

## ASPECTS ON THE INFLUENCE OF EUROPEAN FUNDS ON DEVELOPMENT AND EFFICIENCY OF AGRICULTURAL UNITS (CASE STUDY S.C. PREMETALICA S.R.L. BOTOSANI - PART I)

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### Abstract

*The National Rural Development Programme is the instrument on which can be accessed the European Agricultural Fund for Rural Development (EAFRD) and the European Economic Recovery Plan (EERP), which meets the strategic guidelines of the EU rural development (\*\*\*, 2008, \*\*\*, 2006).*

*Achievement of the National Rural Development Programme 2007-2013 (N.R.D.P) objectives are provided by the Managing Authority for N.R.D.P., the General Directorate of Rural Development from the Ministry of Agriculture and Rural Development. It coordinates the works nationally and locally by specific structures: Paying Agency for Rural Development and Fisheries (A.P.D.R.P.), which provides technical and financial implementation for funding measures within the N.R.D.P., less of the Less Favoured Areas and the Agency for Payments and Intervention in Agriculture (A.P.I.A.), which ensure the implementation of measures under the Less Favoured Areas.*

*The Common Agricultural Policy (C.A.P.), in current form, consume through the complex system of subsidies and other financial incentives, about half of the common budget and is built around two pillars: the first is the common organizations of open market and covers common measure of operation regulator integrated markets for agricultural products and the second, which become at scale in the last decade is that of rural development includes structural measure by targeting an harmonious rural development (diversification of activities, the products quality, environmental protection) (Barbu, 2006; Bărsan, 2000; Dinu, 2000; Iosip, Rușet, 2008; Rusu, 2005).*

*In the new created context, Romanian farmer must adjust to economic reality existing in Europe and worldwide, to take technical and economic methods that offers a secure economic stability and efficiency, while being forced to produce in accordance with the European standards and global markets (Zahiu, Dachin, 2007).*

*European funds for agriculture and rural development is closely linked to the Agency for Payments and Intervention in Agriculture, which operates in three main areas, unrolling support measures financed from the national budget and European funds (Gavrilescu, 2002; Iosip, Rușet, 2008).*

*The purpose of the research is the development of strategies for the development and efficiency of agriculture in Botosani County by attracting European funds managed by specialized institutions (APIA Botosani, APDRP Botosani).*

*Research objectives included the following aspects:*

- *research situation and analysis of the main techniques in the county of Botosani;*
- *analysis of natural and socio-economic conditions of the Botosani county;*
- *study of the main economic, technical and financial indicators of crop production, animal husbandry and agricultural processing products and recovery (case study at SC PREMETALICA SA Botosani who accessed European funds) and the recommendation of alternatives for development and production efficiency of Botosani agriculture by attracting structural funds;*
- *identifying strategies for product, price, promotion and exploitation to ensure product quality, consumer safety and economic efficiency of enterprises in the field.*

**Key words:** agriculture, european funds, efficiency

## INTRODUCTION

Development and efficiency of agricultural units in a particular area is based on economic and financial analysis of the current situation, according to adopt those measures to increase agricultural production and economic efficiency by European funds (Barbu, 2006; Brezeanu, 1999; Bucătaru, 2000; Cristea, 2000; Dinu, 2000; Iosip, Rușeț, 2008; Rusu, 2005; Vincze, 2000; Voicu, 1999; Zahiu, Dachin, 2007).

Therefore it requires merging and consolidation of viable farms by promoting managerial and marketing skills of farmers and orientation of farming to profitable investments, including integrated projects by accessing EU funds (Bârsan, 2000; Câmpanu, Chiran, 2012; Chiș, Merce, 1999; Cristea, 2000; Dinu, 2000; Gavrilescu, 2002; Iosip, Rușeț, 2008);

**National Rural Development Programme** is a tool which can be accessed on the **European Agricultural Fund for Rural Development (EAFRD)** and the **European Economic Recovery Plan (EERP)**, which complies with the strategic guidelines of the EU rural development (\*\*\*, 2008; \*\*\*,2006).

