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Rural transformations under Common Agricultural Policy 2007-2013 and future development

Editors:

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Introduction to the volume

Due to the way it has been conceived and managed to date, the Common Agricultural Policy (CAP) of the European Union (EU) contained highly critical points that cause negative consequences for both producers and consumers. First of all, the CAP was marked by glaring inequality in so far as the financial resources of the so-called "First Pillar" have been distributed unevenly among types of production, farms and the Member States. Secondly , it was "favourable" for a highly unbalanced consumer model: 250 million of the EU's 500 million inhabitants are overweight and 42 million live in conditions of serious privation, while every year 90 million tons of edible food is thrown to waste (Eurostat 2010). De facto, from many points of view, the food has lost its intrinsic value and price is the only parameter that remains to guide food choices. Thirdly, the CAP devalued labour in the agri-food sector: a recent survey showed that, in Europe as a whole, employment in farming has dropped by 25 percent in fewer than ten years, with an overall loss of 3.7 million jobs (Eurostat 2010). This fall in employment has not been accompanied by an increase in workers' wages in the farming sector comparable to other sectors; indeed earnings – and, as a consequence the professional level of the sector – have progressively dropped. The farmers' insufficient income is one of the root causes of the disappearance of many agricultural products.

The industrial agri-food model that has asserted itself over the last fifty years is one of the causes of the most serious environmental and climate crises ever experienced by humanity. On one hand, in so far as they were considered inextinguishable, natural resources such as water, land, forests and woods have been exploited indiscriminately , and have hence deterio rated irreversibly . On the other hand, industrial farming has made an increasingly unbridled use of inputs of fossil origin, such as chemical fertilizers, pesticides and plastics.

At the same time, the financial problems that have appeared in recent years as a result of the beginning of global economic-financial crisis put an increasing pressure upon EU evolution as a whole. The way in which the budget allo - cated to CAP in the period 2007-2013 responded to the requirements and in which the measures taken had expected effects will have to be evaluated now, in the balance years 2013-2014. That is why, the substantiation of a solid and realistic budget for the period 2014-2020, targeting the imperiously necessary measures to be taken in agriculture and rural area, is a must for a successful

development of all the EU member states, at an equitable and comparable rate. Finding additional financial resources for agriculture and rural areas will have to be intensified and stimulated. The new CAP has major challenges to address. It has to: ensure food security and sovereignty, offer a response to the environmental and climate crisis, and revigorate the economy and employment in agriculture and rural areas.

Last but not least, the competitiveness of the agri-food products from the EU, which are facing direct and permanent competition with similar products from other regions of the world, is other important topic and future challenge. By determining their competitiveness level, one can evaluate the capacity by which CAP developed the European market in the last period, and the modality in which the financial resources have been correctly directed and efficiently used.

It is out of these reasons that we considered it necessary that the European Rural Development Network (ERDN, www.erdn.eu) meeting in 2013 must have as main theme the evaluation of transformations from agriculture and rural area in the period 2007-1013 and the perspectives of the programming period 2014-2020, under the new CAP impact.

By the conference organized in Romania (General Berthelot commune), the Institute of Agricultural Economics from the Romanian Academy tried to bring together economists, sociologists, geographers, agronomists, ecologists, policy makers, rural planners, managers and others, in order to discuss and assess new perspectives in the future rural development plans. Its aims were to stimulate theoretical and empirical contributions on the proposed theme. At the same time, we intended to extend our concerns and sphere of interest by attracting new members in ERDN, to deliver new outputs of our activities, to promote and share the results of our concerns with other participants, networks and actors, to create a rich and favorable background for future collaborations. In brief, the objectives of the conference linked the scientific and social events, like: Evaluation of the effects of EU CAP for 2007-2013, Analysis and refining common goal systems for agriculture and rural development in different EU member states, at different stages of development and integration with the EU, or transition countries, Determination of competitiveness of EU agri-food products and best practices identified in rural development, Identification of challenges, opportunities and risks for sustainable rural development in the period 2014-2020, Dissemination of our research, Connection of networks and people and Research trips at the main businessman in the field.

The Conference was included in the program promoting and disseminating the research results under the project FP 7 “International comparisons of product supply chains in the agro-food sectors: determinants of their competitiveness and performance on EU and international markets” (COMPETE), FP7-KBBE-2012-6-singlestage (KBBE.12.1.4-09), with funding from the European

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We hope that ERDN will continue to be a real platform for scientific communication and an open network for constructive debate that include all actors involved in rural development from policy makers to final beneficiaries, integrating representatives of EU Member States (old or new) and non-EU countries with a common purpose, that of the exchange of experiences and collaboration in finding solutions as appropriate for the sustainable development of rural areas.

