

Economics of agriculture

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THE INVESTMENTS STIMULATION IN AGRICULTURAL AND RURAL INFRASTRUCTURE

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"The world must invest 83 billion dollars annually in agriculture in developing countries to be able to feed 9.1 billion people in 2050, estimated the United Nations Food and Agriculture."

FAO report on the forum how will be fed world in 2050, the period 12-13 October 2009 in Rome.

Abstract

The paper analyzes the investments evolution in Romanian agriculture between 2006 -2009 and their economic efficiency, and the tendency of the promoted policies by international organizations in the field in the next period. There are presented also national and community programs that promote measures to stimulate investment process in the countryside. In the actual global and national macroeconomic context it is necessary to adapt the existing policies and mechanisms to stimulate investment in agriculture to rural needs and realities.

Key words: *investments, agriculture, subsidies, rural*

Introduction

"Investments should be targeted for agricultural and animal production, and to support services such as refrigeration plants, storage facilities and market infrastructure," said FAO in a report published in October 2009 in Rome. The investment plans include 20 billion dollars per year for agricultural production and \$ 13 billion per year for livestock production. In addition, another 50 billion dollars a year are required for downstream to obtain an increase of 70 percent of world agricultural production until 2050. "What is essential for these investments will come from the private sector, also by purchasing equipment and machinery to farmers and companies investing in processing plants, recalling the FAO estimates that" public funds will also be necessary to improve the functioning of the agricultural systems increase food

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security". According to FAO, "the priority sectors for public investment should be research, development, major infrastructure such as roads, ports and energy and agricultural institutions and services for education, health, water supply and health care.

Materials and Methods

Research methodology is based on a multidisciplinary approach to generating advanced environmental, economic, social technics. Materials for study are drawn from professional literature and national and international practice. All the results and conclusions will have a particularly unique, but may be applied by all entities.

Results and Discussions

Rural areas in Romania covers 87.1% of the country, comprising 45.1% of the population (approx. 9.7 million) with average 2.4 ha per farm. Currently, subsistence farms and semi-subsistence covers 45% of utilized agricultural area of Romania, representing 91% of the total number of farms and the majority of the workforce is employed in agriculture. In this context, stability budget for agriculture has a significant social role for these rural areas, while ensuring support for economic development. Although Romania has generally been a target of foreign direct investment by 2009, international crisis affected primarily the least developed sectors of the economy as agriculture. This sector is crucial for the improvement of the macroeconomic indicators such as inflation, food, Romania having the largest share in the consumer basket (over 37% compared with 15% in the euro area).

Currently, Romania is affected by international economic crisis, foreign direct investment and the changing trend and the changing situation of agriculture is more pressing in the current financial crisis.

Table 1 - Investments in economy and agriculture, in RON million in current prices

Indicator	UM	2006	2007	2008	2009*
Total investments, which:	RON million	72891	98417,7	90084,4	62507,6
Investments in agriculture	RON million	3843,6	3312,6	4053,8	1750,2
% investment in agriculture from total investments	%	5,3	3,4	4,5	2,8
Total gross added value/ Total investments	RON	4,2	3,7	5,0	1,8
Gross added value in agriculture/ Investments in agriculture	RON	7,0	7,1	8,0	18,3

Source: Anuarul statistic al României 2007-2008, Prognoza noiembrie 2009 - Comisia Națională de Prognoză,

In 2007-2009, the share of the investment in agriculture in total investments in the economy ranged from 3.4% in 2007 and 4.5% in 2008, registering the lowest level in 2009 - 2.8%. First year after accession marked a negative record of investment in agriculture due to weaker investment financed by SAPARD program and delays in approving the National Programme for Rural Development. Investments in agriculture have seen a downward process in 2007, both in absolute terms and as share of total investment, due to weaker investment by SAPARD and delays related to approval of the National Rural Development Programme (NRDP).

In 2009, total net investment fell to 30.6% compared with 2008, those in agriculture declined from 50% in real terms. A measure of investment in agriculture can be considered the ratio of gross value added in the economy and investments, except that investments are only one factor of production that contribute to economic growth. In economic branches such as agriculture, information value of the indicator is relatively limited because agricultural production depends on many factors, including climatic conditions first.

Analyzing the data presented in the table above shows that the economic efficiency of investment in agriculture has been above average on the national economy during 2006-2009 but with large swings from year to year.

Low investment requirements do not provide technical and technological modernization of the agriculture, are lower than the contribution of the agriculture to the national economic development and reducing disparities ensure productivity than most European Union Member States.

Extremely limited domestic sources for investment financing entails the need to attract foreign investment and access to funds.

To finance or co-investments for agricultural development, environmental preservation and rural development measures can be accessed from the National Rural Development Programme.

Regional development policy, rural development policy and coordination of structural instruments can contribute to the agricultural development by funding from future structural instruments and applying the National Development Plan for the period 2007-2013. National Rural Development Programme 2007-2013 aims at developing a competitive agriculture and forestry sector based on knowledge and private initiative, able to adapt to long-term change, which takes into account the Community rules, preserve the environment and enhances the processing sector. It is devoted to the following key objectives:

- Facilitating the transformation and modernization of the current dual structure of agriculture and forestry and related processing industries, to make them more competitive and contribute to the economic growth and income convergence in the countryside (where possible), while ensuring living conditions and environment in these areas;
- Maintain and improve environmental quality in Romania's rural areas by promoting sustainable management both on farmland and on the forest;
- Manage and facilitate the transition of the agricultural labor to other sectors to ensure

adequate living standards of socially and economically;

- Improve professional skills and provision of advisory services to farmers and forest owners to increase management capacity in dealing with a new environment;
- Continuing the restructuring and development of the farms, especially semi-subsistence farms, and agricultural and forestry products more competitive.