In the new created context Romanian farmers must adjust to economic reality existing in Europe and worldwide, to take technical and economic methods that offer a secure economic stability and efficiency, while being forced to produce in accordance with the standards of the European and world market (Bârsan, 2000; Chiș, Merce, 1999; Iosip, Rușeț, 2008; Otiman, 2006; Zahiu, Dachin, 2007).

European funds for agriculture and rural development is closely linked to the Agency for Payments and Intervention in Agriculture, which operates in three main areas, while unrolling support measures financed from the national budget and European funds (Barbu, 2006; Chiran A. et al., 2008; Dumitru M. et al., 2004; Iosip, Rușeț, 2008):

S.C. PREMÉTALICA S.R.L. Botoșani started in 2007 an investment project for setting up a organic farms of cows and goats for milk, financed partly from public assistance grant SAPARD, while the remaining private financing from bank loans. The investment was put into operation in 2008.

This paper has explained the developments and trends in the main indicators that manifest in agriculture, combined with the influence of various internal and external factors, with direct consequences on the development and efficiency of agricultural units, focusing particularly on attracting and using E.U. funds.

## MATERIAL AND METHOD

**The case study** was performed at S.C.PREMETALICA S.R.L. Botoșani who accessed European funds specialized in animal production.

**The purpose of research** is the creation of development and efficiency strategies in Botosani County agriculture by submitting investment projects to attract E.U. funds.

**Research objectives** included the following aspects:

- diagnostic analysis of the current situation on the basis of the main technical and economic indicators;
- study techniques and main economic and financial indicators achieved in agriculture and recommending alternatives for development and efficiency of agricultural production in Botosani county by attracting structural funds;
- identifying strategies for product, price, promotion and exploitation to ensure product quality, food safety and economic efficiency of agricultural and agroalimentary companies.

For this purpose we used several tools, methods and techniques of research that revealed the most significant aspects, setting assumptions, objectives and measurement needed for the research itself according to subject matter.

Thus, in this work are explained developments and trends that manifest in agriculture, combined with the influence of various internal and external factors, with direct consequences on the development and efficiency of agricultural units, focusing particularly on attracting and use of funds.

## RESULTS AND DISSCUSIONS

**S.C. PREMETALICA S.R.L. Botoșani** is located in Botoșani, characterized by a temperate continental climate with excessive shade, with average annual temperature of 8,60C and 560 mm annual rainfall.

**S.C. PREMETALICA S.R.L. Botoșani** started in 2007 an investment for setting up a organic farms cows and goats for milk, financed partly from public assistance grant SAPARD (3,665,300 lei), while the remaining with private financing from bank loans. The investment was put into operation in 2008. Analysis on the unit patrimony revealed the following (Table 1):

-from the first year of implementation, 2007, the value of property assets and most of the non-current assets increased by 8.4 times, respectively, 8.1 times out long-term debt and investment subsidies;

-the value of assets was growing in late 2009, when they finished the financial investment from 2010 to 2012, there was a decline in the effect of depreciation or asset disposals carried out occasionally;

-subsidies for investments recorded an upward trend over the period 2007 – 2009, as they were received, and from 2010 until the end of 2012 was reduced the extent of recovery through depreciation of property involved;

