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THE ROMANIAN RURAL ECONOMY DIVERSIFICATION – REALITIES AND PERSPECTIVES

ABSTRACT

In the new Common Agricultural Policy, the rural economy diversification will respond to the priorities set forth in the European Green Deal on the long term, for the rural areas, through actions that will be much more responsive to current and future challenges of climate change, while continuing to support farmers' activities and investments in primary and secondary processing of agricultural products, non-agricultural activities and rural infrastructure. The paper analyses the current situation as well as the perspectives of the implementation of actions related to the diversification of non-agricultural activities at national level. The methodology used is based on the analysis and synthesis of information published in specialised articles and studies, as well as in governmental and non-governmental reports. The obtained results demonstrate that European funds have supported a significant growth of non-agricultural activities, contributing to the increase of rural population's incomes, job creation and narrowing the disparities between rural and urban areas.

Key words: European funds, rural development, rural economy diversification.

JEL Classification: Q18, R50.

1. INTRODUCTION

Rural development as the “second pillar” of the Common Agricultural Policy (CAP), reinforce the “first pillar” of income supports and market measures by strengthening the social, environmental and economic sustainability of rural areas.

Rural economy diversification, as an important aspect of rural development, represents a set of measures targeting the promotion, development and maintenance of investments to create more jobs in the agriculture and non-agricultural sectors, as a new source of alternative or additional incomes and employment sources for the rural population, encouraging the maintenance and development of traditional activities as well as the preservation of rural heritage and ensuring better living conditions for the rural people.

In the new CAP, rural development actions will be included under the framework of national CAP strategic plans from 2023 onwards. Within this framework, the Commission aims to make rural development actions more

responsive to current and future challenges such as climate change and generational renewal, while continuing to support European farmers in a sustainable and competitive agricultural sector. Rural development actions will also make a strong contribution to the Commission's key priorities and strategies, such as the European Green Deal and the long-term vision for rural areas.

Currently, the CAP is in a transitional period (2020–2022), which implies that most of the CAP rules that were in place in the period 2014–2020 still apply to EAFRD, while funding is drawn from the CAP's budget allocation for 2021–2027.

In this context, as a solution for many Member States of the EU, marked by the recent economic growth slowdown, the diversification of economic activities in the rural area is a major factor of economic development, slowing down rural depopulation by supporting investments in rural infrastructure, services, human capital and non-agricultural activities, primary and secondary processing of agricultural products and social entrepreneurship, which have the potential to create jobs, in bio-economy inclusively.

2. STATE OF KNOWLEDGE

At European level, the promotion of non-agricultural activities in the countryside and the diversification of activities through the assimilation of new entrepreneurial skills, acquiring new abilities and supply of new services for the rural population are the main factors that have contributed to economic growth and implicitly to the change of mentality and increase of the living standard, as well as to the territorial, social and economic equilibrium.

The EU rural development policy, through its objectives, provides support to counteract the process of the depopulation of agricultural areas and to strengthen the economic and social fabric of rural areas, through the development of complementary and alternative activities to farming, as well as through the multisectoral and integrated approach to the rural economy, in the sense of diversification of activities, of creating additional income and employment sources, as well as of rural heritage preservation. (<https://enrd.ec.europa.eu>)

The rural economy encompasses a diversity of livelihoods; it is not limited only to the agricultural sector and production of primary goods (Davis and Bezemer, 2003).

Broadly, the rural economy may be categorized into: agricultural/farm sector producing primary goods; non-agricultural/non-farm sector, which includes all non-agricultural economic activities that generate income for rural households (Davis, 2003).

Thus, the non-farm sector activities are highly heterogeneous, including mining, manufacturing, utilities, constructions, commerce, tourism, transport, as well as financial, personal and government services. The economic diversification

of the rural economy refers to the shift from farming to non-farming activities in rural areas, or to the diversification of economic outputs within these sectors. There is considerable evidence that agricultural growth and productivity is an important driver to ensure such a transformation.

