

INVESTMENTS IN AGRICULTURE USING EUROPEAN FUNDS

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Abstract

For all countries, agriculture is a strong factor of balance in harmonizing domestic economic development. Development of agriculture has favored economic growth in various sectors, helping to ensure national independence and food security. Considering that 2016 was a good agricultural year, we can say that this segment has a serious contribution in the local economy. Difficulties arise when it comes to good results every year, and farmers have to make agriculture in Europe, using modern equipment and means of funding. Despite the prevailing view that agriculture is risky, investment in agriculture is experiencing noted growth due to improved profitability projections. Investors are at the same time searching for alternative investment opportunities to diversify investments from traditional asset classes, which has led to an increased interest in the agricultural sector. This paper outlines financial solutions for farmers, legislation and important investments in agriculture.

Key words: agriculture, European funds, economic growth, investment loans.

INTRODUCTION

Agriculture is generally seen as a safe haven for capital and a hedge against inflation, representing a method of diversifying away from traditional assets. (Polverari, Bachtler, 2010). Moreover, agriculture is able to ensure the resources by which to secure the supply of food to feed a growing population. Investors are expecting to increasingly benefit from investments in the agricultural sector in the medium and long term since demand for food and other agricultural products is expected to continue to increase. According to the UN, over the next 20 years world food production is expected to grow by approximately 60% to meet the increasing demand for food. The reason for the gap between supply and demand is that investments in the agricultural sector have been insufficient in the last years. This is especially the case for long-term investments for infrastructure such as roads, irrigation, storage facilities, packing and shipping facilities, which are pressing needs. Against the background of increasing food demand and the scarcity of farmland, land values are expected to rise, which is giving way to speculation. The consolidation of small plots into larger ones with the aim of increased productivity and efficiency has become an investment opportunity for agribusiness investors. (Bandarra, 2006.) Recent trends also include an increased participation of investors in agricultural schemes, including investments in input, equipment and storage facilities, investing horizontally along the value chain. Like any other activity, agribusiness has some risks but these are manageable

providing any investment is supported by local knowledge and delivery. Agriculture supplies a vital, irreplaceable product to the world population. This characteristic makes the sector resilient to economic crises.(Bradley, J. & co, 2005)

MATERIAL AND METHOD

Agriculture is an important sector in the Romanian economy, contributing a high proportion of GDP, depending on the year and climatic conditions.(Dobrescu coord., 2009) Given the resources used, however this is well below its potential contribution. Romania has an agricultural capacity of 10 million hectares of arable land. Among the EU states, Romania is the most dependent country on agriculture and the country with the highest number of farmers. Moreover, the farmers in Romania account for 20% of the entire workforce involved in agriculture in Europe. In Romania, agriculture accounts of more than 6% of GDP and together with the self-consume and the black market sales which are not included in the above figure, agriculture remains a central element of the daily life for a significant share of the Romania's population.

With its EU accession , Romania has gained access to much needed financing alternatives in agriculture; the main sources of funding are the direct payments and those through the National Program for Rural Development. The proper use of the financing for the farming sector could trigger a more competitive Romanian agriculture, the increase in the number of jobs in rural areas, as well as the sustainable development of rural areas. The direct payments for agriculture projects are administered by the Agency of Payments and Intervention for Agriculture (APIA). To be eligible for single payments, a farmer is required payment entitlements and land. Entitlements are calculated based on how many hectares of farmed land the farmer has.

Currently, The National Program for Rural Development is in charge of the sustainable development of Romanian agriculture. The management authority of this funding program is the Ministry of Agriculture and Rural Development and the payment authority is the Agency of Payments for Rural Development and Fishing. The general objectives of The National Program for Rural Development are to increase the competitiveness of the agri-food sectors and forestry, to improve the environment and the rural area, to improve the quality of life in the rural areas, the diversification of the rural economy and the start of local development initiatives.

Romania's agriculture used to be one of the country's engines before the fall of communism. In 2016, the agriculture was one of the few areas where Romania's GDP recorded growth. The sector covered only 4.1 percent of the GDP in the second quarter of this year. The country has 14.7 million

hectares of land for agriculture. The area of cultivated agriculture land in Romania is of around 9.4 million hectares and foreign investors own over 500,000 hectares.

Financial instruments can thus contribute to the achievement of most of the established EU priorities for rural development:

- fostering knowledge transfer and innovation in agriculture, forestry and rural areas;
- enhancing competitiveness of all types of agriculture and enhancing farm viability;
- promoting food chain organization;
- promoting resource efficiency and supporting the shift towards a lowcarbon and climate-resilient economy in the agriculture, food and forestry sectors;
- promoting social inclusion, poverty reduction and economic development in rural areas, in particular with regards creation and development of small enterprises, as well as jobs creation.

Table 1

Values and demands for the most important European funds in agricultural sector, in Romania (2016)

Nr.	Type of measure	Value (Mil.Euro)	Demands in 2016
1	4.1.	310,2	721
2	4.1.a	54,5	119
3	4.2.	80,9	96
4	4.2.a	2,5	7
5	6.1.	187,6	4578
6	6.2.	143	2346
7	6.3.	45,9	3062
8	6.4.	212,8	1236

