

## ROMANIAN RURAL ENTREPRENEURS' RESPONSE TO SUPPORT MEASURES FROM CAP SECOND PILLAR

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### Abstract

*Romanian rural areas are to cope with the dynamics of radical change, dismantling and restructuring of agricultural structures and processes. The reform of the Common Agricultural Policy, directly concerned with rural value added, employment and environmental degradation, had generated a two-strand approach in implementing agricultural policy. Entrepreneurship, innovation, learning, adoption and evolving institutional frameworks are integral parts to this process. Dealing with the vision of a cleaner, more productive and efficient agriculture, by its supporting measures Common Agricultural Policy is strengthening the position of the farming community by encouraging the rural entrepreneurship and setting up the young farmers in rural space. The results of the study argued in favor of considering the priorities of the supporting measures under the two main components of the CAP second pillar: the sectorial function, specific to agricultural policy reform, and the territorial function specific for the rural economy and population.*

**Key words:** rural areas, entrepreneurship, support measures.

### Introduction

Within the context of transition, Romanian rural areas are to cope with the dynamics of radical change, dismantling and restructuring of agricultural structures and processes. The CAP reform, directly concerned with rural value added, employment and environmental degradation, had generated a two-strand approach in implementing agricultural policy. Entrepreneurship, innovation, learning, adoption and evolving institutional frameworks

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are integral parts to this process. The shift from the “first” to the “second” CAP pillar, implied a reduction of the funds allocated for market support and an increase of the funds available for the second pillar, envisaging the strengthening of rural policy. Dealing with the vision of a cleaner, more productive and efficient agriculture, by its supporting measures CAP is strengthening the position of the farming community by encouraging the rural entrepreneurship but also the setting up of young farmers in rural space.

### Functions of the rural development measures

The classification of the available measures based on the economic sector or actor benefiting from the support and according to the broad categories of factors addressed, as well as according to their sectorial or territorial function, gives us a broad picture of the heterogeneity and variety of rural development measures available for the current programming period. (Table 1)

**Table 1. Rural Development Measures (Title II of Regulation n. 1257/99)**

| Function<br>(aim of measure)  | Category  | Measure   |
|---|---|---|
| <i>Sectorial function<br/>(for the agricultural<br/>sector only)</i>  | Investments in farms  | Investment in agricultural holdings   |
|   |   | Processing and Marketing of agricultural products   |
|   |   | Marketing of quality agricultural products  |
|   |   | Land improvement  |
|   |   | Re-parceling  |
|   | Services and infrastructures<br>for farmers                             | Restoring agricultural production potential damaged by natural disasters and introducing appropriate prevention instruments                         |
|   |   | Setting up farm relief and farm management services   |
|   |   | Agricultural water resources management   |
|   |   | Development and improvement of infrastructure connected with the development of agriculture   |
|   |   | Financial engineering   |
| Human resources in<br>farming   | Setting up of young farmers   |   |
|   | Early retirement  |   |
|   | Training  |   |
| Income support for less<br>favoured areas and areas<br>with environmental   | Compensation to farmers (by hectare)                                    |   |
|   | Compensation to farmers in environmentally sensitive or protected areas |   |
| Environment and Forestry  | Agri-environmental schemes  |   |
|   | Afforestation of agricultural surface                                   |   |
|   | Other forest measures   |   |
| <i>Mixed sectorial and<br/>territorial function</i>   | Environment and Forestry  | Protection of the environment in connection with agriculture, forestry and landscape conservation as well as with the improvement of animal welfare |
| <i>Territorial function<br/>(for the population at<br/>large and/or the<br/>rural population and<br/>non farm activities)</i> | Promoting the adaptation<br>and development of rural<br>areas           | Basic services for the rural economy and population   |
|   |   | Renovation and development of villages and protection and conservation of the rural heritage  |
|   |   | Diversification of agricultural activities and activities close to agriculture to provide multiple activities or alternative incomes                |
|   |   | Promotion of tourist and craft activities   |

Source: “Rural Development policies and the Second Pillar of the Common Agricultural Policy”, 87th EAAE-Seminar. Assessing rural development of the CAP

### Entrepreneurs' response to support measures

A review of the CAP support measures applied in Romania indicates a process of growing diversification of activities and of differentiated responses of the entrepreneurs to spatial restructuring challenges. The results reflect a greater attractiveness for some measures and a lesser one for others.

