ROMANIAN RURAL DEVELOPMENT AND THE FINANCING POLICY

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Abstract: Romania has a large rural areas and a great potential, but the Romanian rural has many economic and social issues. The main idea is that the major risk for the Romanian rural development is generated of the combination between the transition problems, poverty and financing possibilities. For Romania is a need for benchmarking rural development and Romania looks at European Union and United States policy and programme. In Romania there is a vicious circle regarding the correlation between productivity and poverty. Because the poverty is a huge problem for Romanian rural areas, an essential problem is the access to the community funds. Important is the chain of the European structural funds financing: Allocation, Accession, and Absorption. One single error on every part of this chain would stop the investment. All insist that Romania should reform its administration and reduce red tape, to create a depoliticized and transparent system.

JEL classification: G01,F15,F18,O13,P21, P32,P36.

Key words: rural development, financing, structural funds

1. INTRODUCTION

In 2006, EU-27 rural areas represented 90% of the territory and 56% of the population and these areas generated 43% of the Gross Value Added in EU-27 and provided 55% of the employment.

Rural development policy aims to improve competitiveness in agriculture and forestry, improve the environment and countryside, improve the quality of life in rural areas and encourage the diversification of rural economies.

Agriculture is the heart of rural development. As agriculture modernized and the importance of industry and services within the economy increased, agriculture became much less important as a source of jobs. Consequently, more and more emphasis is placed on the role farmers can play in rural development, including forestry, biodiversity, diversification of the rural economy to create alternative jobs and environmental protection in rural areas.

Romania has large rural areas, but it has economic and social issues. Rural development policy needs the financial support, but there is the danger that the financial crisis to stop the Romanian rural development measures.

2. OBJECTIVES

Main objective of this paper is to avoid the risk of combining major instability problems of transition to extended poverty and crisis funding for the Romanian rural development.

Generally, the investments activities are into the chain investment projects-financing - economic growth and this chain is in a virtuous circle during the economic growth. The virtuous circle shows that money will generate the investments projects, and, finally, the economic growth, and this growth generates funds for new investments. But, the economic and financial crisis generates a vicious circle and the dilemma: first of all, will be the money less or will be the investment projects inefficiently?

For Romania, the main financial problem is to access the community founds. In one hand, the efforts done at the EU level starts to indicate signs of progress, but in another hand, declaration of expenditure arrived until the end of 2008 within axis for the 2007-2013 programming period – EU-27 shows many difficulties to access the European founds.

3. METHODOLOGY

Since mid-20th century, all of the countries, especially developed economies, have implemented an important rural development policy.

For benchmarking rural development, this paper has used the official information, several reports and analysis regarding European Union (EU) and United States, because in these developed economies, the rural development policy has benefited of important measures were effective. Besides, the financial crisis generates many recovery plans and acts.

First of all, Romania takes into account European policy. Following the purposes of the Common Agricultural Policy (CAP) reform launched in 2003 (to realize an aid system that is independent from production, and to increase the population retention capacity of the rural regions) three major objectives for Rural Development policy have been set for the period 2007-2013:

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.

Secondly, in United States is an important rural development policy. The Recovery Act regarding United States Department of Agriculture (USDA) in 2010 will provide funding to ensure that farmers continue to contribute to local economies, take steps to build and preserve critical infrastructure in communities across America and implement new resource conservation measures. One of the dramatically example is Detroit. The Washington Times shows: “Detroit, the very symbol of American industrial might for most of the 20th century, is drawing up a radical renewal plan that calls for turning large swaths of this now-blighted, rusted-out city back into the fields and farmland that existed before the automobile“. Roughly a quarter of the 139-square-mile city could go from urban to semi-rural.

Because the rural development policy needs the financial support, all the countries will provide funding to ensure that farmers continue to contribute to the local economies, take steps to build and preserve critical infrastructure in communities and implement new financing measures.

The EU targets are to create a stronger economic sector, to improve the competitiveness of rural areas, to maintain the environment and to preserve an important rural heritage.

The Rural Development Programmes that the Member States and regions prepared for the period 2007-2013 are currently under implementation and considerable simplification has been introduced in the new programming period 2007-2013. Rural Development is now financed by a single fund: the European Agricultural Fund for Rural Development (EAFRD). It lays down the general rules governing rural development policy for the period 2007 to 2013, as well as the policy measures available to Member States and regions.