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STRUCTURAL CHANGES IN AGRICULTURE AND RURAL AREAS UNDER CAP 2007-2013

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Chapter 1

How does the CAP cope with the problem of rural employment? The examples of selected EU countries

Abstract: *Due to global changes in last decades, the share of agriculture on national GDP and employment has declined. Responding to this trend the importance of wider rural economic development is recently stressed out within the CAP, mainly by the support of non-agricultural activities in rural areas and non-agricultural actors involved in the economic development process. This study deals with the evaluation of rural employment creation strategies of selected member states or regions within them. We did this by analysing the degree of rurality, labour market characteristics and chosen agricultural sector characteristics. We applied the cluster analysis and compared clusters in chosen indicators in within and in between. Our study highlights the fact that specific settings of individual Rural Development Programmes of member states and regions related to rural employment creation correspond to the level of their development and the respective needs of agribusiness and rural areas. In general, within clusters we noticed great heterogenity of indicators used for the explanation of employment creation approach. We conclude that for the full explanation of policy settings of rural employment creation, we need to consider also the influence of unobservable factors, e.g. political lobby.*

Keywords: *rural employment, rural development programme, cluster analysis, menu approach*

Introduction

The problem of rural employment gathers significant attention recently, mainly due to on-going globalization process, technological developments and cultural change (OECD, 2006, Bell, 2006, Ilbery 1998, Woods, 2005). Mechanization of production together with development of global supply chains enhance the productivity of agriculture and reduce the dependency of rural viability on the agricultural sector. As a result, the role of agricultural sector is considered to be rather complementary and competitive (OECD, 2006). More recently the Common Agricultural Policy (CAP) stressed out the importance of a wider rural economic development, mainly through the development of non-agricultural activities and non-agricultural actors involved in the economic development process. It also reflected the natural policy change from sectorial into territorially-led rural development strategies (Woods, 2005). However, rural areas understood in the context of non-agricultural space (not based on sectorial development), are supported only marginally what leads to the inability of the CAP to fully solve problems of rural areas (Forgács, 2010).

This study deals with the evaluation of rural employment strategies applied in chosen EU countries. Their common goal is to mitigate declining employment trajectory and to secure rural viability. Consequentially, they expect the improvement of quality of life in rural areas. As much as they share the common goal of employment creation and employment security of rural areas, they differ in applied strategies according to the share of the agricultural sector in national economy and national traditions related to the role of the sector (Baldock et al., 2001). Moreover, EU member states set their long-term rural development priorities that originate from strategic documents. Therefore, we assume that these priorities will hold for longer time and be persistent for decades. On the eve of the new programming period 2014-2020, the previous rural employment policy settings may be an useful prediction of future policy actions.

The study intends to answer following questions:

i) What are the strategies applied through the CAP in selected EU member states that help to mitigate the rural employment problems?
ii) Why and from what perspective the rural employment is considered to be a priority issue in selected countries?
iii) How the prioritization of the rural employment issues may be described by selected indicators?

Moreover, the study has an overall objective: Comprehensive cross-country comparison of rural employment strategies explaining any policy patterns with respect to cross-country similarities or differences.

Methods and data used

Methods

In our study we worked with the term rural that refers to its understanding presented by Terluin (2000). According to her definition, rural represents the territorial entity that „includes both agricultural, industrial and service activities and consists of one or more centres and open space“ (T erluin, 2000, p. 18). These territorial entities may be of different population density and have different spatial organization (location of metropolitan centre, open space, etc.). With a reference to the classification of rural, the main criteria is the population density below 150 inhabitants per square kilometer. The same designation criterion was used by OECD (2010) and also applied by Eurostat. These databases divide the regions (NUTS2) into three categories:

- More than 50% of people living in the region lives in rural areas – the region is classified like most rural (predominantly rural) (PR)
- Between 15-50% of people living in the region lives in rural areas – the region is classified like intermediate (significantly rural) (SR)
- Less than 50% of people living in the region lives in rural areas – the region is classified like most urban (predominantly urban) (PU)

Naturally, the last group was withdrawn from our analysis as our concern was only on rural areas.

