

Priorities in Investment Decisions for Rural Development in Romania

Ana Popa ¹, Laura Vasilescu ²

^{1,2} Faculty of Economy and Business Administration, University of Craiova
anapopa2005@yahoo.com laura_giurca_vasilescu@yahoo.com

Abstract: *Romania joined the European Union- EU -in 2007, as an emerging economy and rural by excellence and this feature is keeping even in 2012. Difficulty in establishing investment priorities for rural development in Romania is caused by the large size and fragility of the rural area and the fact that all inputs have an inadequate level. The objectives of rural development are strongly influenced by national policy and European policy of the European Union, but also by the politics of international organizations (World Bank Group-WBG, Food and Agriculture Organization-FAO). Investment for climate changes and for infrastructure is strongly correlated and is vital in all states, including Romania. The six EU Priorities for rural development in the period 2014-2020 are also considering priorities for increasing education level and social inclusion in the rural areas, which are other pressing needs in Romania in order to move to a modern agriculture.*

Key words: rural, Romania, World Bank, EU, agriculture, financing

JEL Classification: M20, Q13, Q16, R12

1. Introduction

Definition and development of rural areas continues to be the subject of many debates, contradictions and reconsiderations.

This paper is based on the modified version of OECD typology, used since 2010 by the European Commission, which takes into account population density, the presence of large urban centers and their share in total population of the region. Specifically, the EU agreed typology establishes three categories of regions: predominantly rural, intermediate regions and predominantly urban regions.

Rural development is a target for all modern economies, this aspect being especially important for Romania, which joined the EU area in 2007 as a rural country par excellence, keeping this feature in 2012. Specifically, in the country's regional classification, from the 41 counties + Bucharest, only Bucharest was considered predominantly urban area, while 14 counties were considered intermediate zone and most of the 27 counties were predominantly rural.

The objectives of rural development are strongly influenced by national policy and European policy of the European Union, but also by the politics of international financial organizations (especially the World Bank) in the rural and agricultural field.

In essence, this paper used the official data, more reports and analysis regarding the European Union (EU) which has established a policy of rural development with important measures imposed by the differences between various countries, but also by the financial crisis and the pressure globalization.

Given Romania's EU membership, the research started from the goals of Common Agricultural Policy (CAP) launched in 2003 in order to design a support system that is independent of production and to increase the retention capacity of

population from the rural regions. Then, it should be considered the Common Agricultural Policy for the period 2014-2020.

In all states there are numerous problems facing by the rural areas, particularly infrastructure, services, human resources, generating a number of difficulties on investment decisions. In the next period, many Western European countries are interested on the development of services [Muller, 1991, p.67-70].

2. Romanian rural zone – extended and undeveloped

EU agreed typology establishes three categories of regions:

- predominantly rural;
- intermediate regions;
- predominantly urban regions.

Romania joined the EU in 2007, as an emerging economy and rural by excellence and this feature was still available in 2009 and even in 2012.

The characterization of the regions in EU and Romania regarding the share of territory and GDP results from the situation presented in Table 1.

Table 1. Importance of rural area in Romania compared with EU 12 and EU 15 in 2009-%

	Territory			GDP		
	Rural	Intermediate	Urban	Rural	Intermediate	Urban
EU 15	56,1	33,9	10,0	16,2	31,4	52,4
EU 12	58,6	35,0	6,4	29,2	34,7	36,2
Romania	59,8	39,4	0,8	32,4	42,8	24,8

Source: European Commission (2012a, p.51).

Figure No. 1 with the map of the 41 counties + Bucharest show that in 2010, only Bucharest was considered predominantly urban area, while 14 counties were considered intermediate zone (light color) and most of the 27 counties were predominantly rural (dark color).

