Financing Rural Development in Romania – Challenges and Opportunities

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Abstract
At present, the main theoretic dilemma related to the rural development can be formulated as follows: are rural development and agriculture factors that may contribute to the boost of financial crisis or possible solutions to mitigate the negative effects of the crisis and re-launch the economic growth? The economic doctrine shows that agriculture is a vital economic activity for the society and a sector a high contribution in maintaining stability and growth, thus, having the potential to alleviate the economic crisis. Nevertheless, this important contribution can only be achieved through a massive investment in infrastructure that will stimulate and increase the agricultural production, as well as in technical and technological equipment for agricultural land and also by creation and continuous development of micro-enterprises in rural areas. In order to contribute to the economic growth, rural development in Romania depends on how the local actors in the rural areas achieve financial support for their projects. Our paper proposes to emphasis the main opportunities but also the most critical problems regarding the financial support acquired by the rural communities.

1. Introduction
As stated in various recent studies (OECD, 2011, European Commission, 2012), the concept of rural development encompasses all activities, actions and initiatives aimed at improving the standard of living in rural areas, while protecting the natural landscape and ensuring that the rural areas can fulfill the functions incumbent on society, preserving both the economic and ecological balance. It is, hence, an integrated process that comprises a social, economical, political and cultural dimension related to the development of rural society.

Currently, in the enlarged EU, the new philosophy of rural development is based on the concept of local development, which requires both a strong rural component and an agricultural based economy, preserving the natural environment and assuring the social sustainability. Since the last wave of enlargement (2007) until present, sustainable development in rural areas was significantly uneven between the “old” and “new” member states. Furthermore, the current financial and economic crisis highlighted these differences and questioned the consistency of regional rural development policies in the European Union.

Moreover, as the economic and financial crisis has "shocked" the whole structure of the European common policies, currently, at community level, there is a widespread debate on the correct "mix" of policies adopted to address those economic problems having an outstanding social component. This is the central message that results from the European Commission Report on the Measurement of Economic Performance and Social Progress (Stiglitz Report, 2009), published at the end of the first year of economic crisis. Under this approach, a sustainable economic development policy must take into account a series of additional criteria such as quality of life, social welfare, efficiency and energetic security, environmental protection.

To this effect, the current concept of rural development is mainly based on the sustainable development and refers to:
- **Sustainable development**, which includes economic development correlated with high level of social cohesion and a responsible use of natural resources with respect to environmental protection;
- **Extensive rural development** by enhancing information, activities and practices performed in the rural non-agricultural sector, as well as by promoting the extensive agriculture, based on
information transfer (extensive agriculture concept is quite the opposite of intensive, traditional agriculture).

- **Multi-sectorial rural development**, which refers to the networking and partnerships between international organizations, national agencies and civil society organizations, accounting for a multi-sectorial approach.

Presently, in the European Union, rural development policy for 2007 - 2013 is focused on three directions, known as “thematic axes”, with a view to: improving the competitiveness of the agricultural and forestry sector; improving the environment and the countryside; boosting the quality of life in rural areas and, furthermore, encouraging diversification of the rural economy. Accordingly, the main objective is to achieve a greater emphasis on coherent strategy for rural development across EU as a whole.

Hence, this new approach should help to:
- Identify the areas where the use of EU support for rural development adds the highest value at EU level;
- Create a link between the main EU priorities (for example, those set out under Lisbon, Göteborg agendas or Europe 2020 Strategy);
- Ensure the consistency with other EU policies, particularly with those intended to increase economic cohesion and to preserve the natural environment;
- Assist the implementation of the new market-oriented Common Agricultural Policy (CAP) and of the necessary restructuring, required in both old and new Member States.

Moreover, through ample public debate, organized by the European Commission in 2010 and, subsequently, the report adopted by the European Parliament late in the year on the Common Agriculture Policy post 2013, it was revealed the urgent need to reform the CAP, in order to meet the objectives of Europe 2020 Strategy. Hereby, possible solutions to emerge from the economic crisis were outlined and they refer to funds for supporting the primary goal of CAP, namely to provide a stable affordable quality food supply for population, to ensure a fair standard of living for farmers and to meet environmental requirements, in order to preserve the rural communities.

