

FOREIGN INVESTMENTS AND STRUCTURAL FUNDS ON THE RURAL DEVELOPMENT

Ana POPA, Prof., PhD.

University of Craiova, Romania

Laura GIURCĂ VASILESCU, Assoc. Prof., PhD.

University of Craiova, Romania

Sandor SIMON, Assoc. Prof., PhD.

Tessedik Sámuel College, Békéscsaba, Hungary

Keywords: rural development, foreign investments, structural funds.

Abstract: Statistical data shows that the agricultural and rural areas are less attractive for the foreign investors, even for the developed economies. Two worldwide processes are putting pressure on the rural development policy at the international level. First of all, the trends in climate change and the competition between agriculture and other sectors for the natural resources exacerbate competition and conflicts over access to land, water and biological resources and accentuate extreme poverty and hunger. Second, the rural policy will continue to play a vital role in helping all the countries achieve the wider objectives of sustainable growth, job creation and competitiveness. The idea is that the rural development needs to be organized and financial encouraged, and near the foreign investment and transnational corporations, the strategies for agrarian reform and rural development should include action to other financial support. The North American and European Union rural regions have experienced remarkable changes in the last time and they created one American model and one European model for the rural development. Therefore, the rural development, particularly in the developing countries, needs to be accompanied by the allocation of legal rights and adequate and stronger financial resources to local stakeholders to enable meaningful governance and poverty alleviation.

Introduction

The rural development is a major component of the macro economy for all the categories of the countries: developed or developing, because many rural areas would face major economic, social and environmental problems.

Statistical data shows that the agricultural and rural areas are less attractive for the foreign investors, even for the developed economies.

The idea is that the rural development needs to be organized and financial encouraged, and near the foreign investment and transnational corporations, the strategies for agrarian reform and rural development should include action to other financial support.

The North American and European Union rural regions have experienced remarkable changes in the last time and they created one American model and one European model for the rural development.

Conclusion: the development rural, particularly in the developing countries, needs to be accompanied by the allocation of legal rights and adequate and stronger financial resources to local stakeholders to enable meaningful governance and poverty alleviation.

Foreign investment on the agricultural and rural areas

Statistical data shows that the agricultural and rural areas are less attractive for the foreign investors, even for the developed economies. During the past time, foreign investment in agriculture and rural development has been still limited, not equal to the potentials as well as the advantages of this important sector.

Estimated world inward Foreign Direct Investments (FDI) flows, by sector and industry, 1989-1991 and 2003-2005 (Table 1) emphasize the FDI trends toward services and manufacturing sectors as total value, compared to primary sector. Definitely, the per cent level of the FDI is 2-4 times bigger than the per cent on primary. Primary sector percentage for the FDI flows grew for 4.6 times, and in manufacturing sector grew 2.7 times.

FDI on primary sector grew persistently 7 times, but this increase reports to the mining, quarrying and petroleum industry, meanwhile the agricultural FDI grew only 400%, and the value level were 36 times less than mining, quarrying and petroleum industry. All the primary sector were reduced from 4.6% in 1989-1991 period to 2.7% in 2003-2005 period (Table 2).

Table 1

Estimated world inward FDI flows, by sector and industry, 1989-1991 and 2003-2005 (Millions of dollars)

Sector/ industry	1989-1991			2003-2005			
	World	Developed countries	Developing countries	World	Developed countries	Developing countries	South- East Europe and CIS
Primary	12855	9016	3839	90949	69084	16843	5022
-agricultural, hunting, forestry and fishing in primary	597	-5	602	2437	457	1855	125
Manufacturing	63634	47289	16346	173841	83743	82116	7982
Services	94131	82806	11325	435500	315929	106141	13430
Private buying and selling of property	113	113	0	6880	6879	0	1
Unspecified	12366	8008	4358	43487	34661	7670	1155
TOTAL	183099	147232	35868	750657	510296	212770	27590

*Source: UNCTAD, World Investment Report, 2007, Transnational Corporations, Extractive Industries and Development, New York and Geneva, 2007, p.227,
http://www.unctad.org/en/docs/wir2007_en.pdf.*

From data analysis of two countries categories– developed and developing, results the tendency of the most important FDI flows towards the primary of the developed economies. FDI grew from 70.1% to 76% (Table 2). Also, in 2003-2005 period an important increase of the FDI was in the agricultural sector of the developed countries (18.8%), compared to 1989-1991 period, when it was noticed decrease of the FDI with 5 million dollars (Table 1).