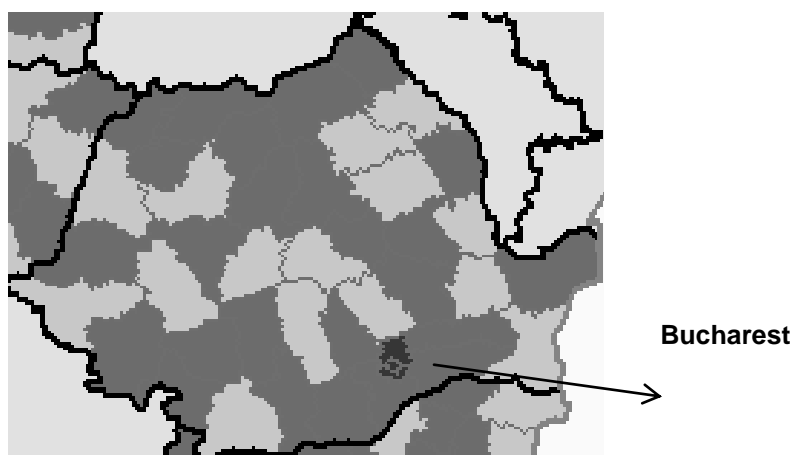


Fig1. Map of Romania regarding classification of counties on the 3 areas (predominant rural, intermediary, predominant urban)

Source: European Commission (2012a, p.48)

Romanian rural area comprises as municipalities, 2,858 communes from a total of 3,178 municipalities 990%. A commune has 3-4 villages with an average distance of 7 km between the farthest one. The average area is around 6,500 hectares, of which more than 90% is terrain. The commune in Romania has an average 3,700 inhabitants, but with an aging structure, because 23% have over 60 years (compared to 16% in urban areas) and 25% have under 18. Natural increase is negative, reaching - 3.7/1,000. The average number of members of a rural household is three persons.

The characterization of the share of Romanian population and rural workers, compared with EU 15 and EU 12 results from the situation presented in Table 2.

Table 2. Importance of rural area in Romania for population in 2009-%

	Population			Employment		
	Rural	Intermediate	Urban	Rural	Intermediate	Urban
EU 15	19,1	34,8	46,1	18,0	33,3	48,7
EU 12	40,6	38,1	21,2	36,2	36,7	27,1
Romania	45,7	43,8	10,5	41,5	46,5	12,0

Source: European Commission (2012a, p.51).

In fact, Romania has a very non-development rural area, because around 90% of the population from predominantly rural and intermediate regions produces about 75% of GDP, compared to the situation from EU15 where only 55% of rural population produces over 46%

3. Many investment requirements and the difficulty of establishing priorities

Difficulty in establishing investment priorities for rural development in Romania is caused by the fact that all inputs have an inadequate level. Thus:

- the human factor is characterized by a population that tends to age, many young people choosing for emigration to more developed economies in the EU and the training is predominantly related to agriculture and very little to non-agricultural areas;
- technological factors are specific to a conventional farming and only a little there are locally specific factors for a modern agriculture;
- infrastructure in rural areas, as well as from all over Romania is insufficient and non-modernized; at 31.12.2010 the road infrastructure included public road with a length of 82,386 km, of which 16,552 km (20.1%) national roads, 35,221 kilometers (42, 8%) county roads and 30,613 km (37.1%), communal roads, and Romania has only 519 kilometers of highway;
- climate factors are becoming more pressing, but Romania is ready to face in a small extent to floods, drought, frost or other extreme events;
- administrative capacity of municipalities is still low, with staff trying to adapt to EU requirements, but many failures because of financial reasons;
- self-financing capacity is low and with a high decreasing trend, because of predominantly agricultural activities, while activities in services or manufacturing sector are low and difficult to maintain;
- the transition period after 1990 brought dramatic changes in the legal status of land, without reaching a clarification of land ownership, and many acts of corruption have driven away the potential investors.

The analysis of national investment for agriculture shows that the rural area has been a priority for the Romanian policy, compared with the industry and other fields.

Table 3. Share of net investment on the main activities of the Romania economy -%-

Years	Net investments -Total	by activity:			
		Agriculture	Industry	Construction	Services
2007	100	2,6	32,6	13,7	51,1
2008	100	3,4	32,2	13,6	50,8
2009	100	3,9	34,3	12,2	49,6
2010	100	3,7	37,6	12,8	45,9

Source: INNSE, Statistical yearbook 2011,p. 378.