2. Impact of financial crisis on rural development in European Union

The effect of economic crisis on the EU market had a heavily adverse impact on agriculture and rural development of the Member States. Accordingly, farms and food production companies have been adversely affected by the serious imbalances in European economy after the economic crisis and by a strong negative influence of several external factors, such as:

- Reduction of bank loans (intended for production and investment), correlated with worsening credit conditions (banks began to seek stronger guarantees);
- Decrease in agricultural prices due to a lower global demand, which has affected the financial stability and cash flow of the farms;
- Commercial farms were affected by the negative effects of the spreading economic crisis, transmitted through the inter-sectorial transfer channels,

Moreover, impact of the crisis on the insurance market has affected the whole agricultural sector and it has generated increasing risks for the producers, lack of liquidity for the farmers and for the insurance companies that supported them. The energy crisis has equally affected the agricultural sector, generating the increasing of production costs. Besides, agricultural commodity price crisis has led to lower profits (or even absent) for the farms and agricultural companies, and, respectively, de-capitalization of farmers, impeding them to cover their production costs. Consequently, the essential need of member states to reinforce their efforts in order to achieve a sustainable development was emphasized by the global economic crisis, given the credit pressures, the general uncertainty caused by the cycle of recession and a reduced international trade, channels through which the crisis was transmitted towards all the economic sectors, including agriculture.

3. Financing rural development in Romania: problems and possible solutions

In Romania, which joined EU in the last wave of enlargement (in 2007), the agricultural sector is currently regulated by the Common Agricultural Policy, which guides both the development processes of agricultural production (“first pillar”) and the agricultural territories (“second pillar”). Subsequent its accession to the EU, Romanian authorities responsible for agriculture have become less independent, the sectorial production structure became more standardized (losing certain specialties and traditional products that did not meet EU standards), but agricultural policy has acquired a long-term stability, allowing more coherent actions intended to tackle the development of this sector.

After the political changes of 1990, the privatization of agriculture was enforced in Romania, hence 86% of arable land is currently privately owned, thus, individual land holdings are generally small, generating specific difficulties for agricultural credit delivery. In our research, we have analyzed the current situation in 220 farms and we have identified some specific problems, as it is shown in the figure below:
Considering all the financial difficulties revealed by the survey, the state aid policy can be considered as an efficient tool to address the need of rural communities for financial support.

According with the EU competition policy, rural communities can receive state aid to support their sustainable development. Therefore, as a member state, Romania could provide a series of state aid schemes as shown in the below figure:

However, currently we have identified three major problems related to the rural communities’ eligibility concerning state aid schemes:

- Identify different funding opportunities (lack of information regarding the competition policy and state aid rules)
- Developing a portfolio of projects suited to its development options (lack of information regarding priorities domains that can receive European financial support under the new Common Agricultural Policy)
- Finding sources of co-financing (lack of liquidity to receive bank loans)
4. Economic Recovery Plan and Rural Development, possible solutions for increasing rural development financing in Romania

Since 2008, as a response to the economic crisis, the European Commission proposed a series of suitable measures intended to boost purchasing power, to generate growth and to create new jobs. The EU Economic Recovery Plan comprises 5 billion euros investment in energy projects, broadband internet infrastructure and rural development. The EU Economic Recovery Plan gave the green light to a 3.98 billion euros investment in gas and electricity infrastructure, offshore wind parks, carbon capture and storage projects and an amount of 1.02 billion euros addressed to rural development measures. In November 2008, the EU agriculture ministers reached a political agreement on the Health Check of the Common Agricultural Policy. Among the various measures adopted, the agreement abolishes arable set-aside, increases milk quotas gradually leading up to their abolition in 2015, and converts market intervention into a genuine “safety net”. The leaders also agreed to increase modulation, whereby direct payments to farmers are reduced and the capital is transferred to the Rural Development Fund. This will allow a better response to the new challenges and opportunities faced by European agriculture, including climate change, the need for better water management, the protection of biodiversity, and the production of green energy. Member States will also be able to assist dairy farmers in sensitive regions and adjust them to the new market situation.

5. Opportunities for the development of rural areas, brought on by the EU integration

EU rural development policy provides the tools to address the issues that affect rural economic sustainability in the new Member States, as following:
- By giving priority to the rebuilding and production tools modernization in agriculture and forestry. In order to achieve this objective, for Romania is allocated an amount of 45% of the total loans granted by the European Agricultural Fund for Rural Development.
- With the view to mobilize the available funding under the second axis of the Rural Development Regulation and to conserve the natural environment, for Romania, 25% of loans are granted by the European Agricultural Fund for Rural Development;
- Giving a great importance to the “open” economic infrastructure of rural areas and to the agricultural activities diversification such as to boost their development (in Romania, for this purpose 30% of loans are allocated from the European Agricultural Fund for Rural Development).