4. INVESTMENTS PROJECTS AND FINANCING THE RURAL DEVELOPMENT

4.1. Rural areas in Romania-large, poor, but with a great potential

In 2006, EU-27 rural areas represented 90% of the territory and 56% of the population and these areas generated 43% of the Gross Value Added in EU-27 and provided 55% of the employment.

Analyzing the period 2001–2008 in Union European one can see that the weights of industries have remained relatively stable in general, but there was a steady decline in agriculture, hunting, forestry and fishing (from 2.4% of total Gross Value Added-GVA in 2001 to 1.8% in 2008).

Rural areas in Romania cover 87.1% of the territory, and include 45.1% of the population, in 2008, i.e. 9.7 million inhabitants (indicators of National Statistical Institute). The share of Romanian rural population reflects the high incidence compared to the EU countries with less densely populated, smaller-scale settlements as an alternative to urban concentrations.

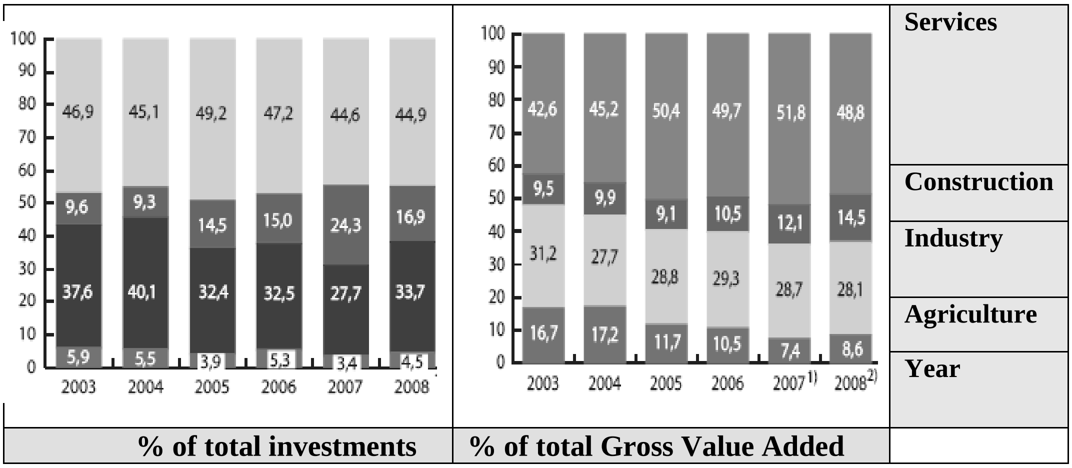
Majority of the Romanian rural communities make a small contribution to economic growth before the financial crisis, but the rural areas preserve the social fabric and the traditional way of life.

It must be underlined that Romania is the country with large shares for agriculture, hunting, forestry and fishing, with 8.6% of total Gross Value Added in 2008. Also, in Romania there was a steady decline in agriculture, hunting, forestry and fishing (from 16.7% of total Gross Value Added in 2003 to 8.6% in 2008).

Main problem is the correlation between the investments for rural areas, generally, and for agriculture, especially, and Gross Value Added in this areas.

It is interesting to analyze the evolution in 2009, the crisis year, from which arises the question if the agriculture and the rural area from Romania have resisted against the crisis or it is placed at such a low level that it can be reduced anymore?

The Gross Domestic Product – GDP in Romania – seasonally unadjusted data - estimated for 2009 amounted to lei 491273.7 million lei current prices, decreasing – in real terms – by 7.1 percentages as against 2008. In the same time, the gross value added in industry registered a fall of 4.3%, but in agriculture, forestry and fishery decreased their activity volume by 0.4%.



Source: Institutul National de Statistica (INS), Romania in cifre, Breviar statistic, Bucuresti, May 2009.

Figure no 1. Correlation between investments and GVA in Romania in the period 2003-2008

Total investments achieved in the national economy in 2009 registered a fall of 29.1% in comparison with 2008 (but there are not the official statistical data about the investment level in agriculture).

