

**Nicoleta MATEOC-SÎRB\*, Păun Ion OTIMAN\*/\*\*\***

*\* Research Center for Sustainable Rural Development in Romania, Romanian Academy – Timișoara branch office*

*mateocnicol@yahoo.com*

*\*\* Institute of Agricultural Economics, Romanian Academy, Bucharest*

*iea@ines.ro, otiman@acad.ro*

## GENERAL CONSIDERATIONS ON VILLAGE DEVELOPMENT AND RURAL ECONOMY DIVERSIFICATION IN ROMANIA

### ABSTRACT

Romania, with a total area of 238,000 km<sup>2</sup> and a population of over 21 million inhabitants, **accounts for 6% of the total area of the European Union and 4% of its population**. Yet investments and competitiveness need to be improved, so that Romania can speed up economic growth and reach the convergence of its incomes with those from the European Union.

Rural areas in Romania cover 90% of the country's territory and comprise 45.1% of the population (9.7 million). The average population density in rural areas has remained relatively constant over the years (about 45.0 inhabitants/km<sup>2</sup>). Romania's population has a high rurality level compared to other EU countries, where the rural settlements are less populated and at a smaller scale, so we consider that more attention needs to be paid on village development and rural economy diversification in Romania.

Although the Romanian rural area hosts a rich culture with a strong traditional character, with regional differences, this cannot fully put into value its resources, and a paradoxical precarity is maintained, due to the lack of attractiveness and promotion of rural areas.

In the present study the authors make a brief diagnosis of the rural areas in our country and try to highlight the main problems that the rural people are facing at present, trying to bring into discussion solutions for at least partially surmounting the present difficulties.

**Key words:** rural, development, economy, diversification.

**JEL Classification:** Q01.

### 1. INTRODUCTION

The economic and social development of rural areas is absolutely conditional to the existence of rural infrastructure and basic services.

The basic services represent one of the key problems that the Romanian countryside is facing, due to their poor development.

The rural infrastructure, mainly rural roads and drinking water supply, has had and still has a significant negative impact upon rural development in general, and

upon encouraging agricultural or non-agricultural investments, in particular. The lack of water supply systems, of sewerage systems adversely impacts the rural people's health in the first place and it also represents a constraint to attracting investments in the area.

## 2. STATE OF KNOWLEDGE

The Romanian villages have a distinctive character from the point of view of the cultural and architectural heritage, depending on region, which gives them a specific identity with regard to the life style, as well as to putting into value the local resources.

Generally, the Romanian rural area comprises agricultural activities. The non-agricultural activities are mainly based on forestry, agro-processing, small-scale trade activities, handicraft, services, mining activities, energy production, which are insufficiently developed.

Except for the mining industry and energy production, the non-agricultural activities are mainly carried out on micro-enterprises and small and medium-sized enterprises (SMEs).

**The rural economy is poorly diversified and still dependent on the agricultural activities, resulting in low incomes for the entrepreneurs in the rural areas.**

Until recent times, agriculture, the primary sector of the economy, represented the main supplier of jobs in our country's economy.

## 3. MATERIAL AND METHOD

In order to identify the modalities to stop the degradation of Romanian villages and the village development possibilities, we used the following: an inventory of the current activities in the rural localities, analysis of their development level as well as the analysis of the rural development policies targeting the financial support to rural development, in the period 2007–2013, by EU and Romania's government.

## 4. RESULTS AND DISCUSSIONS

At present, most rural people are working in agriculture, forestry and fisheries (64.2%), while only 18.7% are working in the secondary sector, and 17.1% in the third sector.

#### 4.1. AGRICULTURE SITUATION

The quality of the Romanian agricultural area represents the natural premise to the competitiveness of agricultural products. The basic agricultural products, obtained under medium technical conditions, are perfectly competitive with similar products from other countries, while in most assortments their quality is even higher.

Agriculture and forestry, by tradition, represent important branches of Romania's economy, both as regards the agricultural land area (14.7 million hectares), the area under forests and forest vegetation (6.7 million hectares), and mainly the share of the population employed in agriculture and forestry (26%) in total rural population.