**Table 2. The situation of the projects under the National Program of Rural Development from 3 March 2008 to 21 October 2011**

| Measure                      | Submitted projects | Selected projects | Signed contracts | Share of value of signed contracts in the value of Total Measures | Share of payments done under each measure |
|------------------------------|--------------------|-------------------|------------------|---|---|
|                              | Number             | Number            | Number           | %   | %   |
| M 111                        |                    |                   | 10               | 0.28  | 2.46                                      |
| M 112                        | 10655              | 5708              | 5641             | 2.79  | 63.18                                     |
| M 121                        | 6116               | 2033              | 1811             | 16.72   | 43.78                                     |
| M 123                        | 1666               | 973               | 773              | 15.04   | 30.95                                     |
| M 125                        | 1530               | 141               | 140              | 3.84  | 5.69                                      |
| M 141                        | 63358              | 34512             | 32965            | 5.96  | 21.36                                     |
| M 142                        | 26                 | 25                | 15               | 0.04  | 17.22                                     |
| Other measures               | 11917              | 4491              | 4026             | 55.32   | 93.50                                     |
| <b>TOTAL Measures (NPRD)</b> | <b>95268</b>       | <b>47883</b>      | <b>45371</b>     | <b>100.00</b>   | <b>66.96</b>                              |

|                       |   |
|-----------------------|---|
| <b>M 111</b>          | <i>Measure 111:</i> Training, information and diffusion of knowledge  |
| <b>M 112</b>          | <i>Measure 112:</i> Setting up of young farmers   |
| <b>M 121</b>          | <i>Measure 121:</i> Modernisation of agricultural holdings  |
| <b>M 123</b>          | <i>Measure 123:</i> Increase of value added of the agricultural and forestry products   |
| <b>M 125</b>          | <i>Measure 125:</i> Improving and developing the infrastructure related to development and adaptation of agriculture and forestry |
| <b>M 141</b>          | <i>Measure 141:</i> Supporting semi-subsistence farms   |
| <b>M 142</b>          | <i>Measure 142:</i> Setting up producer groups  |
| <b>Other measures</b> | <i>Measures: 143, 211, 212, 214, 221, 312, 313, 322, 511, 611</i>   |

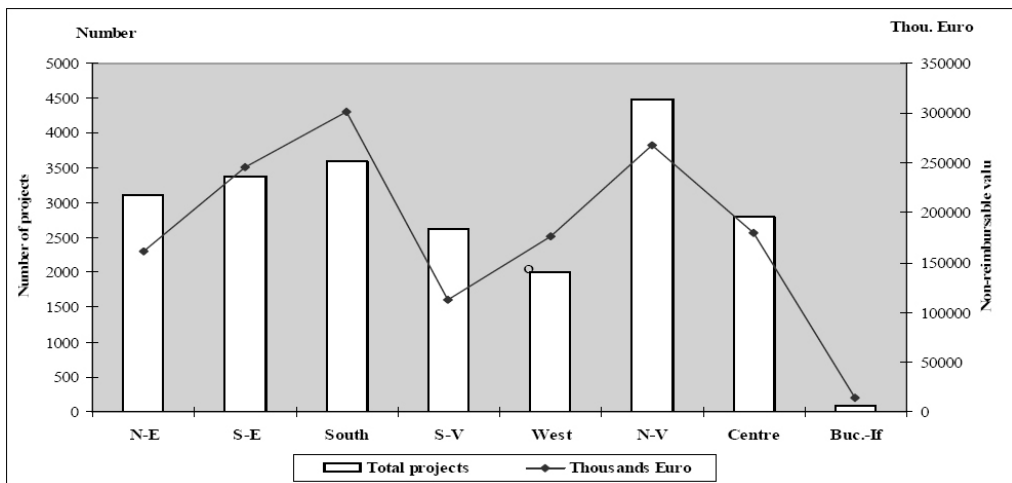
Source: Expert calculations after: „*Situatia pe sesiuni a proiectelor din cadrul PNDR, inregistrate in tabelele de monitorizare la data de 21.10.2011*”, Ministry of Agriculture and Rural Development, Romania

The projects applied under the above mentioned measures are in a wide range responding to farming needs. They had different intervention rationales: to accelerate and facilitate the modernization of farms through investment aid and infrastructure provision, to

compensate perceived handicaps in particular areas through income support, to make available services through subsidies, to facilitate the turnover of farmers and capacity building through capital and training, to pay for environmental practices. They had answered to both a structural adjustment objective as well as to the required assistance for the less competitive farming conditions. From the entire amount allocated for all measures, 44.7% of the funds covered the sectorial functions and 55.3 % covered the territorial functions, grouped under “other measures”. Measures 312, 313 and 322 covered 85.7 % of the total amount of the measures grouped under territorial function, indicating the interest of the entrepreneurs in the creation and development of micro-enterprises that operate outside of agriculture and forestry with the aim of creating employment in rural areas, the interest in the development of tourism services in rural areas, as well as their interest in the preservation and enhancement of rural heritage. Only a few projects (109) addressed so far the Leader Community initiative with a total amount representing only 14% of the total value of measures.