Increasing the productivity of the agricultural sector has significant multiplier effects in stimulating other sectors of the rural economy. In the areas where there has been a robust growth in the agricultural sector, the rural non-farm economy has also rapidly expanded, leading to increased income and stability for rural populations. (Haggblade, Hazell and Reardon, 2010)

Diversification is always assessed at the level of the farm and all types of farms are covered. Diversification activities can be carried out by persons other than the farm manager (his/her spouse, other family members or people external to the household). In contrast, pluriactivity is assessed at the level of the farmer (the family farm manager and sole holder of the farm). Farmers are considered pluriactive if they carry out an activity other than farm work (in most cases) for remuneration. This can be outside the farm, in a non-agricultural enterprise, or on another farm; or on their own holding if diversification activities do not include any farm work. In the latter case, the definitions of pluriactivity and diversification overlap. Diversification is therefore not a subset of pluriactivity. If the farmer's spouse develops another gainful activity on the farm, the farm will be diversified without the farmer (manager) being pluriactive. Farmers performing contractual work are pluriactive, but the farm is only considered diversified if they use their own farm resources. Farm diversification is understood as the creation of any gainful activities on the farm. These include “all activities other than farm work, directly related to the holding or having an economic impact on the holding”. “Directly related” means that either the resources of the holding (area, buildings, machinery, etc.) or its products are used in the activity. Examples include tourist accommodation, handicraft, processing of farm products and wood processing. (Augere-Granier, 2016)

3. MATERIAL AND METHOD

The present study had two goals: the first goal was to create a picture of the current situation of the implementation of actions related to the diversification of non-agricultural activities at national level, after the National Rural Development Program (NRDP) implementation; the second goal was to analyse the new recommendations related to the diversification of non-agricultural activities taking into account the great support of the European funds and future challenges of climate change. The information existing in the present article came from the public information on the websites of the European Commission, the European Parliament and Council, as well as a number of preliminary reports of various

European organizations involved in CAP implementation. This information was completed with information from articles and studies published in specialty journals, as well as from reports and governmental and non-governmental documents, obtained through scientific research-specific methods, respecting, from the methodological point of view, all its stages: identification of the researched issue, delimitation of the research framework, information collection, processing, analysis and interpretation of data and drawing the conclusions.

4. RESULTS AND DISCUSSIONS

Agriculture is a very important sector of Romania's economy, which has a great influence on rural areas. For the rural communities, the diversification of economic activities represents one of the most important actions of identification and promotion of viable strategies, which should respond to the important economic changes produced in the rural areas, as well as to the social needs of the rural population.

4.1. DIVERSIFICATION OF ECONOMIC ACTIVITIES, OVERVIEW OF ACCESSED FUNDS THROUGH THE NRDP

The real opportunity for the development of the Romanian rural area and agriculture through actions targeting rural economy diversification was offered by the National Rural Development Program (NRDP), which consequently applied the guidelines elaborated at EU level through the Common Agricultural Policy (CAP).

The Common Agricultural Policy has influenced Romanian agriculture and rural development since the year 2000, and our country has consistently followed the guidelines developed by the European Union to create a legal and institutional framework for the sustainable development of rural areas focusing on the rural economy development, human resources development, improvement of access to markets and competitiveness of processed agricultural products, improvement of rural development and agriculture infrastructures (www.afir.madr.ro).

The main resources necessary for rural economy diversification were provided by the National Rural Development Program (NRDP), which applied the guidelines elaborated by the European Union. The first investments in the diversification of economic activities in the rural area were initiated with the implementation of the Pre-Accession SAPARD 2000–2006 Program and continued with the post-accession programs: NRDP 2007–2013 and NRDP 2014–2020, through the following measures, with distinct allocation (Table 1).

Table 1

The main programs providing financial support to Romanian rural economy diversification, in the period 2000–2020

Pre-accession Program	Post-Accession Program	
SAPARD 2000–2006	NRDP 2007–2013	NRDP 2014–2020
Priority Axis 3 “Development of rural economy”	Axis 3 “Improvement of life quality in rural areas and rural economy diversification”	Measure 06 “Supporting farm and business development”
Measure 3.4 “Development and diversification of economic activities generating multiple activities and alternative incomes”	Measure 312 “Support to creation and development of micro-enterprises” Measure 313 “Encouraging tourism activities”	Sub-measure 6,2 “Support to the establishment of non-agricultural activities in rural areas” Sub-measure 6,4 “Investments in the creation and development of non-agricultural activities”

Source: <http://www.madr.ro/>

In *the SAPARD program*, the payments made under Measure 3.4 were intended to create and/or maintain jobs and to generate alternative incomes through the diversification of the rural activities related to agriculture and forestry through rural tourism, other types of activities in the rural area, aquaculture, traditional crafts, sericulture, beekeeping, processing of fruit and berries, snails and frogs, medicinal and aromatic plants, as well as to the processing of Romanian traditional products attested and/or ecologically certified, obtained on the farms.