Table 2

Estimated world inward FDI flows, by total world, primary sector and agricultural, hunting, forestry and fishing industry, 1989-1991 and 2003-2005 (%)

Sector/ industry	1989-1991			2003-2005			
	World	Developed countries	Developing countries	World	Developed countries	Developing countries	South- East Europe and CIS
Total	100	80.4	19.6	100	67.9	28.3	3.8
Primary in total	7.2	70.1	29.9	9.7	76.0	18.5	5.5
-agricultural, hunting, forestry and fishing in total primary	4.6	-	100	2.7	18.8	76.1	5.1

Source: UNCTAD, Table 1.

National and international action with full regard for the right of each country to determine its own national policies and priorities is required to maximize the contribution of foreign investment to the goals of rural development and to ensure that the activities of foreign investment in developing countries, in particular by transnational agro-industry corporations, are not inconsistent with and do not impede the accomplishment of overall economic and social development objectives. Special attention should be given, with the aid of specialized international organizations as necessary, to the ecological ramifications of such investment.

In respect of foreign investment and transnational corporations, strategies for rural development should include action to:

- Reaffirm the right of each State to exercise full sovereignty over ownership, use and disposal of all its natural and man-made resources, including the right to nationalize property with provision for appropriate compensation consistent with the Charter of Economic Rights and Duties of States.

- Strengthen and if necessary establish organizations in developing countries, with the help of international agencies, with a view to giving them the technical and administrative capacity to negotiate or renegotiate on an equal basis with transnational corporations and foreign investors.

- Establish policy guidelines to ensure that the activities of transnational corporations and other foreign investors in rural enterprises are consistent with national objectives of rural development.

- Lend support to the efforts of the United Nations –UN- to establish an international code of conduct for transnational corporations.

- Support to ensure a continuous exchange of information regarding practices and consequences of the activities of transnational corporations, particularly in respect of agricultural production, processing and marketing, ecological protection and rural development.

- Accelerate the development of national expertise to evaluate proposals for foreign investment in agriculture and other activities affecting rural development and work

jointly with potential investors in formulating investment programmes and projects that are compatible with national needs, priorities and objectives.

- Orient current UN efforts related to transnational corporations toward the formulation of a set of criteria, adjusted where necessary for the special circumstances of each country, for assessing the operations of foreign investors with a view to increasing their favorable impact on rural development of particular benefit to the rural poor and encourage the adoption of policies, regulations and other measures by which these criteria are observed.

These measures must be respected by all the countries, developed or developing.

International policy for rural development and development assistance

Two worldwide processes are putting pressure on the rural development policy at the international level.

- First of all, the trends in climate change and the competition between agriculture and other sectors for the natural resources exacerbate competition and conflicts over access to land, water and biological resources and accentuate extreme poverty and hunger.

- Second, the rural policy will continue to play a vital role in helping all the countries achieve the wider objectives of sustainable growth, job creation and competitiveness.

Consequence - *an international policy for rural development*, and the last important papers are based on the World Food Summit (1996), the World Summit on Sustainable Development (WSSD-2001) and the Millennium Development Goals (MDGs-2000), Programme of Action for Food and Agriculture Organization of the United Nations -FAO and other organizations of the United Nations system, and the International Conference on Agrarian Reform and Rural Development (2006).

Cooperation among developed and developing countries and international institutions should include important financial action to:

- Increase the volume and improve the effectiveness of the use of the resources of international financial agencies committed to support rural development and alleviation of rural poverty, and ensure their financing capacity through periodic replenishment of their soft loan resources.

- Move toward more flexible criteria for the financing of rural development as follows: (a) Projects or programmes supportive of rural development under a poverty-oriented aid strategy should be considered eligible for external assistance whatever their size or nature; (b) criteria for selection should include both direct and indirect effects on development and poverty; (c) greater attention should be given to complementarity of projects between and within sectors; (d) increased emphasis should be placed on training of individuals and creation of planning units to strengthen local capacity to identify, plan and manage rural development programmes and projects; and (e) the potential for investment in rural development should be increased by greater use of co-funding between multilateral and national institutions in sectors of common interest.

- In the least developed and most seriously affected countries in particular, donors should be ready to finance: (a) local and foreign exchange costs, as appropriate; (b) recurrent as well as capital expenditures; and (c) an increasing share of programme and sectorial support as compared to the project approach. Greater emphasis should be given to pre-investment studies and preparation of projects in order to shorten the project cycle.

- Provide an increased volume of development assistance through existing financial institutions to help finance: (a) agrarian reform implementation and administration measures, including land surveys, establishment of land records, provision of legal services, etc.; (b) indirect costs of any transitional post-reform dislocations in production, provision of inputs and services, and marketing and storage; (c) programmes of environmental education and research and preparation of legislation on environmental protection.