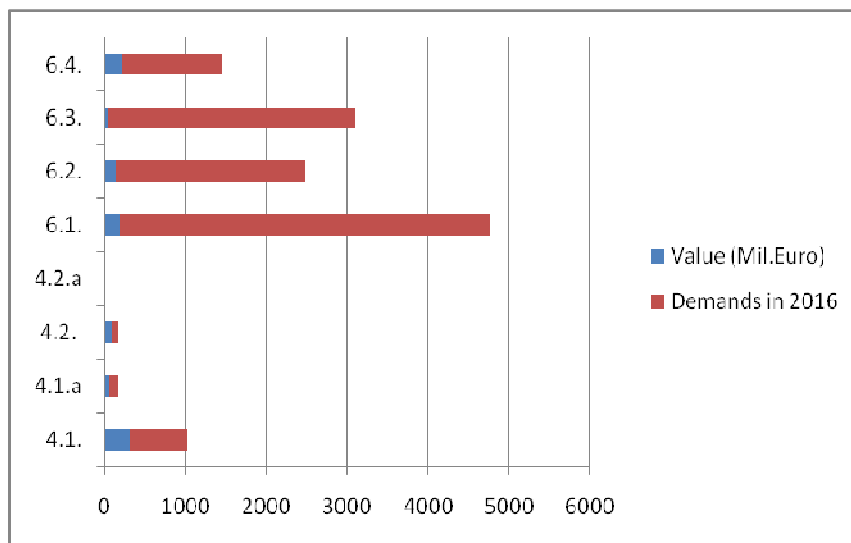


Fig. 1 Values and demands for the most important European funds in agricultural sector, in Romania (2016)

One of Romania's main exports is of agricultural products, and specifically fruits, vegetables and flowers. Trade mainly centers on EU member states, with Germany and Italy being the biggest single trading partners. Romania is a net food importer, particularly of pig and poultry. As well as established trade with Western Europe, Romania is also ideally located for access to the improving markets of the East. There are also national programmes to encourage inward investment into the country. For foreign investors, Romania offers a skilled and low-cost labor force. The unemployment rate stands at 7.7%, although in rural areas many people make their living from subsistence farming.

RESULTS AND DISCUSSION

Romania is often very quick at implementing economic reform. Romania has a strong legal framework to protect property and trading and, since becoming part of the European Union, is now also subject to European laws that further protect both domestic and international investment. With regard to land ownership and occupation, there is no restriction on foreign investors buying land, provided it is through a Romanian registered company. Romania has been going through a period of restitution, where Romanian nationals can claim rights to land and property owned by their ancestors prior to the Communist regime. This has led to a very fragmented land system, with large blocks of singularly owned freehold land being very scarce. There is, therefore, a two-tier system of ownership of consolidated and unconsolidated land. Romania is suitable for a wide variety of farming

systems, and with the quality of the soils, particularly the Chernozem (black earth) , has the potential to be a significant producer of conventional cereals and field-scale vegetables with irrigation. Romania is also a producer of dairy products, extensive livestock farming in the Carpathian Mountains, wine production on the foothills of the Carpathian mountains, and fruits and vegetable production on the Danube. The country has a shortfall of up to 50% in pig and poultry production. Romania exports produce mainly to Western Europe, but also increasingly to the improving markets of the East. Farmland prices currently average €3,000 per hectare for compacted land, and €2,500 per hectare for uncompacted land, although this varies depending on location and soil quality. Consolidation of land increases its capital value, in addition to anticipated land price convergence with Western Europe over time. There is also a relatively low cost of land occupation, with rents currently averaging €100 per hectare. Romania also benefits from access to a skilled and low-cost labor force. The workforce population currently employed in the agricultural sector is estimated at 26%.

CONCLUSIONS

Agriculture played a major role in the development of society since old times. The new paradigm of sustainable growth emphasizes the role of agriculture in economic growth, in ensuring food security, in poverty reduction, in the reduction of income disparities, in the development of the rural area and environmental protection.

The European Commission adopted the partnership agreement with Romania on the mobilization of structural funds and EU investment in support of growth and employment for the period 2014-2020. This agreement covering all regions of the country defines the strategy to be implemented for the optimal use of Structural Funds and European investment, up to 23 billion euro in total. These investments increased since 2007-2013, which put Romania on the path to employment and growth for the next ten years include the financing of European territorial cooperation and the allocation for the initiative for youth employment, under the cohesion Policy for 2014-2020. Romania, the first country to have established contractual relations with the EU European countries, also receives 8 billion euro for rural development. (<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:347:0608:0670:en:PDF>)

The Rural Development Programme (RDP) for Romania was formally adopted by the European Commission, outlining Romania's priorities for using nearly € 9.5 billion of public money that is available for the 7-year period 2014-2020 (€ 8.1 billion from the EU budget, including € 112.3

million transferred from the CAP direct payments, and € 1.34 billion of national co-funding). The RDP for Romania focuses mainly on 3 priority areas: promoting competitiveness and restructuring in Romania's large agricultural sector; environmental protection & climate change; and stimulating economic development, job creation and a better quality of life in Romanian villages, where the situation is frequently well below both EU and average national levels.(http://ec.europa.eu/agriculture/cap-funding_en) Under the first of these priorities, 'Competitiveness of the agricultural sector and sustainable forestry, the RDP will help modernize nearly 3 400 farms and cooperatives, support the development of more than 30 000 small farms, and help more than 9 400 young farmers to start up. Under the priority Restoring, preserving and enhancing ecosystems related to agriculture and forestry', more than 1.3 million ha (over 10%) of agricultural land and more than 800 000 ha (12%) of forests will benefit from payments to support biodiversity and promote environmentally-friendly land management practices. A further 4.7 million ha will receive support in order to prevent land abandonment and soil erosion. Skills in the agricultural sector will be reinforced by some 184 000 training places, under the above two priorities. Under the priority 'Social inclusion and local development in rural areas', almost 27 000 jobs will be created in rural areas and the setting up and development of 3 000 non-agricultural businesses will be supported. (https://ec.europa.eu/agriculture/sites/agriculture/files/cap-funding/beneficiaries/shared/threshold_en.pdf)

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