*Table 1*

Patrimony evolution of S.C. PROMETALICA S.R.L. Botoşani during 2006-2012

Indicators	The analyse period					2012	% / 2006
	2006	2007	2009	2010	2011		
Fixed assets - thousands lei:	587.2	4761.2	6688.2	6190.1	6337.3	5699.8	970.7
Circulating assets - thousands lei:	107.5	1211.9	2242.3	1855.5	783.2	934.8	869.6
<b>Total activ - thousands lei:</b>	<b>711.2</b>	<b>5973.1</b>	<b>8930.4</b>	<b>8045.5</b>	<b>7120.5</b>	<b>6634.6</b>	<b>932.9</b>
Current liabilities - thousands lei:	522.5	1134.4	447.8	453.0	947.0	1941.8	371.6
Long-term liabilities - thousands lei:	30.9	3332.3	5234.5	4968.3	3830.8	2120.0	68.6
Subsidies for investments - thousands lei:	40.0	1387.0	3037.8	2516.5	2002.1	1529.1	38.2
Total equity - thousands lei:	117.8	119.4	210.3	107.7	340.6	1043.7	886.0
<b>Total pasiv - thousands lei:</b>	<b>711.2</b>	<b>5973.1</b>	<b>8930.4</b>	<b>8045.5</b>	<b>7120.5</b>	<b>6634.6</b>	<b>932.9</b>

Source: Owen processing data S.C. PROMETALICA S.R.L. Botoşani

-in 2007 there is an increase of 10.8 times the long-term debt and short term debt doubled as a result of employing unit in the development and growth of business investment (growth continues slowly until the end of 2009 after changes debt structure with emphasis on increasing debt maturities up to one year, to the detriment of the payment period longer than one year);

-equity have great fluctuations during 2006 - 2009 (a slight variation in 2009 on account of a subscription of capital increase, but not completed in the next year).

Since 2011 there is a gradual increase in equity share capital increase: triples by the end of 2011 compared to 2010 and in 2012 compared to 2011 by successive capital injections.

In 2007, when the project began, the unit had materialized tangible assets in lands and in that year, the investments in progress and advances of tangible assets increased more than eight times. In late 2009, the investment completed and was put into operation and highlights a new operating structure to drive tangible assets: a share of 67.76% is held by construction (69.98% share owned including land costs) and 30.02% share belonging to technological equipment, livestock and plantations;

In the period under review, the company's assets and resources controlled by it recorded a substantial increase (to 27.08% in 2009 compared to 2007), and the difference against 2007 was 39.58% at the end of year 2012 (+ 1.6 million lei).

The society patrimony directly increased due to investments made on behalf of funding accessed in 2007 and committed long-term credit.

With this increased of fix capital has increased the efficiency of operation and the obtained financial results were superior which have increased the value of equity.

In balance sheet structure for that period is found an upward variation of all the assets, current and fixed assets, as shown in Figure 1:

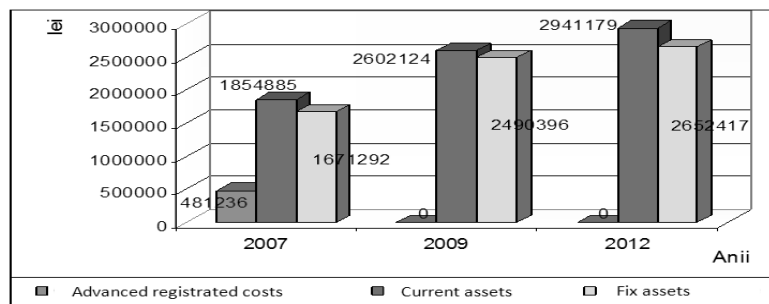


Fig. 1 Evolution of total assets by components

At the end of 2012, compared with 2007, tangible assets recorded an increase of 58.7% in net worth due to the fact that during this period the company purchased land, land improvements and equipments (Figure 2) :

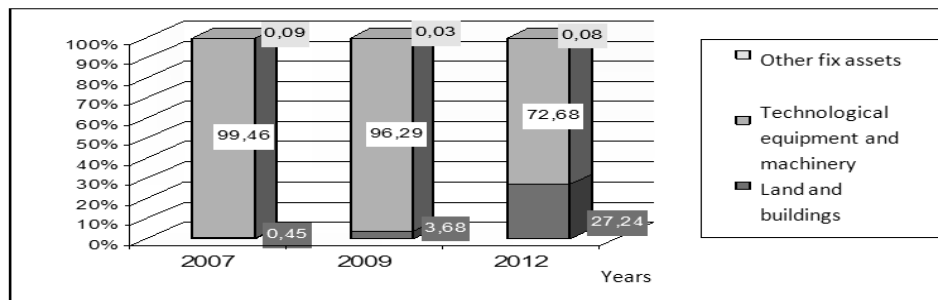


Fig. 2 Tangible assets structure in 2012

The analysis of the total assets used by the company in its economic structure is achieved by permanent assets and current assets with rates, the prominence of these in total assets and each element within the categories of assets (Table 2, Figure 3).