Almost 80% of Romania's utilized agricultural area (UAA) is divided into two categories of farms: a very numerous group (80% of total holdings), consisting of small-sized holdings, under 5 ha, and **a very small group, of holdings over 50 ha in size** (13,830, which **operate 40% of UAA**). The remaining 20% of UAA is operated by an intermediary segment, consisting of **holdings from 5 to 50 ha**, which is quite a small segment compared to other countries from the European Union and needs to be developed. The small-sized farms mainly consist of individual household farms. At present, we can notice that agriculture as a branch of national economy is under strong decline.

We must also mention that young farmers (under 40 years old) account for less than 10% of total farmers, and they operate 10% of the utilized agricultural area (UAA). At the other pole, the farmers who are over the retirement age (over 65 years old) represent 43% of the total number of farmers and operate 31% of the utilized agricultural area.

Investments are needed in order to consolidate the commercial agricultural holdings, the application of new technologies in particular, targeting the improvement of the quality of obtained products, in order to reduce the production costs and increase their competitiveness, so that farmers can produce according to the Community standards, under market and competition conditions, while having in view environment protection, hygiene and animal welfare.

#### 4.2. BUSINESS DEVELOPMENT

Business development in Romania has great differences by regions, with regard to the small and medium-sized enterprises as well. Entrepreneurship development has a poor representation in rural Romania, as a result of the insufficient operation of material resources, of the deficient education, of the low level of utilities, as well as of the massive migration phenomenon to the urban areas and to foreign countries, mainly in the case of young population.

The analysis of SMEs in the rural areas reveals their relative low capacity to respond to the exigencies related to the supply of jobs for the rural population.

**Out of total SMEs, more than 50% carry out trade activities.** The explanation for this strong orientation to trade activities is determined by the following: shorter period for investment recoupment, lack of capacities and abilities, impossibility to carry out other production activities out of lack of capital for advanced techniques and technologies. Thus, a need appear to support SMEs from other sectors, which can have a much more positive impact at the rural economy level, mainly in the agro-processing sector.

Processing of agricultural products by farmers in SMEs is needed in order to sell the agricultural production under increased economic efficiency.

### 4.3. TOURISM

At regional level, the rural tourism development largely depends on the existence and quality of tourism boarding houses and on the presence of various types of activities, of folklore, by the existence of ethnographic regions and by the practice of agriculture and viticulture (agro-tourism). The tourism specific for the region Bucovina is the religious tourism, in Maramures the architectural and ethnographic tourism prevails, in Transylvania the recreational and cultural tourism, the art of cuisine and wines, while at the foot of the Carpathians fishing is practiced. The rural tourism and agro-tourism (specifically linked to on-farm activities) are activities that generate alternative incomes, which provide development possibilities for the Romanian rural area, due to the unique landscape, large semi-natural areas, to the inborn hospitality of rural people.

In this sector, we must mention that the rural tourism and agro-tourism activities in Romania are little mediatized by the tourism agencies both for the Romanian and foreign tourists.

### 4.4. INFRASTRUCTURE AND SERVICES IN THE RURAL AREA

The rural areas in Romania are affected by the significant lack of infrastructure and by its deficiencies, which adversely impacts both the economic development and the quality of life. The most important needs are related to: roads, drinking water supply, public sewerage system, waste management, electric power, thermal energy, access to internet, education and training, access to health services.

There are also major difficulties in the rural areas with regard to the **access to health and educational services**. In many areas, the rural population's access to

basic education and health services is constrained by the deficient transport services, with a negative impact upon the urban-rural flow of physicians and teachers, and mainly on the development of production activities and the attraction of investors. **Adequate roads are an essential condition for economic development, besides the other human and social development areas.**

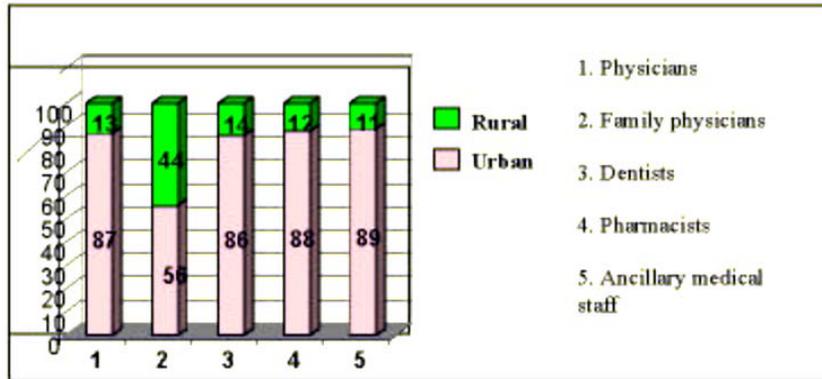


Figure 1. Distribution of physicians and ancillary medical staff by residence areas (%).