For better assessing the distribution of the total non-reimbursable eligible funds at country level, we had grouped the “measures” under the eight development regions of Romania<sup>4</sup> (Figure 1).

**Figure 1. Total number of approved projects and total non-reimbursable eligible amount, by development regions, March 2008-December 2010**



Source: Expert calculations based on the data published by the Ministry of Agriculture and Rural Development, Romania

At country level, the distribution of total funds by the eight development regions shows two peaks: the largest amounts were spent in the South Region (20.7%), covering

<sup>4</sup> By Development Regions, data were available only up to December 2010.

16.2% of the total number of selected projects, while the less amount was spent in Bucharest-Ilfov (1% from total amount) covering 0.4% of the selected projects at country level, reflecting of course the large urbanization of the region. The distribution of projects under the measures appeared to be less articulated in the West Region (9.1% of the projects and 12.1% of the total amount) and South-West Region (11.9% of the projects and 7.7% of the total amount). A rather equilibrated distribution of measures that supports the diversification of activities in rural areas was registered in South-East Region (15.3% of the projects and 16.8% of the total amount) and North-West Region (20.3% of the projects and 18.4% of the total amount), as well as in Center Region (12.7% of the projects and 12.3% of the total amount).

One way of assessing the relative importance attributed to the different functions is to consider the financial allocations for the various forms of intervention. The territorial function was perceived as responding to the constraints influencing farming. The actions covered by these measures were different in each area and are therefore adapted to specific rural conditions. For a deeper analysis the study focused on the entrepreneurs that responded to sectorial function. Under each development region there were analyzed the approved projects and their share in the eligible amount of the measure (Figure 2). From the analyzed measures, three types of intervention measures may be evidenced as being applied to in a larger degree by the entrepreneurs:

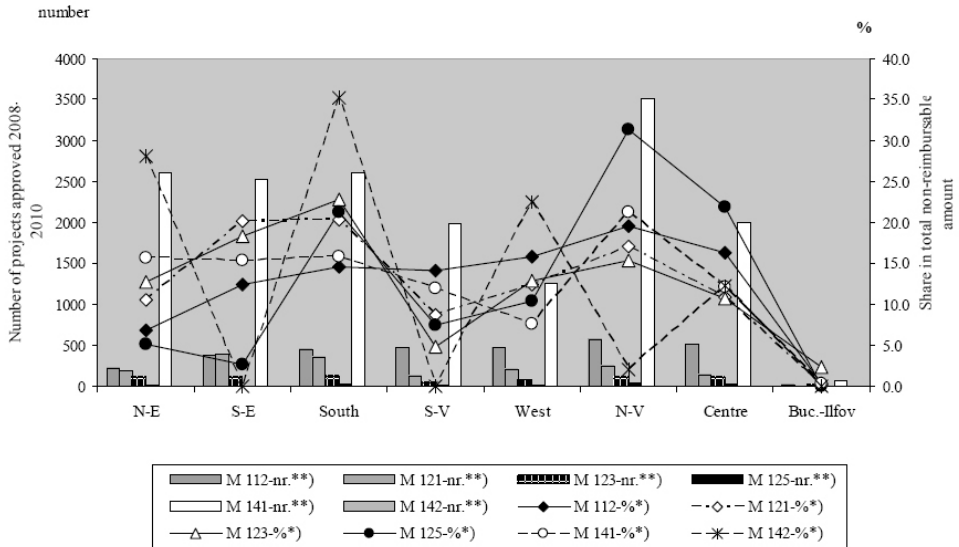
- (i) Measure 141: *Supporting semi-subsistence farms,*
- (ii) Measure 112: *Setting up of young farmers,*
- (iii) Measure 121: *Modernization of agricultural holdings*

More than 70% of the total applications for funds were under the measure 141, supporting semi-subsistence farms. At the Agricultural Census 2002, only 21% of the total agricultural holdings (952 thousands) declared that are marketing occasionally part of the agricultural production. If we assume that these holdings may be considered in the pool of farms that may apply for support from Measure 141, it means that the actual ones, that received support until October 2011, represent about 3.5% of the total farms that might qualify for support under measure 141. This reveals a still huge potential for absorption of funds under this measure. The total amount received by a farm under this measure was of 7500 Euro. North-West Region covers 21.2% of the total projects and total amount under the measure, followed by South Region (15.8%), North-East Region (15.7%), South-East Region (15.3%), Centre Region (12.1%), South-West Region (12%), West Region (7.6%) and Bucharest-Ilfov Region (0.4%)<sup>5</sup>.