On the level of EU member states we operated both with national and regional strategies, based on the availability of Rural Development Pro - grammes and the representativeness of chosen examples. For example, in the case of Germany we chose two regions – Sachsen and Bayern and in the case of Great Britain, Wales and Scotland were our investigated regions. For other countries, we used the national Rural Development Pro grammes.

Rural employment within the CAP

On the basis of individual Rural Development Programmes we analysed the rural employment strategies of selected EU member states/regions. Our analysis was based on the choice of measures and amount of public sources (both European Agricultural Fund for Rural Development - EAFRD and national) that were connected with the employment creation directly (employment as a result indicator) or indirectly (employment as an impact indicator) (EC, 2006). According to this logic we operated with the measures of 31. (Diversification of rural economy), 32. (Improving quality of life in rural areas) and LEADER measures (41.,421).

Cluster formation

For the purpose of cross-country comparison we applied k-means cluster analysis of selected countries and regions. The main distinction between the clusters was the level of prioritization of rural employment calculated as the share of the measures with employment creation potential on all public sources (EAFRD and national) devoted to Rural Development measures (Pillar II). The supplementary indicator that helped us to divide the chosen countries/regions into clusters was the ratio between the applied strategies of 31.,32. (Axis 3) and 41.,421 (Axis 4) measures. By this division we were able to assess the degree to which the countries/regions reflect the policy shift from the top-down approach into bottom-up (territorially based).

Selected indicators for analysis of clusters

In order to answer our research questions, we further operated with the clusters identified above. We tried to explain the level of prioritization of rural employment within clusters based on the character and degree of rurality. For this reason, we operated with the rural area share on total area of countries/regions and the rural population share on total population. Additionally, the labour market indicators of rural unemployment rate and rural employment in agriculture helped us to identify the emergence of the employment priority and its dependency on the agricultural sector. Finally, we focused on the agricultural sector and its employment creation potential. We chose the indicators of the share of agricultural area (AA) of holdings under 50 ha (may be characterized like small and family farms) and the share of privately owned land. These two indicators can also help us to understand what kind of farmers we are dealing with and the reasoning behind the applied employment strategies within clusters – e.g. whether more sources are devoted to sectorally-led development or territorially-led development.

Menu approach

The final step of our analysis was the demonstration of menu approach (for the reference see Terluin and Venema, 2004). It refers to the common example that we all know from the restaurant or any other menu-based selection service. The EU Commission offered a menu of measures for member states to choose in order to fulfill their development goals and national strategies according to set priorities. The added value of menu approach is its potential to reveal policy patterns and respective negotiation power of rural actors. For this reason at this stage we focused on the choice of measures devoted to farm activities, rural municipalities, local action groups or other rural actors.

Data

The main data sources used were national programme documents of Rural Development Programmes, OECD and Eurostat. The budget spendings on the rural employment priority were taken from national programme documents. Other variables related to socio-economic indicators (unemployment, rural employment in agriculture, rural population) and rural area share were derived from available databases of OECD and Eurostat respectively. Agricultural variables such as the share of AA of holdings under 50 ha and the share of privately owned land originated from Eurostat. In the use of OECD and Eurostat databases we operated with the time framework of the years 2005, 2006 or 2007 according to national and regional data availability (prior to creation of the Rural Development Programmes for the programming period 2007-2013).

However, we need to take into account limits that occur due to several gaps in selected databases. These were mainly the missing data of selected countries either from OECD or Eurostat. In that case, we switched to national programme documents and derived the information from there or we interchanged data source of OECD with Eurostat or reversely. Therefore, different definitions of rural in these databases limit the results of our analysis to some extent.

Results and discussion:

Clusters according to rural employment priority and applied strategies

The division of countries/regions into clusters (Table 1) reveals the general pattern of higher prioritization of employment creation in new member states (NMS). This may be explained by the lack of additional national employment programmes for rural areas and sources that would be able to accompany or substitute some of the measures applied through Rural Development Programmes. Another explanation may be in the overall state-of-art of the countries in respective clusters and so the development level of the particular rural areas. As an example, in NMSs such as Slovakia and Czech Republic the municipal (and consequentially the rural) development was highly related to political era prior to the accession to the EU. More importantly the era of communism (central planning system, central selection of growth poles, etc.) deepened the divergence in the development of rural areas. The new period of rural development began at the time when these NMS were able to apply European funds (SAPARD, EAGGF, ERDF, EAFRD) that was a significant source of funding for many development actions.