Since 2008 we can observe a change of the investment trend because after the EU integration in 2007, the EU imposed an increased co-financing.

4. Priorities set by the World Bank and the EU for funding the rural area

Both the World Bank and the EU have established policies to support constantly the rural development in all states; these policies are accompanied by a substantial financial support.

A clear hierarchy of priorities in rural development considers agriculture as the nucleus for which the World Bank established a scale of priorities, and their knowledge is important because the IFC funding seeks these priorities. (IFC -The International Finance Corporation is an international financial institution which offers investment, advisory, and asset management services to encourage private sector).

Specifically, scale up in areas with largest impact in rural areas is shown in table 4 (The World Bank Group-WBG, 2012, p.6.).

It can be noticed the fact that evolving of global context, with increased food price volatility and climate change, calls for stronger collective action.

The WBG underlines that especially for Romania is important enhancing land tenure security through registration of property rights (WBG, p.75)

All these priorities affect the entire rural development. In turn, The European Union has policies for rural development and agriculture, and allocates resources in these areas.

Table.4. Areas of support for agriculture

Investment climate	Land tenure, regulation for provision of security, warehouse receipt finance, and streamlining customs procedures.
Infrastructure	Concessions for storage, irrigation, and transport.
Input producers and distributors	Farm equipment, micro irrigation, fertilizer, and agrochemicals.
Traders, distributors, and retailers	Backward linkage to smallholders through provision of finance, extension services, and ecosystem services.
Financial intermediaries	Expand agribusiness financing with risk sharing, warehouse receipt financing, risk management products, trade finance, and environmental and social standards.
Advisory and ecosystem services	Farmer, small- and medium-scale enterprise training, environmental and social standards, resource efficiency, corporate governance, strategic community investments.

Romania received financial support before the accession to the EU by SAPARD funds during 2000-2006 and then after joining in 2007, and has access to structural funds based on a National Rural Development Plan (RDP) for 2007-2013.

For the period 2007-2013, the EU has set three major objectives of rural development policy, namely:

1. Increasing the competitiveness of the agricultural and forestry sector;
2. Improving the environment and countryside through support for land management;
3. Enhancing the quality of life in rural areas and promoting diversification of economic activities.

RDP is focused on these three objectives, benefiting from allocations from the European Agricultural Fund for Rural Development (EAFRD) and to this are added other resources devoted to rural development and agriculture especially, the European Agriculture Guarantee Fund (EAGF).

Romania failed to exploit European funding offer, so that by December 2012 the absorption rate was only 12% of the current total budget of EU structural funds.

For the next period, the EU shows a support for rural development. Thus, for the period 2014-2020 are presented in detail the next six EU priorities for rural development (European Commission, 2012c, p.8), namely:

1. Fostering knowledge transfer and innovation in agriculture, forestry and rural areas;
2. Enhancing competitiveness of all types of agriculture and enhancing farm viability;
3. Promoting food chain organization and risk management in agriculture;
4. Restoring, preserving and enhancing ecosystems dependent on agriculture and forestry;
5. Promoting resource efficiency and supporting the shift towards a low-carbon and climate-resilient economy in the agriculture, food and forestry sectors;
6. Promoting social inclusion, poverty reduction and economic development in rural areas.

In fact, EU policy shows a special support for tertiary sector even further, according to the Europe 2020 strategy.

5. Conclusions

The main conclusion is based on the great dimension but also the fragility of the rural sector in Romania, compared to other European countries.

Specific areas of interest of stakeholders are the following: improving policies and decisions, access to markets, infrastructure development, access to financial services, access to knowledge, to services innovation and risk reduction.

Finally, Investments for climate changes and for infrastructure become vital in all states, inclusive in Romania and these investments needs to be strongly correlated.

The six EU Priorities for rural development in the period 2014-2020 are also considering priorities for increasing education level and social inclusion in the rural areas, which are other pressing needs in Romania in order to move to a modern agriculture. In fact, EU policy shows a special support for tertiary sector in all European countries, according to the Europe 2020 strategy.

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