In order to help implement this world rural policy, the international organizations, with FAO as lead agency, consider the adoption of the following specific measures in the field of agrarian reform and rural development:

- monitoring agrarian reform and rural development;
- analysis and dissemination of knowledge
- technical assistance activities;
- assistance in mobilizing resources.

One of the essential activities is the dissemination of knowledge. The organizations of the UN system collaborate with Member Governments and other international institutions in socio-economic and technological research, including, inter alia: national economic policies for agrarian reform and rural development; institutional factors of administration, programme implementation and delivery of inputs and services; decentralization and promotion of people's participation; provision of physical and social infrastructure such as transport and communications, health services and education; alternative systems of organization of production and problems of rainfed agriculture.

European Union and United States rural development funds

The European Union-UE- treats the rural development as an essential part of the model of European development and the *Common Agricultural Policy (CAP)* is one of the most important and expensive European policies.

Rural development 2007 to 2013 focuses on three key areas: the agro-food economy, the environment and the broader rural economy and population, around four axes, namely:

- **Axis 1**, on improving the competitiveness of the agricultural and forestry sector; under axis 1, a range of measures will target human and physical capital in the agriculture, food and forestry sectors, promoting knowledge transfer and innovation and quality production;

- **Axis 2**, on improving the environment and the countryside; axis 2 provides measures to protect and enhance natural resources, as well as preserving high nature value farming and forestry systems and cultural landscapes in Europe's rural areas;

- **Axis 3**, on the quality of life in rural areas and diversification of the rural economy; axis 3 helps to develop local infrastructure and human capital in rural areas to improve the conditions for growth and job creation in all sectors and the diversification of economic activities;

- **Axis 4**, on Leader; axis 4, based on the Leader experience, introduces possibilities for innovative governance through locally based, bottom up approaches to rural development.

The European Union Financial Structural consists of:

- Structural Funds
- Cohesion Fund

- European Agricultural Fund for Rural Development (EAFRD)
- Financial Instrument for Fisheries (now part of EAFRD, after 1st January 2007)

Briefly, **the rural development expenditure 2000 – 2006 by type of fund** is observed on Table 3.

Considerable simplification has been introduced in the new programming period 2007-2013 as compared to the previous one. Rural Development is now financed by a single fund: the European Agricultural Fund for Rural Development (EAFRD).

Table 3

Rural development expenditure 2000 – 2006 by type of fund (thousands euros)

EU	EAGGF*- Guidance	EAGGF- Guarantee	SAPARD	TRDI**	Total
EU 27	15 369 050	32 922 065	2 012 160	4 159 211	54 462 486
EU 15	14 247 520	32 922 065	-	-	47 169 585
EU 12	1 121 530	-	2 012 160	4 159 211	7 292 901
EU 25	15 369 050	32 922 065	1 267 469	4 159 211	53 717 796

Sources: Rural development in the European Union, Statistical and Economic Information, Report 2007, November 2007, p.326.

* - EAGFF - European Agricultural Guidance and Guarantee Fund

** - TRDI- Training Rehabilitation &Development Institute

The funding of Rural Development programming period 2007-2013 is very important. Within the framework of the new Financial Perspectives, rural development was allocated 88.3 billion euros from EAFRD envelope over the period 2007-2013, of which, at this stage of programming, 58.5 billion euros i.e. 62.6% are earmarked for Convergence regions.

These amounts are necessary to achieve the declared objectives of rural development policy, to permit innovation and diversification outside traditional agribusinesses, and to be able to respond to society's expectations for a competitive agricultural, forestry and food sector which is environmentally sustainable and underpins the socio-economic fabric of EU rural areas.

Rural development policy involves the cofinancing by the EU and Member States of a variety of measures. Member States decide on the most appropriate measures for their rural areas from a menu of measures proposed at EU level. The policy epitomises the 'partnership' element of the Lisbon Strategy, and is essential due to the wide diversity of the EU's rural areas.

The United States Department of Agriculture (USDA) is committed to help the improvement of the economy and quality of life in all of rural America. The financial programs of the USDA touch rural America in numerous ways.

I. First, *Rural Utilities Programs*: Water and Waste Disposal Grants and Loans; Electric Loan Program; Telecommunications Program; Distance Learning/Telemedicine Grants and Loans Program.

II. Second, *Rural Business and Cooperative Programs*: Business and Industry Guaranteed Loans; Business and Industry Direct Loans; Intermediary Re-lending Program; Rural Business Enterprise Grants; Rural Business Opportunity Grants; Rural Economic Development Loans; Rural Economic Development Grants; Office of Community Development.