According to the MARD Final Report on Measure 3.4 implementation in Romania, most funds have been absorbed by investments in rural tourism (78.86%) and other types of tourism activities in rural areas (7.67%). In conclusion, Measure 3.4 has had a very good impact both on job creation and on the improvement of incomes in rural areas.

The National Rural Development Program (NRDP) for the period 2007–2013, has an objective targeted by Axis 3 that encourages rural economy diversification and improvement of life quality in rural areas through Measure 312 “Support for the creation and development of micro-enterprises” and Measure 313 “Encouraging tourism activities”.

The support under Measure 312 was provided for non-agricultural activities in the rural area through the development of micro-enterprises, both of the newly created and already existing enterprises with investments in non-agricultural production activities, investments for the development of local crafts, of handicraft and traditional non-agricultural activities, marketing of these products, services for the rural population and investments in renewable energy production from other renewable sources than biofuels.

According to the ex-post evaluation study of Measure 312, the largest share of investments is in the category “Setting up micro-enterprises” with 98.46% of the public value approved for this measure, followed by the category “Development of micro-enterprises” with 2.38% of the total projects approved for this measure.

The financial support provided under Measure 313 had in view investments in the infrastructure of tourist reception and leisure activities (also including actions related to construction, modernization, expansion and endowment of tourist reception structures and private investments in the touristic infrastructure for leisure, independent or dependent on the tourist reception structure); small-scale infrastructure (such as tourist information centres, guide marks arrangements/tourist routes etc.); development and/or marketing of touristic services connected to rural tourism (elaboration of promotional materials, information, etc.).

According to the ex-post evaluation study of the program, under Measure 313 encouraging tourism activities in the rural area, the highest share of investments is in the category “Leisure infrastructure”, with 75% of total projects approved and 72% of the value of payments made, followed by the category “Small-sized infrastructure” with 25% of total projects approved and 27% of the value of payments made, and the category “Development/promotion of rural tourism services” with a share of almost 1% of total approved projects and total value paid for this measure.

The LEADER axis also contributes to the diversification of rural economy. The LEADER approach helps rural areas jointly develop and share new solutions to boost economic development, diversification and social inclusion; improve local services and strengthen social fabric in rural areas. Leader projects support bottom-up rural development priorities, such as business competitiveness, environmental sustainability, economic diversification and quality of life. Local development strategies (part of the Leader approach) often aim at creating new jobs in non-agricultural activities. The target groups of these interventions are members of farm households, micro-enterprises as defined in the Commission Recommendation and the population in rural areas in general.

The National Rural Development Program (NRDP) for the period 2014–2020 benefitted from progress and expertise acquired throughout the implementation of measures from previous programs and implementation structures. Facilitating the diversification, establishment and development of small businesses and job creation are the objectives of sub-measure 6.2 “Support for the establishment of non-agricultural activities in rural areas” and sub-measure 6.4 “Investments in the creation and development of non-agricultural activities”. Most funds have been absorbed by investments in tourism (tourist reception structure, touristic infrastructure for leisure); processing and trade activities (direct sales of raw/processed farm products, hairdressers, florists); services/contracting (provision of mechanization services), renewable energy production (photovoltaic panels, biomass).

Currently, the Romanian agriculture and rural development strategy is in a transitional period (2020–2022). Moreover, the investments supported through the NRDP measures are complemented by other regional and sectoral operational programs regarding the orientation, counselling and training in the entrepreneurial and non-agricultural sector, offered to the inhabitants in the rural area, especially to those coming from an agricultural background. The supported training activities include training in ICT skills, training and coaching of starters of a micro-business in a rural area, training young people in traditional rural skills to tap into demand for tourism, recreation, environmental services and quality products, management training for farmers diversifying into non-agricultural activities.