The division of sources betweenAxes among clusters is more equal (on average 56:44) in Cluster 1, mostly represented by regions and countries of old member states (OMS), with an exemptions of Hungary, Lithuania and Esto-

nia. These more progressively apply local development strategies, generally known as strategies for the development from the bottom. The group of countries and regions in Cluster 2 put more into favour measures of Axis 3 (86:14). In the interpretation of this difference we need to consider the timing of the country accession into the EU. In comparison of NMS to OMS this was at least a decade later and therefore they are at the learning phase and the catching-up process with the development of rural areas in OMS. For the purpose of ef fective functioning of Axis 4 (LEADER) local action groups need to be developed. As it is the case of many NMS the network of local action groups is just under the development or operate for slightly shorter time. Therefore, we may not expect higher spendings on LEADER approach in NMS as the efficient operability of rural development from the bottom demands experiences, capacities as well as functioning networks among members within the groups.

Table 1. Priority level of rural employment creation and related strategies

Country/Region	Priority level of rural employment creation measures on public sources (EAFRD+national)	Share of Axis 3 sources on rural employment creation measures	Share of Axis 4 sources on rural employment creation measures
Cluster 1			
Ireland	6.27	6	93
Finland (mainland)	9.30	67	32
Austria	11.08	51	48
Sweden	12.43	55	44
Wales	12.64	60	39
Bayern	14.83	68	31
Denmark	16.01	44	55
Scotland	16.12	67	32
Hungary	16.53	72	27
Lithaunia	18.00	67	32
Estonia	21.76	59	40
Unweighted AVG	**14.09**	**56**	**43**
Weighted AVG	**12.42**		
Cluster 2			
Slovenia	13.72	83	16
Slovakia	15.31	85	14
Latvia	21.02	90	9
Czech Republic	21.98	79	20
Poland	23.61	84	15
Romania	26.60	93	6
Bulgaria	31.27	94	5
Holland	32.61	81	18
Sachsen	47.26	91	8
Unweighted AVG	**25.93**	**86.67**	**12.33**
Weighted AVG	**24.89**		

Source: National programme documents; values of priority level and Axes shares in % of public sources (EAFRD+national)

Degree of rurality

The rurality measured by the share of rural population (population perspective) or rural area (spatial perspective) to national numbers explains to what extent the problem of rural employment is major or minor to nationally set objectives of rural development policy. More specifically the intention is given on the fact whether the employment creation measures are designed to support rural population or rural space. Furthermore, the spatial perspective highlights the complexity of the problem. The rural employment creation is related to the strategy how to make people stay and live in rural areas and vice-versa how to keep the viability of rural areas for employment development for present and future residents. The idea is that the employment creation help to avoid creation of brownfields, land abadonment and mitigate the ongoing trend of transformation of rural areas into dormitories for people commuting to work outside of rural areas. At the same time by enhancing the diversity of local economy we may improve the overall rural resilience.

On Table 2 we see that Cluster 1 is characterized by higher degree of spatial rurality what also refers to applied employment strategies and so the higher preference for LEADER method. These activities are strongly locally and place-based due to the fact that the budget sources are transferred not to individuals but to local action groups that are reponsible for its allocation according to locally designed projects. In Cluster 2, there is a slightly higher degree of rurality based on the share of rural population. However, the difference in comparison with Cluster 1 value is not significant. On the example of Austria and Poland we can see that even if these countries have very similar degree of spatial rurality and degree ofrurality that is related to people, they are in dif ferent clusters and so, they dif fer in applied strategies. Therefore, the degree of rurality is not the satisfying indicator that would fully encompass the differences between clusters and explain the applied employment strategies. More importantly , within the clusters there are located countries that have remarkably dif ferent degree of rurality with respect to the rest of the cluster (e.g. Scotland, Bayern and Wales of Cluster 1 and Holland, Sachsen and Latvia of Cluster 2) and despite this, their applied strategies are similar to others. Therefore, we need to notice the internal heterogenity of countries and regions within the clusters.