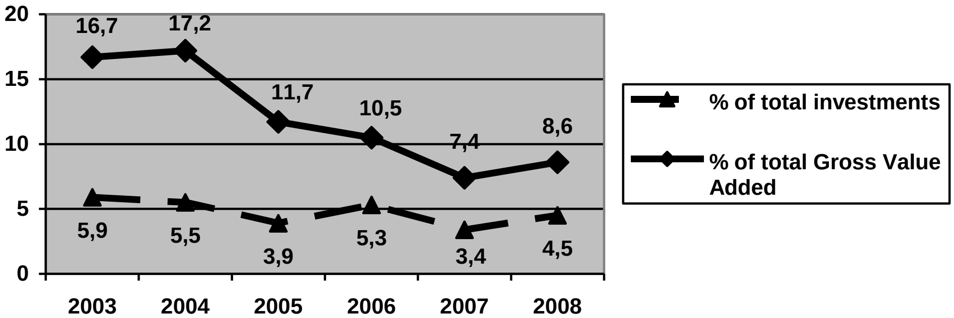


Figure no 2. Evaluation of the weight of investment and GVA from the Romanian agriculture in the period 2003-2008

If the correlation referring to decreasing total investments-GDP in 2009 was -29.1% and -7.1%, the shares for agriculture, hunting, forestry and fishing of total Gross Value Added in 2009 was decline from 8.6% in 2008 to 6.3% in 2009.

4.2.Productivity and living standard in the Romanian rural areas

Agriculture - the heart of rural development - was one of the first sectors of the economy (following coal and steel) to receive the attention of European policymakers. Article 39 of the Treaty of Rome on the EEC (1957) set out the objectives for the first common agricultural policy (CAP); these were focused on increasing agricultural productivity as a way to ensure a fair standard of living for the agricultural community, stabilizing markets and ensuring security of supply at affordable prices to consumers.

According to the EU Report, there were 14.5 million agricultural holdings in the EU-27 in 2005. Among the Member States that joined the EU in 2004 and 2007, there was a period of land restitution in the run-up to accession. This led to large State farms being divided up and handed back to private individuals, leading to a substantial rise in numbers of farms and workers. Over a quarter of agricultural holdings (29.4 %) in the EU-27 were located in Romania.

The Romanian rural area is confronted with many problems, as follows:

• the agriculture population is too numerous (36.4% from the active population in Romania in comparison with 4.7% in EU);

• the poverty, the lack of the entrepreneurship and the low training level of the rural population;

• the fragmentation of the agriculture farms; 94.4 million household have about 8.4 million hectares, which represent half of the arable area of our country;

• the weak performance of the agriculture farms;

• the lack of the civil society.

In Romania there is a vicious circle for correlation between productivity and poverty.

The poverty is a main problem for Romanian rural areas. In January 2010, the average net nominal earning per total economy was lei 1426, but in agriculture was lei 1033 (72.4% of average net nominal earning per total economy).The net nominal average earning per total economy increased in January 2010 by 5.2% as against January 2009, but in agriculture it increased by 4.9%. At the end of 2009, the yearly inflation rate decreased to 4.74 %. The vacancies rate, in the fourth quarter of 2009, was 0.78%, but in reality the agriculture population is too numerous.

Majority of the Romanian rural communities make a small contribution to economic growth before the financial crisis.

The main risk is the combination between the transition problems and the financing possibilities. The agricultural sector in Romania is characterized by land use fragmentation, poor access to loan for small and vulnerable farmers, an aging labor force and low educational attainment among the agricultural population. Risk and risk perception, rather than liquidity or interest rates, appear to be the main issue for accessing credit by the under-served segments of the financial market, in particular smaller farms.

This limited access to credit by the most populous segments of the farming and rural population reduces their capacity to invest, and also makes it particularly difficult for them to absorb EU funds (i.e., SAPARD) which require pre-financing from the beneficiaries. Farmers and SMEs will often use remittances or wage incomes, when available, to finance their investments.

4.3.Financing possibilities and importance of the EU instruments

In the face of still difficult access to credit for the great majority of the Romanian rural population, it is important to develop the tools and mechanisms to reduce and mitigate the impact of risk-related issues.

Romanian authorities have developed a variety of complementary approaches to mitigate these risks.