Table 2

Rates of the main categories of assets

Indicators	The analyzed period					%/ 2007
	2007	2009	2010	2011	2012	
Fixed assets - total (thousand lei):	1671.3	2490.4	3514.2	3000.3	2652.4	158.7
- Fixed assets – (thousand lei)	1671.3	2490.4	3514.2	3000.3	2652.4	158.7
Current assets total (thousand lei):	1854.9	2602.1	1987.352	1792.5	2941.2	158.6
-stock (thousand lei)	1362.1	1070.2	827.2	1241.9	2045.9	150.2
- receivables (thousand lei)	332.3	1518.3	1156.2	450.8	629.8	168.5

Cash and short term invest. (thousand lei)	160.5	13.6	4.0	99.8	265.5	165.4
Assets - total (thousand lei)	4007.4	5092.5	5501.6	4792.7	5593.6	139.6
Rate of fixed assets - %	41.7	48.9	63.9	62.6	47.4	-
Rate of tangible assets - %	100.0	100.0	100.0	100.0	100.0	-
Rates of current assets - %	46.3	51.1	36.1	37.4	52.6	-
Rates of stocks - %	73.4	41.1	41.6	69.3	69.6	-
Rates of receivables - %	17.9	58.4	58.2	25.2	21.4	-
Rates of availability - %	8.7	0.5	0.2	5.6	9.0	-

Source: Owen processing data S.C. PROMETALICA S.R.L. Botoșani

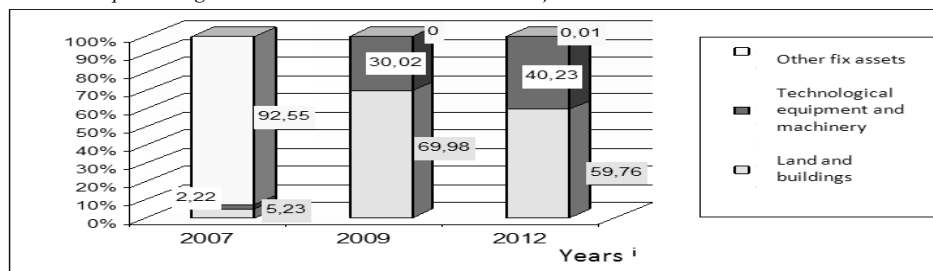


Fig. 3 Structure of tangible assets during 2007-2012 - %

Analysis of current assets for the period 2007 - 2012 reveals the following (Figure 4):

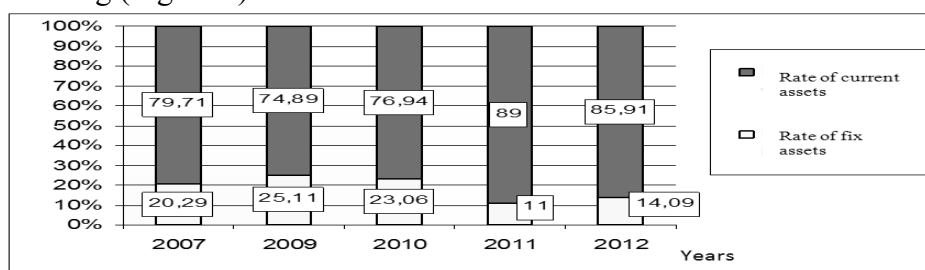


Fig. 4 Rates evolution of fixed assets and current assets during 2007-2012- %

- a balanced proportion of current assets in total assets (20.29 % - 14.09 %);
- a structure very least liquid of current assets - availability in the years 2009 - 2011 (0.01 % - 1.26 %) with a recovery in 2012 (11.94 %), (the recommended minimum level of 5 %);
- a declining receivables for the years 2010 - 2011, with a return in 2012 (10.03 %, 18.69 % and 28.17 %);
- a high percentage of stocks in current assets for the period 2009 - 2011 (from 72.46 % to 89.45 %) compared to a normal level not exceeding 50 %; the stock declines in 2012 and recorded a share of the current assets of 59.89 %.