Table 2. Degree of rurality with respect to rural population and rural space

Country/Region	Share of rural areas on total area (spatial rurality)	Share of rural population on total popuation (rurality related to people)
Cluster 1		
Ireland	98.66	72.53
Finland	97.91	74.2
Austria	98.69	76.66
Sweden	98.41	79.11
Wales	82.98	37.97
Bayern	85.95	65.88
Denmark	95.42	70.7
Scotland	93.95	50.1
Hungary	99.44	83.15
Lithaunia	85.1	75.08
Estonia	92.25	87.15
AVG*	**93.52**	**70.23**
Cluster 2		
Slovenia	100	100
Slovakia	95.81	88.82
Latvia	83.83	52.19
Czech Republic	99.37	88.47
Poland	97.52	77.39
Romania	99.24	89.75
Bulgaria	98.78	84.04
Holland	34.14	15.01
Sachsen	59.83	52.31
AVG*	**85.39**	**72.00**

***unweighted arithmetic mean value; shares in %**

Source: OECD (2006, 2007), Eurostat (2006)

Labour market

The degree and the character of rurality are not satisfying indicators that would fully explain the differences in applied employment strategies and the level of prioritization of rural employment in the identified clusters. Therefore, we move our attention into the labour market. More specifically we focus on the rural employment rate that reveals the emergence of rural employment problem and the rural employment in agriculture that relates to the importance of the traditional rural sector in the creation of the rural employment. By taking into account the character and degree of rurality and the case when rural unemployment is relatively high and the rurality is considerably high as well (either from the perspective of population or area). This problem is becoming more nationally/regionally-wide than just local. Then, the justification of higher level of rural employment prioritization may be explained by the existing situation on the labour market.

The share of employment in agriculture refers to the structure of local economy. Farmers are considered to possess an important role as rural economic actors. They create new jobs, sustain existing ones, or diversify local

economy that further enhances rural resilience. We may look at the employment in agriculture from the perspective of development of agriculture in particular regions or countries. The more developed the sector in a country/region is the less manual labour force is needed and therefore, there is much more possibilities for farmers to develop their businesses outside the agriculture, what is extremely important in the case of small farms and family farms that makes farming for living. We should also take into account the existing support for farmers from Pillar 1 and measures of Axis 1 or Axis 2. If the support of the production function of agricultural sector is not the only case of policy planning, the strategy would be to support other sectors outside the agriculture (or farmers in their diversification activities) and enhance the diversification of rural economy - by also giving the work to local people, or indirectly by improving the quality of life in rural areas that would attract other entrepreneurs in the future. Another strategy may be to involve farmers in local development by engaging them in local development actions through LEADER.

The results presented in Table 3 are able to partially explain the reasoning of employment creation priority and the situation on the labour market from the perspective of traditional economic actors (farmers). In the group of countries/regions of Cluster 1, the lower level of employment creation priority is connected with generally lower degree of rural unemployment (on average 6.38%). On the other hand, the situation in rural areas of Cluster 2 countries/regions is more negative with respect to rural unemployment (on average 10.56%). The situation of agriculture on rural labour markets is described by the higher importance of the sector in Cluster 2 (on average 19.49%) than in Cluster 1 (on average 9.67%). Then the applied strategies related to rural employment creation can be interpreted by the use of these numbers. The lower employment creation dependency on the agricultural sector (the lower share of rural agricultural employment) and the higher unemployment, the strategies are led to involve other rural actors into the process of employment creation (e.g.infrastructural projects, rennovation projects, creation of microbusinesses, etc). In the case of lower importance of rural agricultural employment. the position of the sector is becoming rather marginal and the support of the sectorally-led actions may be misleading because it will not be able to mitigate the problem of generally high rural unemployment that is the case of Slovakia, Czech Republic, Sachsen.

Within the clusters, we can see that the countries/regions are not homogeneous with respect to the unemployment rate and the rural agricultural employment. In both clusters, we may identify mainstream representatives but also the extreme examples either in the rate of unemployment or the share of rural agricultural employment what impedes the interpretation of the applied strategies within the clusters (e.g. Bayern, Scotland, Lithuania of Cluster 1 and Slovakia, Latvia, Poland, Romania, Bulgaria, Sachsen of Cluster 2).