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<sup>5</sup> Data refers to period October 2008-December 2010.

**Figure 2. Total number of approved projects, by measures, and their share in total non-reimbursable eligible amount of the measure, by development regions, March 2008-December 2010**



\*) = Share in the total eligible non-reimbursable value of the Measure;

\*\*) = Number of approved projects

Source: Expert calculations based on the data published by the Ministry of Agriculture and Rural Development, Romania

Under the measure 112, *setting up of young farmers*, the North-West region covered 18.9% of the total projects under the measure and 19.6% of the total amount under the measure, followed by Center Region (16.6% of the projects under the measure and 16.4% of the total amount under the measure), West Region (15.2% of the projects under the measure and 15.8% of the total amount under the measure), South-West Region (15.2% of the projects under the measure and 14.2% of the total amount under the measure), South Region (14.8% of the projects under the measure and 14.5% of the total amount under the measure), South-East Region (12.1% of the projects under the measure and 12.4% of the total amount under the measure), North-East Region (6.9% of the projects under the measure and 6.8% of the total amount under the measure) and Bucharest-Ilfov Region (0.3% of the projects under the measure and 0.3% of the total amount under the measure).

Under the measure 121, *Modernization of agricultural holdings*, the South-East Region covered 23.3% of the total projects under the measure and 20.1% of the total amount under the measure, followed by South Region (22.1% of the projects under the measure and 20.3% of the total amount under the measure), North-West Region (15.2% of the

projects under the measure and 17% of the total amount under the measure), West Region (11.8% of the projects under the measure and 12.4% of the total amount under the measure), North-East Region (11.3% of the projects under the measure and 10.6% of the total amount under the measure), Center Region (8.7% of the projects under the measure and 10.8% of the total amount under the measure), South-West Region (7.3% of the projects under the measure and 8.7% of the total amount under the measure) and Bucharest-Ilfov Region (0.4% of the projects under the measure and 0.2% of the total amount under the measure).

Current results in requests for support under measure 125, *Improving and developing the infrastructure related to development and adaptation of agriculture and forestry*, suggests that the total number of projects (140) and the total amount allotted under the measure (3.8% of the total value of all measures), does not answer to the needs for strengthening the access to the required infrastructure of the number of progressively larger farms. The pressure for improved infrastructure is likely to lead to increasing demands for support under this measure. More than 70% of the projects and total amount under the measure are concentrated in three regions: West Region (29.6% of the projects under the measure and 31.3% of the total amount under the measure), South Region (23% of the projects under the measure and 21.3% of the total amount under the measure) and Centre Region (19.3% of the projects under the measure and 21.9% of the total amount under the measure).

## Conclusions

The results of the study argued in favor of considering the priorities under the two main components of the second pillar: the sectorial function, specific to agricultural policy reform, and the territorial function specific for the rural economy and population. If the relevance of each function has been quite different over time, the need for market reform and integrated rural policies are reinforcing the sectorial function within the second pillar. This indicates that efforts are needed for attracting an appropriate number of applications for support under measure 123 (Increase of value added of the agricultural and forestry products) and 142 (Setting up producer groups). The 500 projects submitted under Measure 123, amounting 12.1% of the total value of all measures, are reflecting a low coverage at national level (an average of 0.16 projects at municipality level). As well, only 15 projects were initiated under Measure 142, amounting 0.04% of the total value of all measures. Both measures mentioned above are to strengthen the entrepreneurship in rural space and to enhance competition and force local agricultural producers to adapt themselves to the new efficiency standards, fostering the sector's catching-up.

The development of entrepreneurial skills among the large mass of farmers represents

one of the main measures that can contribute to the diminution of risk factors for agricultural holdings. Even if many farms are under full restructuring process, it came out that there is still need for an increased support under investments measures for improving the infrastructure of the local communities. Financial packages for rural development should allow, on one side, for some flexibility in the allocations between the two functions according to the rural area, and on the other side should better stimulate the access of farmers to supporting programs.

### **Literature**

1. \*\*\**Situatia pe sesiuni a proiectelor din cadrul PNDR, inregistrate in tabelele de monitorizare la data de 21.10.2011*, Ministry of Agriculture and Rural Development, Romania