One first such avenue is to reduce the exposure to weather-related risks through insurance schemes. Performance risks can also be addressed by improving the collateral base in rural areas by proceeding with the systematic registration of land, intra and extra-villa, as currently initiated under the national program implemented by the National Agency for Cadastre and Real Estate Publicity (NACRP). Formal guarantee facilities also offer options for reducing the perceived risks by the banking sector**.** Very import is the Rural Credit Guarantee Fund (RCGF) was set up in 1994 under PHARE financing to facilitate access to credit and other financing instruments in rural areas, by covering a part of the guarantees requested by the commercial banks and other finance providers. The fund guarantees short, medium and long term credits and the amount guaranteed covers up to 100% of the credit. Other credit guarantee facilities have been established such as the National Guarantee Fund for SME.

In the financial crisis circumstance, for Romania, an important problem is to access the community founds.

The European Union treats the rural development as an essential part of the model of European development and the 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;
-**Axis 2**, on improving the environment and the countryside;
-**Axis 3**, on the quality of life in rural areas and diversification of the rural economy;
-**Axis 4**, on Leader for innovative governance through locally based, bottom up approaches to rural development.

Referring to main Rural Development instruments, excluding the "*511 – Technical assistance*", a set of 42 measures is proposed to the Member States. Two additional measures have also been made available specifically for Bulgaria and Romania, namely measure "*143 - Provision of farm advisory and extension services in Bulgaria and Romania*" and measure "*611 - Complements to Direct Payments for Bulgaria and Romania*". They represent 0.7 billion Euros for the whole period, or 0.9% of the whole European Regional Development Fund (EAFRD) envelope.

4.4.Status for the projects submitted under the Romanian National Rural Development Programme 2007 – 2013

The Romanian National Rural Development Programme is centered on the three key challenges of transforming and modernizing the agriculture and forestry production and processing sectors, to maintain and enhance the quality of the rural environment, and to ensure adequate economic and social conditions for the rural population.

Concretely, the EAFRD Contribution in Romania represents 8 billion Euros (see Table 1).

Table no 1. EAFRD Contribution in Romania

Axis	**EAFRD Contribution**	**% of total**
Axis 1	3,173,849,264	39.6
Axis 2	1,880,598,967	23.4
Axis 3	1,978,991,904	24.7
LEADER	188,059,896	2.3
511 -Technical Assistance	300,895,834	3.8
611 - Complements to direct payments *	500,108,880	6.2
Total	**8,022,504,745**	**100.00**

*Accession Treaty measure for Bulgaria/Romania for 2007-2009 period

The amounts declared (according to the declaration of expenditure sent by the Member States) until the end of 2008 is 11.13 billion Euros. These amounts represent 12% of Declaration of expenditure in Total financial plan.

But for Romania, the amounts declared until the end of 2008 is 109.67 million Euros. These amounts represent only 1% of Declaration of expenditure in Total financial plan.

Table 2 below shows the composition of declaration of expenditure arrived until the end of 2008 by axis in EU-27 and in Romania.

Table no 2. Composition of declaration of expenditure arrived until the end of 2008 within axis for the 2007-2013 programming period – EU-27 and Romania

Axis	EU-27	Romania
Axis 1	20	1
Axis 2	75	0
Axis 3	2	0
LEADER	0.2	0
511 -Technical Assistance	0.8	0
611 - Complements to direct payments *	2	99
Total composition	**100**	**100**
% of Declaration of expenditure/Total financial plan	**12**	**1**

Source: European Union, Rural Development in the European Union, Statistical and Economic Information, DGARD, Report 2009.

After jointed in 2007, European Union has imposed to Romania two practices very complex and very important for the management functions.

• First, Romania must elaborate strategically plans, on the large scale and on the long time.

• Secondly, all participants – government, local administrations, big and small enterprises, and individuals must estimated financing resources.

Practically, there is a really and long chain of the every investment project, and all the management functions must be using during this chain: **Allocation⇒ Accession ⇒ Absorption.** Allocation is based on the good studies about feasibility and financing resources. Accession permits to beginning the investments activities. Absorption proves the quality of the projects and management, and finally, all the disbursements are accepted.

One single error on every part of this chain will be stopped the investment.

Status for the projects submitted under the Romanian National Rural Development Programme 2007 – 2013 since 12 March 2010 - Table 3- shows that the amount of projects submitted (€10,375,253,603) is above the total EAFRD contribution for Romania (€8,022,504,745), which indicate an improvement of the process of projects elaboration accordingly with the requests imposed by the European Commission.

As well, it increased the weight of the sum of contracts approved projects (€2,076,818,454) in amount of selected projects (€1,918,654,380), at 12 March 2010 being of 92%. The weight of the contracts approved projects in the amount of projects submitted is 18.5%.