Incomes on rural households that mainly come from farm production account for 45% of total income, while in urban areas 62.4% come from wages.

For a realistic assessment of Romania's development level, it is useful to compare our country's situation to that of the other EU Member States, to which we have to get closer with regard to the economic and social development level. The main indicators regarding our country's development compared to those from the other EU Member States are presented in Table 1.

In general, in order to highlight the discrepancies, the differences are quantified by using the macroeconomic indicators total GDP or GDP per capita, calculated at regional level.

The most common indicator is GDP per capita, which is mostly used due to its double sense: (1) as measure of the output volume from the economic activity and (2) as expression of the incomes cashed by the participants to the economic activity in a certain area.

For the present period, we consider that the rural development programs should be designed so as to:

- start from regional level and encourage the local development initiatives, on the basis of available resources;
- place people with their problems and needs at the core of concepts and decisions;

- protect and maintain the positive values of rural society, mainly the traditional family life values, aiming at integrating the young people into community life;
- strengthen and consolidate the community life;
- preserve and promote the cultural and historical particularities of the rural region;
- encourage economic activity diversification;
- encourage the rural population's relations with the rest of society;
- determine the increase of the rural population's quality of life.

Table 1

Main indicators regarding Romania's development compared to EU in the year 2008

Specification	U.M	Romania	European Union
Total population	million	21.8	376.5
Total area	km	238391	3 191 000
Population density	loc/ km <sup>2</sup>	91.4	118
Population dynamics in 2002/2001	%	95.0	103.0*
Share of rural population	%	46.7	17.5*
Structure of population by age groups	%	100	100
• 0–14 years	%	17.3	17.4
• 15–64 years	%	68.6	67.0
• 60 years and over	%	14.1	15.6
GDP/capita (ppc)	Euro/capita	5.700	24.238
Structure of employed population	%	100	100
• Agriculture	%	36.2	4.5
• Industry, constructions	%	39.0	29.3
• Services	%	34.8	66.2
Unemployment rate	%	8.4	9.2
Birth rate	‰	10.5	–
Average lifespan:			
• Men	years	67.6	74.6
• Women	years	74.9	80.9

\*Only the population from the localities with demographic density under 100 inhabitants/km<sup>2</sup>.

Source: National Commission for Statistics, "Romania's Statistical Yearbook", 2008.

**At present, the rural people can diversify their activities by handicraft, services or other non-agricultural activities with funding allocated through the National Rural Development Program 2007–2013.**

**Measure 312 Support for the creation and development of micro-enterprises** included in Axis 3 **"Improving the quality of life quality in rural areas and diversification of the rural economy"** gives rural people the possibility to make the following types of investments.

**Investments in non-agricultural manufacturing activities** such as:

- Light industry (leather goods, footwear, wool, furs, knitwear, household appliances, odorants, etc.);
- Industrial processing of wood products – starting from timber (e.g. furniture);
- Fine mechanics, machinery assembling, tools and household appliances, package manufacturing, etc.

**Investments for the development of handicraft activities**, cottage industry and other traditional non-agricultural activities with local specificity (iron, wool processing, pottery, embroidering, manufacturing of traditional musical instruments, etc.), as well as their marketing (small shops for selling own products obtained from these activities).

**Services for the rural population**, such as:

- Tailor shop, barber's shop, shoemaker's;
- Internet services;
- Mechanization, transport services (other than the procurement of transport means), phyto-sanitary protection, sanitary-veterinary services and livestock artificial insemination;
- Machinery, tools and household appliances repair services.

**Investments in renewable energy production** by the procurement of renewable energy production equipment.

**Measure 121 – “Modernization of agricultural holdings”** under Axis 1 – **“Improving the competitiveness of agricultural and forestry sector”** also enables farmers to get financial support for the consolidation of agricultural holdings and increase their economic efficiency.

This measure has as a *general objective* the increase of the agricultural sector competitiveness by a better use of human resources and production factors and meeting the national and EU standards.