Profit and loss account measures performance of business activity in the financial year and includes net sales, income and expenses, grouped according to their nature and **outcome of the exercise** (Table 3):

In 2007, the turnover represented 58.9 % of operating income, a level that has deteriorated over the next period, reaching 39.6 % in 2012.

Operating income was influenced by stock production and income from investment subsidies.

In the period under review, the turnover has been on an upward trend, with a maximum level recorded in 2011, when growth was over 48 % since 2010, while maintaining the subsidies, but on the growth with about 59 % of sold production level. In 2007, revenues from subsidies accounted for only 7.8 % of turnover, and in 2009 were missing entirely, so that in the next period to increase with increasing exploitation, of turnover, with a level of 15.47 % in 2010, a decrease from 12.21 % in 2011 and a slight recovery to 14.25 % in 2012.

Table 3

Evolution of net turnover, income, operating expenses and financial results (operating, financial, current, gross and net) at S.C. PREMETALICA S.R.L. Botoșani during 2007-2012

Indicators	Finance year			Differences		
	2007	2009	2012	in % :		
				2009/ 2007	2012/ 2009	2012/ 2007
Net turnover – thousand lei	697.7	548.7	1368.9	78.7	249.5	196.2
Operating revenue –total -thousand lei	1183.9	3937.5	3452.6	332.6	87.7	291.6
Operating expenses -total- thousand lei	772.2	3356.3	3171.5	434.6	94.5	410.7
Profit – thousand lei	411.7	581.2	281.1	141.2	48.4	68.3
Financial income –total- thousand lei	0.5	8.0	92.9	1554.2	1164.8	181
Financial costs – total- thousand lei	409.8	581.5	366.1	141.9	63.0	89.3
Loss – thousand lei	409.3	573.5	273.2	140.1	47.6	66.8
The current result, of which:						
-profit – thousand lei	2.4	7.6	7.9	314.1	103.0	323.4
Gross profit for the year						
-Profit – thousand lei	2.4	7.6	7.9	314.1	103.0	323.4
Tax on profit - thousand lei	0.9	6.8	7.1	728.8	104.2	759.1
Net result						
Net profit – thousand lei	1.5	0.8	0.8	53.3	100.0	53.3

Source: Owen processing data S.C. PROMETALICA S.R.L. Botoșani

The period 2007 - 2012, is within the context of larger changes to the national economy and the manifestation of a global economic crisis and economic downturn. Therefore it requires tracking and analyzing the evolution of turnover corrected with inflation index (Table 4):

Table 4

Evolution of current turnover and corrected (actual) during 2007-2012

Indicators	The analyzed period					Yearly rate %
	2007	2009	2010	2011	2012	
Current turnover – thousand lei	697.7	548.7	1160.6	1724.6	1368.9	x
Growth in turnover based on chain - %	100.0	78.7	211.5	148.6	79.4	x
Growth in turnover on fix base - %	100.0	78.7	166.4	247.2	196.2	x
Yearly growth in turnover - %	100.0	-21.4	111.5	48.6	-20.6	29.5
Yearly growth in prices - %	100.0	13.9	6.1	5.8	1.9	x
Corrected (actual) turnover – thousand lei	697.7	481.8	1094.0	1630.2	1343.5	x
Yearly growth in corrected (actual) turnover - %	100.0	-30.9	127.1	49.0	-17.6	31.9