Table 2 - Community allocation for the entire period

Priority axis	EU contribution	National contribution	Total program financing	Cofinancing EU rate (%)
0	1	2	3	5
Axis 1	3.173.849.264	793.462.317	3.967.311.581	80,00
Axis 2	1.880.598.967	412.814.408	2.293.413.375	82,00
Axis 3	1.978.991.904	494.747.976	2.473.739.880	80,00
Axis 4	188.059.896	47.014.975	235.074.871	80,00
Technical assistance	300.895.834	75.223.959	376.119.793	80,00
Complementary direct payments	500.108.880	125.027.220	625.136.100	80,00
Total	8.022.504.745	1.948.290.855	9.970.795.600	80,46

Source: MADR

The number of the projects submitted nationally consistent, (December 24, 2009) is 21,531 with a value of 10.4 billion euros, of which 9591 were selected for funding public projects worth 1.9 billion euros. Amount paid for contracted projects approved support of applications is 629.8 million euros.

Thus, funds associated with Axis 1 of NRDP were supplemented with 45,884,333 euros, the largest increase in funds that about 22.9 million euros, is designed to measure 121 - Modernisation of agricultural holdings. Also, the amount allocated to Axis 2, measure 214 - agri-environmental payments "has been increased by 27,203,145 euros, and increased spending on three axis with 28,606,522 euros.

To meet priorities and local conditions and regional economic situation data, Romania has provided:

- Up to 45% (over 3 billion) from the EAFRD funds for improving competitiveness of the agriculture and forestry (Axis 1), namely: improving the skills of farmers and persons engaged in the forestry sector, enabling a more efficient management of holdings Agricultural and forestry and ensuring proper processing of semi-subsistence farms, improve the competitiveness of the commercial farms and semi-subsistence, restructuring and modernization of processing and marketing agricultural and forestry products;
- 25% (2 billion) for environmental improvement and rural areas through sustainable use of agricultural land and forestry (Axis 2). These funds will help to: ensure continued agricultural land use, conservation and improvement of habitats and natural resources, promoting sustainable management of the forest land;
- 27.5% (nearly 2 billion) for quality of life in rural areas and diversify the rural economy (Axis 3) to: maintain and develop economic activities to increase employment

opportunities, increase the attractiveness of rural areas, skills and support organization actors around local projects;

- 2.5% will be allocated for the launch and operation of local initiatives through the LEADER approach to promote the endogenous potential of the territory and for improving local governance.

Investment aid has undergone a great extent in 2006, because farmers loans for project finance SAPARD Programme Farmer, following a strong downward trend upward in 2007 and during 2008 to 2009.

Table 3 - Structure of budget support in agriculture in the period 2007-2009, in (RON million) current prices

Budget support	Realised in 2007	Realised in 2008	Preliminary execution in 2009
Market measures	20,8%	19,4%	29,6%
Decouplet payments	27,0%	22,8%	18,1%
Input subsidies	38,5%	27,0%	14,8%
Investments	13,4%	30,8%	37,5%
Total	3586,5	4380,5	3865,4

Source: MADR.

In 2007, the investment grants focused investments in the vineyard conversion to Fund lending and investment in agriculture through farmer program, financing rural credit guarantee fund and co-financed under SAPARD projects. Between 2008 and 2009 were subsidized retraining investments in the vineyard and Farmer program and was financed projects under the SAPARD program and the EAFRD. Although the 2009-2012 Government Program provides a series of measures to stimulate investment process in the rural economy, so far they have not been promoted or adapted to global and national macroeconomic context. 2010 budget money available to fund state aid to be granted to farmers in 2010 is only 0.21 billion RON, the total amount insufficient to the Romanian agriculture needs in a year in which Romania is in economic crisis.

At the same time it seems that, since 2010, state aid for agriculture will be granted only by holding, but specific legislation aligned to EU requirements was not fully completed. Under the current project, State aid will be granted to agricultural holdings investments, conservation, construction and transfer of ownership of the traditional farm buildings to the state.

At this point it is clear that performance of agriculture and consequently rural economy will not improve significantly in coming years without the support of foreign investment. The high degree of fragmentation of the agricultural land, low investment, and an aging population living in poor material circumstances largely on subsistence bring Romanian agriculture before a single major options-European funds and foreign direct investment.

The low price of arable land and agricultural development potential starting to attract massive investment from European funds and private equity, which is the only

chance for the sector.

Financial and economic crisis calls into question with greater acuity problem of absorption of EU funds in the context of the dramatic restriction of credit and reducing the volume of foreign direct investment. Thus, an optimum absorption capacity, at least for the next two years, the most important support to counter the crisis.

"It's good to have foreign investment, diversified activities, but the agricultural potential of the Romanian and European funding opportunity, it is best to focus on them," said Mr. Radu Ghetea, head of CEC Bank.

Considering that all Romania's development regions covered by Objective 1 funded, there is a huge potential to link the funding received about 13 billion common agricultural policy with the 19 billion received by the Regional Policy to promote and support strategies integrated rural development.

Conclusions

Measures to stimulate foreign investment and increasing the absorption of EU funds to finance investment in rural areas should:

- ensuring significant involvement of the local beneficiaries for sustainable development to achieve a flexible, progressive and responsive to local needs;
- to place the interests of farmers and rural people in the central development programs so that mechanisms based on the central institutions in determining the size and distribution of funds to consider regional workforce needs;
- implement a flexible policy creation or strengthening of institutions, with horizontal and vertical ties of partnership between various institutions responsible for rural development policies;
- to promote a development process and adapted based on local circumstances, which combine harmoniously with regional and global policies that take into account the economic, environmental and social aspects of rural development.

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