**The specific objectives** refer to:

1. Introduction and development of new technologies and procedures, production diversification, adjustment of production profile, quantity and quality to market requirements, to the ecological products market included, as well as the production and use of energy from renewable sources.
2. Adapting the agricultural holdings to EU standards.
3. Increase of incomes on supported agricultural holdings.
4. Support to members of producers' groups or of other association forms in order to encourage the association phenomenon.

**The operational objectives** refer to the following: promoting investments on agricultural holdings in the crop and animal production sectors for new buildings

and/or modernization of existing agricultural buildings on the territory of farms and of related utilities, procurement of new machinery and equipment, establishment of new plantations, etc.

The eligible investments under the measure are the following:

1. Construction and/or modernization of buildings used for the on-farm agricultural production, including those for environment protection.

2. Construction and/or modernization of internal or access road infrastructure in the agricultural sector, including utilities and fittings identified as necessary by the feasibility study or the justification report.

3. Construction and/or modernization of dairy farms.

4. Construction and/or modernization of glasshouses, of heating stations and irrigation works, ensuring the necessary utilities having in view the respect of environmental conditions.

5. Buying or procurement under leasing conditions of new tractors, harvesting combines, machinery, equipment, installations, tools and accessories, specialized equipment and software, identified as necessary in the feasibility study or justification report.

6. Buying or procurement under leasing conditions of new specialized means of transport, needed in the production activity, identified as necessary in the feasibility study or justification report.

7. Replacement of the noble vine plantations at the end of the biological production cycle (minimum 40 years) that are not included in the vine plantation restructuring/reconversion system supported through the European Agricultural Guarantee Fund (EAGF) within the Common Market Organization and establishment of table grape plantations.

8. Establishment of fruit tree, shrub and strawberry plantations.

9. Establishment of vine nurseries, fruit tree and shrub nurseries, other tree nurseries.

10. Investments for the production and sustainable use of energy from renewable sources on the farm.

11. Investments for the establishment of crops of forestry species with short production cycle and vegetative regeneration, for the purpose of renewable energy production.

12. Investments in apiculture, except for those made under the National Apiculture Program.

13. Investments for on-farm processing of agricultural products, comprising equipment for their sale, storage and cooling, etc.

14. The general costs of the project, according to Art. no.55 of the (EC) Regulation no.1974/2006, such as: fees for architects, engineers and consultants,

feasibility studies, fees for issuing the necessary certificates, approvals and authorizations for project implementation, as they are mentioned in national legislation, the procurement of patents and licenses (maximum 8% of the total eligible value of project, if constructions are provided for in the project, and maximum 3% in the case when the project does not provide for carrying out construction work).

15. Necessary investments for adapting the farms for ecological agriculture.

16. Investments necessary for reaching conformity with EU standards.

## 5. CONCLUSIONS

- After 1990, the Romanian villages, which had already been subject to transformations and country planning of communist type, continued their degradation process; this process also continues at present, despite Romania being a EU Member State since 2007.

- The disappearance of the Romanian village as traditional organization form, with its own specificity, will result in the loss of the Romanian people's identity, and of our identity as nation.

- The manifestation of the globalization phenomenon, as well as the economic crisis effects also lead to the degradation of the Romanian countryside, as the peasant producers tend to become consumer peasants of the large supermarkets.

- The rural economy has significant differences by regions, by specific demographic, social and economic characteristics. This differentiation is noticeable mainly as regards the low level of incomes in the Romanian rural area, reflected by the low living standard of the population and the lack of alternative incomes.

- The statistical data reveal that **agriculture, food industry and forestry are of primordial importance for the rural economy**. The presence of non-agricultural activities, related to the primary sector, and mainly to the exploitation of natural resources and their processing, are non significant in economic terms.

- Agriculture restructuring will have a particular impact upon rural economy in general, having in view that agriculture continues to remain the most important activity in the rural area and a main income source on the rural households.

- The active population in the rural area, *i.e.* 46.3% of total rural population, can contribute to the economic growth in the countryside, if adequate stimulating means are identified, calling for the creation of jobs in the non-agricultural sectors, which can absorb the labour force released from agriculture.

- In the period 2007–2013 Romania benefits from financial support provided by the European Union through its policy, which is worth over 8 billion euro for investments in agriculture and rural development.

- The purpose of rural development programs is mainly to create jobs in the rural area, in agro-processing units, SMEs or in other non-agricultural activities.

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