5.1. Positive trends to ensure sustainable rural development in Romania

Agricultural potential: Romania has a significant agricultural potential, but untapped at its best, both soil and climatic conditions are favorable to agriculture and considering
its land surface, Romania ranks second position in Central and Eastern European countries and 7th in the EU-27.

Ecotourism: Romania's rural areas have multiple opportunities related to ecotourism including authentic traditions, natural products and beautiful landscape.

According to the EU's strategic guidelines on rural development, various regions of Romania have the opportunity to develop local strategies based on better targeted measures, such as: training human resources in rural areas and encouraging the preservation of traditional products and technologies. Accelerating social and economic restructuring of rural areas may also be driven by measures to promote development of local knowledge by recruiting high skilled technicians and experts, by dissemination of information, both extremely important in the context of rural population’s low education level and, not least, by restructuring jobs in agriculture.

5.2. State aid and sustainable rural development. Possible implications for Romania

In order to be eligible for the state aid system, the major problem for Romanian rural communities is related to:

- Identifying different funding opportunities;
- Developing a portfolio of projects suitable for its development options;
- Finding potential sources of co-financing.

Currently, in Romania, there is a variety of state aid schemes intended to support rural development: state aid scheme to improve the quality of products in the organic farming sector, state aid scheme for producers in disadvantaged areas, state aid scheme for collecting organic waste in the livestock sector (funded by the national budget).

Also, it could be granted state aid for environmental protection, compensations for development imbalances in certain areas, supporting young farmers in rural areas, farmers’ early retirement or cessation of agricultural activities, support for producer groups, encourage the production and marketing of quality agricultural products, providing technical assistance in agriculture and restructuring farms in difficulty.

According to the last Scoreboard on state aid (Facts and Figures on State Aid in the EU, 2012) Romanian state aid for agriculture was of 0.26 billion Euros, funds allocated in line with the Community law and representing 0.19% from national GDP. When comparing expenditure in 2012 with that of 2011, the same Scoreboard shows a slight increase of this type of aid in Romania.

In this context, it should be noted that unilateral aid measures, designed to simply improve the financial situation of farmers, but not to contribute in any way to the sustainable development of rural sector (particularly aid based solely on price, quantity or production unit) are considered as operating aid that are incompatible with the common market regulation.

As some analysts have shown (Alexandri & Luca, 2009), from the perspective of the opportunities offered by the state aid policy in Romania, rural development must be considered in terms of the future challenges, not as a solution to past problems. For example, state aid to boost rural development on environmental grounds are preferred (such as state aid to cover the additional costs and income losses caused by use of environmental technologies) to the state aid granted to ordinary farmers for their agricultural production. Also, state aid for training forest owners and farmers, aid to support consultancy services provided by third parties - including the creation of business plans, management plans in forestry and agriculture, feasibility studies and participation in international competitions - may also be beneficial for sustainable development.

6. Conclusions

At present, as a member with full rights of the EU, Romania benefits from new funding opportunities, which aim at supporting rural areas development and Romanian agriculture. In order to achieve a better rural development, Romania must redirect the financing to tools (including the state aids for agriculture and rural development) to respond to some specific development objectives: to improve and promote the quality of agricultural products, to ensure a proper infrastructure in rural areas and to preserve the environment and the traditional heritage in the countryside.

In order to achieve these objectives, state aid policy can be an effective tool to improve the financial situation of Romanian farmers and to boost the sustainable development of rural areas. The recent developments in European funding through the Common Agricultural Policy show a prevailing tendency to finance rural development programs (previously, for about a decade, it was a priority financing agriculture through direct payments to farmers and subsidies). Hence, in the new context, the rural communities can currently receive funds, through the Community budget, including in form of state aid, to support their development strategies, purpose for which specific funds intended for rural environment can be related to regional
policy funding programs. Furthermore, in accordance with the principles laid down by the Court of Justice, state aid for agriculture and rural development can have a real contribution to the development of certain economic activities (for example, tourism and ecological agriculture), stimulating the reduction of Romania’s rural areas development gap.

Hence, in relation to the impact of aid, rural development aid can have an explicit positive impact on poverty reduction, food security, agriculture and rural development, having a potentially direct effect on the welfare and growth of Romanian rural communities.

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