III. Third, *Rural Housing and Community Programs*: Community Facilities Direct and Guaranteed Loans and Grants; Rural Rental Housing Loans; Farm Labor Housing

Loans and Grants; Congregate Housing and Group Home Loans; Home Improvement and Repair Loans and Grants; Housing Preservation Grants; Home Ownership Direct and Guaranteed Loans.

The 2008 budget includes nearly \$15 billion in program level funding for rural development programs. The 2008 budget proposes to align USDA's single-family housing program with other similar Federal programs. Due to the success of guaranteed single-family loans in meeting the needs of rural citizens, the budget includes \$4.8 billion in guaranteed loans for single-family housing, an increase of \$1.7 billion over 2007. Further, the 2008 budget includes \$567 million for the rural rental assistance payment program to protect the rents of low-income tenants of its multi-family housing portfolio. The budget also includes \$1.3 billion for financial and technical assistance for rural business and \$4.8 billion for electric and telecommunications loans.

Conclusion

After a long period of ignoring, in comparison with the explosive development of the urban, the rural development become at present more a more a global priority.

Rural development should be strengthened and supported by further improvement in the present system of international economic relations in order to overcome protectionist policies, distortions in international markets for production inputs and technology, inadequate technical cooperation and insufficient resource flows.

Lisbon Agenda is related to the Rural Development activities as they can contribute to:

- helping people adapt to a more market oriented agriculture;
- promoting new ways of selling/dealing with risk in competitive markets;
- raising economic and employment activity rates;
- encouraging development of micro-businesses;
- facilitating innovation and Research and Development- R&D take-up;
- fostering dynamic entrepreneurship;
- improving management of processes in the agri-food chain;
- encouraging the take-up and use of modern information, communication and technology- ICT;
- making use of opportunities from improved local infrastructure, and environmental land management.

The rural communities, particularly from developing countries request for the following important necessities:

- the improvement of the base services for population and the achievement of investments which could make the rural zones more attractive in order to reverse the descendant economic and social trend and the de-population of the rural areas;
- the increase of the capacity to elaborate and implement the local strategies;
- the improvement of the infrastructure;
- the conserving of the natural and cultural patrimony.

Conclusion: the rural development become at presents more and more a global priority, which is considered to be more than a simple rural policy and it needs to be organized and financial encouraged, and beside the foreign investment and transnational corporations, the strategies for rural development should include action to other financial support, and the types of structural funds represent a very important supporting financial model.

REFERENCES

1. Dumitru M., Diminescu D., Lazea V. (2006) - "Rural development and the reform of Romanian Agriculture", *Institutul European din Romania*, colectia de studii IER, I;
2. Giurcă Vasilescu, L., Popa, A. (2007) - "Correlations between SME Sector, Investment and Sustainable Development in Romania", *Buletinul USAMV Cluj Napoca*, nr 64, 2007, pp.464-470;
3. Otiman, I.P. (2006) - *Dezvoltarea rurală durabilă în România*, Editura Academiei române, Bucuresti;
4. Popa A., Giurcă Vasilescu L., Băndoi A. (2006) - "Romanian rural development and the impact of real estates prices", *Simpozionul stiintific "Agricultura între traditie si superintensivizare"*, Facultatea de Agricultura din Iasi;
5. Simon S. (2003) - "The most widespread forms of co-operatives in the European Union", *Studia Universitatis „Vasile Goldiș” Arad Seria Științe Economice 13/2003*, Universitatea de Vest „Vasile Goldiș” Arad, p.126-129;
6. *** International Conference on Agrarian Reform and Rural Development, *New challenges and options for revitalizing rural communities*, 7 - 10 March 2006, Porto Alegre, Brazil, http://www.fao.org/sd/dim_in1/in1_050701a1_en.htm;
7. *** Rural development in the European Union, *Statistical and Economic Information*, Report 2007, November 2007;
8. *** *New Perspective for EU rural development*, *European Communities*, 2006, http://ec.europa.eu/agriculture/publi/fact/rurdev/refprop_en.pdf;
9. *** *The European Agricultural Fund for Rural Development (EAFRD)*: 14.07.2004, <http://europa.eu.int/eur-lex/en/com/pdf>;
10. *** *The Common Agricultural Policy (CAP)*; http://ec.europa.eu/agriculture/capreform/rdguidelines/index_en.htm;
11. *** *The United States Department of Agriculture (USDA)*, <http://www.usda.gov/wps/portal/usdahome>;
12. *** UNCTAD (2007), *World Investment Report, 2007, Transnational Corporations, Extractive Industries and Development*, New York and Geneva, 2007, site http://www.unctad.org/en/docs/wir2007_en.pdf.