In the opinion of experts who evaluated the fulfilment of the objectives of NRDP measures, the rural development strategies prioritized the actions and measures having in view to remove the constraints to private initiative in the rural areas through:

- identification of investment opportunities;
- re-qualification of existing labour force to meet the requirements of private investors in rural areas;
- adaptation of the education curricula in the rural areas to specific conditions, so that young people can get jobs more easily;
- increase in the quality of public administration in the rural areas;
- public infrastructure improvement in rural areas;
- supply of technological assistance at the level of communities for the identification and coordination of public investments efforts.

Evaluators have concluded that the measures of national rural development programs are relevant and reveal a high degree of adequacy to the needs of rural development. At the same time, the results obtained through the investments made in the development and diversification of economic activities in the rural area are more than satisfactory in relation to the resources used. Effectiveness was reached, mainly through the measures and sub-measures that allocated significant funds for the promotion and development of tourism and agrotourism activities, but the financial support granted to rural development has not sufficiently contributed to rural economy diversification.

4.2. THE EUROPEAN GREEN DEAL CHALLENGES TO ROMANIAN RURAL ECONOMY DIVERSIFICATION

Under the new CAP, rural development actions will be included within the framework of national CAP strategic plans from 2023 onwards. Within this framework, the Commission aims to make rural development actions more responsive to current and future challenges such as climate change and generational renewal, while continuing to support European farmers in a sustainable and competitive agricultural sector. Rural development actions will also make a strong contribution

to the Commission's key priorities and strategies, such as the European Green Deal and the long-term vision for rural areas.

The *European Green Deal*, launched in December 2019, is practically the EU roadmap to a sustainable economy, which seeks to turn climate and environmental challenges into opportunities – in all policy areas – thus ensuring a fair and inclusive transition for all European countries. This includes a number of strategies aiming at a climate-neutral Europe by the year 2050, and has the potential to play a key role not only in ensuring the economic recovery (after the COVID-19 pandemic) in the short term but also in addressing long-term climate change threats. Thus, the European Green Deal offers a plan of action meant to foster the efficient use of resources by moving to a cleaner, circular economy, to restore biodiversity and reduce pollution. The plan of action establishes the necessary investments and financing instruments for all sectors of the economy.

This new approach of the European Commission will be implemented through the funding instruments available to member states, the most important of which is the Common Agricultural Policy, which will combine social, economic and environmental approaches towards a sustainable agricultural system in the European countries.

The objectives of the European Green Deal related to the agricultural sector also include additional targets established at EU level, namely:

1. reducing the use of pesticides by 50% by the year 2030;
2. reducing the sales of anti-microbial (antibiotic) products for farm animals and in aquaculture by 50% by the year 2030;
3. reducing the nutrient losses by 50% at least by the year 2030, which will lead to the diminution of fertilizer use by at least 20%;
4. increasing the land areas under organic farming by 25% by the year 2030;
5. increasing high-speed access to broadband internet in all the rural areas;
6. maintaining and increasing the land areas on which biodiversity is preserved, including agricultural areas under high-diversity landscape features.

The new CAP follows a performance- and results-based approach built around ten objectives, which frame the EU countries' CAP Strategic Plans. These combine targeted interventions addressing specific needs and delivering on EU-level objectives. Thus, the member states – through the (national or regional) Strategic Plans – should identify the most appropriate interventions that will implement the directions of action of the European Green Deal.

The main direction of action identified is the sustainable food system – obtaining healthy food, in an environmentally friendly way, by promoting production techniques based on rational use/reducing dependence on pesticides and antimicrobials, reducing over-fertilization, promoting organic production practices, improving animal welfare and reversing biodiversity loss. All the aspects have an impact on food production and on the entire chain (from farm to fork) and implies a series of changes in processing, transport, packaging, actions to reduce food

waste, combined with environmentally friendly production methods, which lead to obtaining healthy food. At the same time, informing consumers and producers on the need for such measures, in correlation with the benefits resulting from their application, will have a major importance.

Each Plan will combine a wide range of targeted interventions addressing the specific needs of EU countries and deliver tangible results in relation to EU-level objectives, while contributing to the ambitions of the European Green Deal. EU countries were required to produce a thorough assessment of what must be done, based on a strengths, weaknesses, opportunities and threats (SWOT) analysis of their territory and agri-food sector.