Table 3. Rural labour market characteristics

Country/Region	Rural uneployment	Rural employment in agriculture
Cluster 1		
Ireland	4.34	8.24
Finland	8.86	6.67
Austria	3.69	8.87
Sweden	6.32	2.76
Bayern	6.55	0.91
Denmark	3.61	4.09
Scotland	5.33	11.00**
Hungary	8.06	6.25
Lithaunia	12.00**	42.60**
Estonia	5.08	5.28
AVG*	**6.38**	**9.67**
Cluster 2		
Slovenia	5.96	9.53
Slovakia	14.63	4.63
Latvia	6.70**	36.40**
Czech Republic	7.76	4.33
Poland	14.35	21.42
Romania	5.20**	64.20**
Bulgaria	19.20**	28.50**
Holland	4.39	3.99
Sachsen	16.83	2.38
AVG*	**10.56**	**19.49**

***unweighted arithmetic mean value; values in %. AVG Cluster 1 – missing values for Wales; limitations due to different data sources**

Source: OECD (2006, 2007); **National programme documents (Scotland, Lithuania, Latvia, Romania, Bulgaria)

Sector characteristics

The spatial and proprietary character of the agricultural sector placed locally help us to understand the structure of the sector and its potential of employment creation. Moreover, the support within Pillar 2 measures given to farmes explains the potential contribution of farmers to overall rural development besides sustaining their production function already supported from Pillar 1.

We expect that smaller farmers would be forced to look for alternative sources of income outside agriculture as due to global supply chains they can hardly compete with big producers for their production prices. This would also force them to mobilize into agricultural organisations and make a pressure on the decision makers about their financial expectations. Their strength is even more enforced in the situation of their higher share on rural emplo - yment. On the other hand, the support of lar ge producers outside their pro - duction function may be questioned in terms of their effectivity of applying diversification strategies in comparison with smaller farmers. The general trend suggests that lar ge producers should concern on the competitive part of their production (production of food, fibre, fuel and feed) in which they can generate higher profit.

The size of a farm also relates to issues of local cohesion and local embeddedness that are mostly the case of smaller producers. They are usually located in the area of one settlement what enhances their sense of belonging to local community and motivate them in developing strategies that help to improve not only their economic state but also the overall state of the community . In the case of large producers, this aspect may be marginalized due to anonymity of owners to the place and the profit-related expectations of tenants.

Within clusters, it is observable that higher share of private ownership is in OMS (Table 4). However , the structure of farms cannot be directly linked to this character of ownership. More than half of all farms are small in countries like Ireland, Finland, Austria, Bayern and Holland. In the case of Cluster 2, examples of Slovakia, Czech Republic and Sachsen represent countries with the highest share of tenant farms and the smallest share of smaller farms. This is explained as the heritage of centralized system (Slovakia, Czech Republic) that resulted in the creation of big production units (cooperatives). However , from the region of Central Europe, Poland is in completely different situation. It has a relatively high share of privately owned land as well as the share of small farms. The similar example is also Slovenia. We need to realize that there exist no general patterns that would differentiate the structure of farms between and within the clusters. The same holds also for the structure of ownership.

Table 4. Structure of the agricultural sector with respect to farm size and farm ownership

Country/Region	Share of agricultural area of holdings under 50 ha	Share of privately owned land
Cluster 1		
Ireland	54.44	81.72
Finland	51.43	66.15
Austria	60.56	71.23
Sweden	28.6	59.88
Wales	24.46	91.88
Bayern	57.18	54.57
Denmark	24.3	75.42
Scotland	4.36	69.4
Hungary	28.97	41.25
Lithaunia	63.21	47.07
Estonia	26.77	45.87
AVG*	**38.57**	**64.04**
Cluster 2		
Slovenia	90.24	69.85
Slovakia	5.79	9.22
Latvia	57.12	75.77
Czech Republic	7.43	14.3
Poland	76.47	78.35
Romania	60.03	74.55
Bulgaria	20.93	24.3
Holland	55.18	60.78
Sachsen	6.93	17.27
AVG*	**42.24**	**47.15**

***unweighted arithmetic mean value; values in %**

Source: Eurostat (2005)

We may identify particular trends that differentiate clusters with respect to rural actors that are being mostly affected by rural policy settings (Table 5). On average, the highest share of public sources in Cluster 1 countries/regions is devoted to measures 41, that refers to LEADER method through which member states may apply measures of Axes 1-3 but based on local development strategies. The support is then devoted not directly to providers of the action but to a local action group that is responsible for its realisation and the allocation of the budget. Another trend is also visible in the case of Cluster 2 countries/regions. It is obvious that these countries/regions prefer measures related to improvement of quality of life where the employment is rather an indirect impact (32.measures). This leads to the support of rural municipalities and it can be possibly explained by two reasons:

(1) member states take the advantage of European sources and they primarily use them to build the rural infrastructure and improve overall quality of life in rural areas that is on the lower level than the life in urban areas. This may originates from the past underdevelopment or the wrongly applied central policy that favoured growth poles and fully mislead the horizontal development of rural areas.