Table no 3. Status for the projects submitted under the Romanian National Rural Development Programme 2007 – 2013 since 12 March 2010- Euro

Measure	Amount of projects submitted	Amount of selected projects	Sum contracts approved projects
112-Setting up of young farmers	72 277 466	11 424 550	10 189 969
121-Modernisation of agricultural holdings	1 524 435 558	570 042 735	519 303 500
123-Adding value to agricultural and forestry products	815 378 183	558 042 419	550 125 456
141-Supporting semi-subsistence agricultural holdings	48 315 000	46 965 000	46 110 000
142-Setting up of producer groups*	1 386 650	91 712	91 711
312-Support for the creation and development of micro-enterprises	336 494 853	18 277 420	16 292 295
313-Encouragement of tourism activities	142.801.410	43.308.595	37.474.960
322-Village renewal and development, improvement of basic services for the economy and rural population, conservation and upgrading the rural heritage	7 429 244 322	823 838 490	796 316 887
431.1-Public-private partnership building	4 920 162	4 827 533	4 827 472
TOTAL	**10 375 253 603**	**2 076 818 454**	**1 918 654 380**

Source: Ministry of Finance, Romania, State absorption of Community Founds in Romania, 12 Mach 2010.

Concretly, the level of the European structural funds financing is presented in Figure no.3.

Allocation 100%	⇒	Accession/ Allocation 20.0%	⇒	Absorption/ Allocation 18.5%	⇒	Absorption/ Accession 92.4%

Figure no 3: The chain of the European structural funds financing

As a percentage structure (Table no.4), most projects submitted are for Measure 322-Village renewal and development, improvement of basic services for the economy and rural population, conservation and upgrading the rural heritage – 71.6%- and Measure 121-Modernisation of agricultural holdings – 14.7%.

But, there is a great diference regarding the procentage structure of Sum contracts approved projects. Measures 121 and Measure 322 represent only 34.1% and

10.7% as Sum contracts approved projects compared with Amount of projects submitted. A high procentaje have Measure 431.1-Public-private partnership building -97.9% and Measure 141. Supporting semi-subsistence agricultural holdings -95.8%.

Table no 4. Percentage structure for the projects submitted and contracts approved under the Romanian National Rural Development Programme 2007 – 2013 since 12 March 2010- Euro

Measure	Share of Measure in Amount of projects submitted - %-	Sum contracts approved projects/ Amount of projects submitted -%-
112-Setting up of young farmers	0.75	13.9
121-Modernisation of agricultural holdings	***14.7***	34.1
123-Adding value to agricultural and forestry products	7.9	67.5
141-Supporting semi-subsistence agricultural holdings	0.4	***95.8***
142-Setting up of producer groups*	0.01	6.6
312-Support for the creation and development of micro-enterprises	3.2	4.7
313-Encouragement of tourism activities	1.4	26.1
322-Village renewal and development, improvement of basic services for the economy and rural population, conservation and upgrading the rural heritage	***71.6***	10.7
431.1-Public-private partnership building	0.04	***97.9***
TOTAL	**100**	**18.5**

Source: Ministry of Finance, Romania, State absorption of Community Founds in Romania, 12 Mach 2010

The efforts done at the EU level start to indicate signs of progress in Romania in 2010.

5. Conclusions

Romania has large rural areas, but it has economic and social issues. Rural area in Romania is large, poor but it have a great potential.

First of all, for Romania is a need for benchmarking rural development. Secondly, Romania looks at European Union and United States, because the rural development represents an important policy, and this policy seeks to establish a coherent and sustainable framework for the future of the world.

The major risk in Romania is the combination between the transition problems and the financing possibilities.

Rural development policy needs the financial support, but there is the danger that the financial crisis to stop the Romanian rural development measures.

For Romania, the main financial problem is to access the community founds, but the chain of the European structural funds financing (Allocation, Accession, Absorption) has many errors. Or, one single error on every part of this chain will be stopped the investment. This is the explanation for the amounts declared until the end of 2008 (€109.67 million, and this is 1% of Declaration of expenditure in Total financial plan).

The efforts done at the EU level start to indicate signs of progress for the chain of the European structural funds financing in Romania.

All insist that Romania should reform its administration and reduce red tape, to create a depoliticized and transparent system.

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