In this context, as a solution for many Member States of the EU, marked by the recent economic growth slowdown, the *diversification of economic activities* in the rural area is a major factor of economic development, slowing down rural depopulation by supporting investments in rural infrastructure, services, human capital and non-agricultural activities, primary and secondary processing of agricultural products and social entrepreneurship, which have the potential to create jobs, in bio-economy inclusively.

Specifically, investments are needed in the development of human resources in rural areas and in supporting entrepreneurial efforts and activities in order to generate profitable activities that can ensure motivating financial and social rewards on the medium and long term. In a modern economy, starting from the principle that labour movement is much more expensive than the movement of materials and products, most countries modified their policy with regard to enterprise location, and they moved enterprises towards the labour force and not inversely.

The analysis of SMEs in the Romanian rural area reveals their low capacity to respond to the need to supply jobs for the rural population. Despite the increase of small and medium enterprises (SMEs) in rural areas, their number is still very low compared to urban areas (the reasons being low quality of life, high inequality, lack of basic infrastructures: roads, fast broadband connection, etc.).

The main challenges that the young farmers are facing in Romania seem to be the access to land (recently, land prices have been fast increasing), access to finance (young farmers have a high rate of bank loan rejection due to the too high investment risks, due to lack of mutual trust, of farmers' financial literacy and collateral) and access to education (limited supply). Significant depopulation of rural areas (especially in mountainous areas) is another general concern in view of future vitality of rural areas. It is often linked to the less favorable working and living conditions (lack of access to basic business needs) and lower farm incomes in these regions.

In the future, with the continuation of the reform in education, the conditions of entrepreneurial spirit development could be changed. The success of such changes depends on how fast and how much the administrative and managerial capacity of local authorities will be improved.

Investments in the non-agricultural and food economy in the countryside, besides adding value to products through the processing of agricultural and non-agricultural raw products from local resources, also have another great advantage, in the sense of creating new jobs, through the utilization and stabilization of the local (rural) labour force, the revitalization of the rural localities, mainly of those localities from the less-favoured and remote areas.

As a consequence, the strategic direction of action for the next years must ensure the legislative foundation from which the whole system of institutional-legislative instruments should start, aimed at fostering tourism development and diversification in Romania, as a strong and efficient platform for guaranteeing the sustainable economic and social development.

5. CONCLUSIONS

Romania's effort to promote and develop non-agricultural activities in the rural area has been complemented by the support provided by the European Union funding since the year 2000. The main resources necessary for rural economy diversification were provided by the National Rural Development Program (NRDP), which applied the guidelines elaborated by the European Union.

The rural development strategies prioritize the actions and measures that have in view to remove the constraints to private initiative in the rural areas. Although the rural areas in Romania have much evolved in terms of living conditions, they are still affected by a high level of poverty and lack of economic opportunities. This resulted in the rural population leaving the country for shorter periods (often working in the farming sector in other EU countries) and for longer periods. Availability and access to essential services (health, transport, and education) and related infrastructure (roads, water supply, sewerage, and internet) are problematic in many places.

Stimulating investments for the development of small and medium-sized enterprises (SMEs) in the non-agricultural economy in the rural area is a permanent concern of local authorities. The location of small and medium-sized companies in the rural area means economy diversification, labour employment, increase of the economic power of rural localities and their overall development.

The experiences in the implementation of the Rural Development Program demonstrated that the financial support to rural development has not sufficiently contributed to rural economy diversification. The cause is either the lack of beneficiaries' own resources and the difficulties they are facing in getting the necessary credits for co-financing the projects, or the long financing and implementation period for the integrated infrastructure projects, the top to bottom approach of various strategies, non-involvement of authorities and rural communities, as well as the lack of certain priorities to be maintained on a long enough time line.

However, the promotion and development of non-agricultural activities in the Romanian rural areas was and still remains a very actual problem, that has not been fully solved up yet. In the future, in order to improve the living standard in the rural areas, it is of utmost importance to create and maintain sustainable jobs, to initiate and consolidate businesses, to develop products, services and activities based on the existing potential.

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