(2) the policy settings relate to future prospects of well-infrastructured countryside. Firstly, it becomes an attractive place for newcomers as it offers comparable living standards to that in urban areas with additional benefits such as the higher quality of air , social networks, safe place for living, etc. Secondly , it creates a positive signal for investors or future entrepreneurs. Of course, we cannot avoid the commuting patterns from rural to urban areas but by improving the quality of life standards we may expect the slight modification, at least the mitigation of even further decline of the most endangered countryside.

In all other measures of Axis 3 that relate to diversification of rural economy, these are supported more in Cluster 2 countries than the same ones in countries/regions of Cluster 1.

Table 5. Choice of the rural employment creation measures*

Country/Region	31.	32.	41.	421.	Total Axis 3 and Axis 4
Cluster 1					
Ireland	0	0.41	5.67	0.18	6.26
Finland (mainland)	4.03	2.23	2.72	0.34	9.32
Austria	0.95	4.73	5.24	0.16	11.08
Sweden	5.37	1.57	5.22	0.28	12.44
Wales	3.77	3.88	4.29	0.7	12.64
Bayern	0.16	10	4.13	0.53	14.82
Denmark	1.14	6.02	8.84	0.01	16.01
Scotland	7.85	2.97	4.87	0.43	16.12
Hungary	7.8	4.24	3.96	0.53	16.53
Lithaunia	10.42	1.77	5.62	0.18	17.99
Estonia	7.71	5.14	8.35	0.56	21.76
Cluster 2					
Slovenia	7.51	3.88	2.03	0.29	13.71
Slovakia	6.16	6.97	2.04	0.15	15.32
Latvia	11.26	7.8	1.72	0.24	21.02
Czech Republic	8.94	8.46	4.1	0.48	21.98
Poland	7.95	11.97	3.60	0.09	23.61
Romania	9.3	15.55	1.7	0.05	26.6
Bulgaria	9.39	20.09	1.65	0.16	31.29
Holland	14.11	12.49	2.62	3.41	32.63
Sachsen	1.63	41.76	3.71	0.2	47.27

***values in %; shares on total public spendings (EAFRD+national)**

Source: National programme documents

Conclusion

Our study highlights the fact that specific settings of individual Rural Development Programmes of member states related to employment creation correspond to the level of their development and the respective needs of agribusiness and rural areas. Therefore, we detect the preference for the measures improving quality of life (32.measures) mostly in NMS, whereas countries of old Europe adopt more often the LEADER method representing new policy approach – bottom-up. This simple example also reflects the relation of policy settings with the year of the accession into the EU.

In general, within clusters we notice great heterogenity of indicators used for the explanation of employment creation approach (especially related to characteristics of agricultural sector). As a result, no clear patterns can be identified that would automatically put any member state into the cluster 1 or 2 with respect to selected indicators. We may see this in the example of Hungary, Lithuania and Estonia in Cluster 1 and Holland and Sachsen in Cluster 2. In both cases, the clusters show similarities and differences in within as in between. However, we are able to identify territorial character of rural development in Cluster 1 countries, where these countries show higher degree of spatial rurality that can be possibly related to the application of LEADER method supported with higher budget sources than in the case of Cluster 2 countries.

From the settings of employment creation policy in Cluster 2 countries and their preference for 32. measures we may conclude that they are at the initial step for further employment and overall development by firstly improving living standards in rural areas (e.g. infrastructure, village rennovation, etc.).

Between the clusters, we identify different level of prioritization of rural employment creation. According to the average level of rural unemployment in respetive countries/regions, the higher priority for rural employment creation is related to higher level of rural unemployment identified in Cluster 2 countries/regions. Within the examples of countries with similar rural unemployment rate and dif ferent level of employment creation priority, the possible explanation may be the lack of additional national support programmes that could also eventually substitute EAFRD sources. Overally, it is necessary to point out that the support of rural employment creation is still very poor.

In next programming period, the expected financial shortage of sources devoted to the CAP will challenge all member states in choosing the most wanted and most emerging rural development priority among all. We are not able to detect all possible factors, but we believe that the final policy decision about the level of prioritization of any rural development priority (e.g. employment creation) is strongly depende nt on political lobbying. It can be described by the strength of national agricultural bodies (e.g. chambers, NGOs, etc.) and the degree of organization of other rural interest groups. Then the policy settings reflect their individual power in decision making and negotations. Therefore, we expect that due to expected budget shortages the settings of Rural Development Programmes 2014-2020 will be even more strongly influenced by presented unobservable factors.