Source: Owen processing data S.C. PROMETALICA S.R.L. Botoșani

The data presented is found for the period 2007 - 2012 the average annual growth rate in turnover of 29.5 % and the adjusted (real) consumer

price indices by 31.9 %.Achieving higher production value during 2009 - 2012 compared to the reference year 2007, and registration of costs related to immobile production from investment, involved also total and operating costs appropriate increased.Analysis of variance of the two categories of costs from current activities for the entire period reveals fluctuations from one year to another (Table 5):

-In 2007 when the implementation of the project starts in force, brings an increase in operating costs by 129.98 % compared to 2006 and a large increase in financial costs by massive contraction of credit (up to 86 times compared to 2006);

Table 5

Analysis of costs recorded in 2007 against the period 2009 – 2012

Indicators	Analysed period				
	2007	2009	2010	2011	2012
Changes in operating costs - %	130.0	434.6	68.3	156.5	88.4
Operating costs - thousand lei	772.2	3356.3	2293.5	3588	3171.5
Changes in financial costs -%	8603.4	141.9	74.2	95.6	88.9
Financial costs – thousand lei, of which :	409.8	581.5	431.7	412.7	366.1
Interest costs – thousand lei	222.9	352.8	309.4	243.4	219.5
Other financial costs ( exchange diff. )-thousand lei	186.9	228.9	122.3	169.2	146.6
Total costs – thousand lei	1182	3937.8	2725.2	4001	3537.6

Source: Owen processing data S.C. PROMETALICA S.R.L. Botoşani

-2009 was higher than 2007, with operating costs over 4 times higher and a 40 % increase in financial costs;

-After the depression from 2010, in which both lowers the operating costs (in 68.33 % of that of the previous year) and the financial costs (74.23 %), in 2011 there is a reversal of these costs recorded (156.45 % at operating costs and 95.59 % at financial costs);

-In 2012 are reduced the operating and financial costs ones by about 2 %.

**Financial costs** have a significant share of interest costs (cost of borrowing ranging from 60-70 % of these costs), and about a third are foreign exchange costs, due to the fluctuation of the conversion of debt denominated in foreign currencies.

## CONCLUSIONS

1. Although Botosani county has a large area of land, this natural resource can not be fully exploited. Economic and financial indicators used in the retrospective analysis of the results obtained by S.C. PREMETALICA S.R.L. Botosani is "**vital signs**" of them, helping to monitor the actual state, the potential problems and identify trends.

2. Patrimony situation presented during 2009-2012 revealed that the unit has grown significantly and is engaged in an extensive process of investment, which has increased fixed capital investment using the main sources of structural funds and long-term financial loans. These sources



were added equity in a certain extent, even some temporary sources, which are used partly for financing on short term.

3. At December 31, 2012 SC PREMOTALICA S.R.L. Botosani had a total asset which consists of the majority of fixed assets (mainly machinery and technological equipment) and about 1/3 of current assets (mostly stocks). The analysis of the total assets used by the company in its economic structure is achieved by permanent assets and current assets with rates, the prominence of these in total assets and each element within the categories of assets. During the period under review, the turnover has been on an upward trend, with a peak recorded in 2011, when growth was over 48% since 2010, while maintaining the subsidies, but on the growth of about 59 % of production sold level. The period from 2007 to 2012, is situated in the context of major changes to the national economy and the manifestation of a global economic crisis and economic downturn.

4. Therefore it requires tracking and analyzing the evolution of turnover corrected with inflation index. Year 2007, which starts in force the project implementation bring an increasing in operating costs by 1.3 times compared to 2006 and a large increase in financial expenses by massive contraction of credit, which increased by 86 times compared to 2006.

5. It also notes that for the summing of European projects and also for financial reporting during project implementation required large documentation.

6. We recommend the cleaning of company asset of inventories and doubtful receivables, proper sizing of inventories necessary to achieve turnover; reduction of major dependence of foreign funding by increasing the own sources: capital increase (possibly by attracting new investors, but that does not dilute its control over the company by converting debt into equity participation etc); increase both the value of fixed assets and equity through the revaluation of fixed assets, which would ensure fair presentation of their value and achieving financial indicators better and more attractive to donors.

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