission has three months from the date of the notification to submit any comments, or objections and that could eventually culminate in rejecting this transfer (in accordance with Article 10 (4) of Commission Regulation No 614/2017). According to the possibility provided by the Community provisions on the flexibility mechanism of the CAP, some Member States have decided to transfer funds from Pillar I (Direct Payments – PD) to Pillar II. PAC where? Trends revealed by the evolutions of the present One of the fundamental changes brought about by the most recent reform of the CAP is to increase transparency in terms of financing rural areas in the Member States. The new regulations on increasing the transparency of rural area funding were introduced by Regulation 1306/2013, and according to these provisions, rural beneficiaries receiving funds through CAP mechanisms will benefit from improved management procedures on financial support but doubled by a more rigorous control procedure for funded projects. Some analyses (Hogan, 2014) show that the role of the new transparency requirements is decisive in helping real European farmers through the CAP (when they are often forced to abide by stricter rules on organic farming, environmental requirements and those related to animal welfare, compared to their global competitors), whether it is the direct payment system or through personal investment projects. By improving transparency in the financing of rural projects in the Member States, the Reformed Agricultural Policy requires annual publication by the Member States of beneficiaries of direct payments, detailing the exact amounts and destinations for which they will be used, including specifying the type of measures for which will provide the funding and the specific objectives covered by that funding. Regarding the new regulations on direct payments, in the literature (Gray, 2012) it was expressed that they are relieving the community authorities of a part of the administrative burden related to the funds allocated to rural projects, while at the same time committing much more to the actors at national and local level (national and regional payment agencies). These shared management regulations stipulate that before national agencies for rural development can apply for funding from the Community budget, they must be accredited on the basis of clearly defined criteria by the European Commission, and subsequent accreditation must meet certain eligibility requirements in order to have the right to manage the granting of financial aid. Payments made through these agencies are then reimbursed by the European Commission (annually for EAGF and quarterly for EAFRD funds). Regarding the impact of CAP reforms on direct payments, Zahrt (2015) feels that although over 50 years of existence have unquestionably improved this common policy, there are still aspects of its regulations that may lead to distortions of free competition in the market internal EU, sometimes disadvantaging low-income farmers. Also, some critics of the CAP have expressed the view that this policy is still insufficiently geared to respond effectively to the unprecedented challenges facing the EU agricultural sector in the face of major natural disasters. For example, a series of structural weaknesses of the CAP, from the failure to target sustainable economic development objectives to the fact that, from the economic point of view, the only net beneficiaries of the CAP remain farmers, landowners pay less in terms of contributions to the Community budget than they receive through this policy. The new CAP financing context is characterized by making a single, independent production payment for each beneficiary (process known as decoupling). However, an essential element of the new Common Agricultural Policy provides that payments may be reduced if the beneficiaries have not complied with existing rules on the environment, food safety, animal and plant health and animal welfare animals or if they have not met the newly established requirement to maintain all agricultural land in good agricultural and environmental condition. The Commission proposal on the multiannual financial framework for 2021-2027 (COM (2018) 322 final) provides that a significant part of the EU budget should continue to be dedicated to agriculture, which is a common policy of strategic importance. Thus, in current prices, it is proposed that the CAP should focus on its core activities with EUR 286.2 billion allocated to the EAGF and EUR 78.7 billion for the EAFRD. These agricultural funds are complemented by additional funding from Horizon Europe, as the proposed envelope for this program includes EUR 10 billion to support research and innovation in food, agriculture, rural development and the bio economy. A new agricultural reserve will be established in the EAGF to finance additional support for the agricultural sector. Unused amounts of the reserve in one year shall be carried over to the following. As regards distribution of the direct payments among Member States, it is proposed that all Member States with direct payments below 90% of the EU average will see a continuation of the process started in the period of 2014-2020 and will close 50% of the existing gap to 90%. All Member States will contribute to financing this external convergence of direct payments levels. The Member States' allocations for direct payments in the CAP Strategic Plan regulation are calculated on this basis. For rural development, it is proposed to rebalance the financing between the EU and Member States' budgets. In line with what is foreseen for the European Structural and Investment Funds, an increase in national co-financing rates will allow keeping public support to European rural areas largely unchanged. The distribution of EAFRD support is based on objective criteria linked to the policy objectives and taking into account the current distribution. As is the case today, less developed regions should continue to benefit from higher co-financing rates, which will also apply to certain measures such as LEADER and the payments for management commitments. A certain level of flexibility for transfers between allocations will be offered to the Member States. Up to 15% of respective direct payments can be transferred to EAFRD allocation and vice versa. A higher percentage can be transferred from direct payments to EAFRD allocation for interventions addressing environmental and climate objectives and installation grants for young farmers. Conclusions In our opinion, the future of CAP funding must focus on the "green"

component of this policy, given that the relationship between agriculture and biodiversity in the European space is a symbiotic one. Furthermore, the current common policy on the use of agricultural land is, as experience has shown in recent years, an appropriate tool for correcting so-called “market failures”, while halting the decline of bio-diversity (as demonstrated by the success of the Natura 2000 direct payments). Agri-environment schemes for European farmers have allowed them to continue farming, along with the adoption of more environment-friendly practices and techniques. These types of financing measures have proved to be both an economic success and an adjunct to the conservation of the bio-habitat, which can produce long-term benefits for the protection of the environment and the preservation of natural landscapes across the EU. The next Multiannual Financial Framework for 2021-2027, in our vision, must be much more flexible and much larger, so that it can manage new priorities and meet the current challenges of the EU. We can also say that the impact of the European budget depends more on designing and prioritizing it than on its size and the implementation of the political programs of all Member States. Each state must contribute to the European added value, to improve the performance and simplify the procedures, these being the defining elements of a modern and efficient EU budget. Europe's expenditure programs must reflect our determination to ensure that every euro is spent in the most efficient way possible and that the results are felt quickly on the ground. Given that climate change will continue to exert a strong impact on economic development in the European area, the eco component of European rural area funding must be a catalyst in Member States' rural development strategies, as the quality of agricultural habitats will determine the ability of the EU to ensure its future sustainability of supplying quality food and to be competitive in the international arena of trade in agricultural products. By means of “green direct payments”, Member States can help ensure viable food production to improve the competitiveness of the agricultural sector and increase its weight in the food chain, as this sector is very fragmented compared to other sectors of the food chain that are better organized and therefore have a greater bargaining power. So far, it seems likely that the new MFF will allow Member States to encourage green growth through innovation, which can boost the take-up of new technologies, the development of new products, the change of production processes and the support of new demand patterns, especially in the context of emerging bio-economy. □ The Common Agricultural Policy needs to be modernized in order to meet the current and future challenges and needs to be simplified with a minimum of administrative burden. It should be made clear that the CAP has become more connected with other EU policies, as it can be seen in its contribution to the Commission's ten priorities and sustainable development objectives. Indeed, as the Commission recently recalled, “a modernized Common Agricultural Policy will need to support the transition to a fully sustainable agricultural sector and the development of vibrant rural areas, providing safe, safe and high-quality food for over 500 million consumers. 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