Finally, this study highlights avenues for further research. First, due to the limited time we were not able to analyse the issue of rural employment creation in the scope all member states that would possible give us more clear and precise results. Second, in order to fully understand the process through which the priorities of rural development are chosen, we need to focus more on unobservable factors thatwould be the subjectto detailed analysis. Only by addressing these research shortcomings, can there be in-depth knowledge and understanding of the rural employment creation policy on the level of the EU.

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*** For each presented member state and region we used official policy documents of Rural Development Programmes (2007-2013) that were available online and in English. Full bibliographic information of all 20 documents can be obtained from the authors on request.

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Chapter 2

Changing structure of rural areas: the socio-economic characteristics of non-farming population in Poland

Abstract: *Non-farming population represents an increasingly significant group of rural residents and therefore became an important object of study. The paper is primarily focused on the description of the non-farming rural population. The main source of the analysed data were surveys of families residing in 76 villages across Poland. The sampling of villages for the surveys was purposeful and representative, based on socio-economic features of the population and the land structure. Research shows that as many as 60% of rural families own no agricultural land in 2011 and on the basis of the analysis of socio-economic development observed in rural areas, it may be assumed that the non-farming rural population will grow further and that this socio-occupational category will increasingly determine the socio-economic development of rural areas.*

Keywords: *non-farming population, rural areas, regional differentiation*

Introduction

Changes in the socio-economic structure of rural population make the one of the most important determinants of the rural development. Non-farming population represents an increasingly significant group of rural residents and therefore became an important object of study. Compared to the rest of the rural population the non-farming population can be distinguished by the quality of human capital. It is primarily related to the considerable share of relatively young and skilled persons. Their lifestyle, the adopted system of values and social aspirations were increasingly similar to behaviour patterns observed in highly urbanised and industrialised areas. In the then prevailing conditions that group is the engine of civilisational progress in rural communities and represented occupational advancement (Turski 1970, Sikorska 2005, Sikorska 2013).

Regardless of the changed conditions for the development of the non-farming rural population, an upward trend was still observed over the years covered by subsequent IAFE-NRI surveys. It stemmed from determined efforts of the rural population to improve living conditions; since the development potential of a major share of farms was marginal and the feeling of redundancy was increasingly widespread among farmers, it was necessary to find new sources of income. Competitive pressure in agri-food markets and technological progress pushed down agricultural employment, therefore strong outflow of workforce from agriculture continued, in spite of family ties and the growing role of farms as protection against the loss of off-farm jobs. After Poland's accession to the European Union, those processes became even more intensive (Chmieliński, Otłowska 2007). As a result, despite a number of constraints on further growth of non-farming rural families, this category of households has become a permanent element of rural areas, and the future socio-economic rural development in fact largely relies on the non-farming population to be the engine of favourable changes in rural areas and agriculture.

Obiect of the study and research method

The paper is primarily focused on the description of the non-farming rural population. Data on the mobility of the group in question, its demographic characteristics allow to identify changes which could be observed prior to accession and in the early period of Poland's membership in the European Union.

The main source of the analysed data were surveys of families residing in 76 villages across Poland, conducted by the Institute of Agricultural and Food Economics – National Research Institute (IAFE-NRI) in 2005 and 2011. The sampling of villages for the surveys was purposeful and representative, based on socio-economic features of the population and the land structure of agricultural

holdings located in the distinguished regions [1]. Basically, the sample excludes villages of a mixed nature (urban and rural), villages dominated by workers' families or those particularly attractive for tourists in terms of location. The surveyed villages represent a fixed sample for panel field surveys conducted periodically at the Social and Regional Policy Department of the IAFE-NRI. In 2005, the survey conducted in the same villages covered 8,604 rural families. In 2011, the number of surveyed rural households was 8,477 and they represented the total population of the villages in question. This group included 5,146 families without agricultural land, also referred to as non-farming families. It produced source materials on social characteristics and economic activities of all the residents.

It should be emphasised that the source materials for the analysis have the merit of providing comprehensive information. In the questionnaire for non-farming families most questions refer to the family, the outflow and inflow of families and individuals from and to the village. Detailed questions concern sources of income for the family and demographic characteristics, the educational level and working life of the family members. Another section of the questionnaire refers to the possession of basic goods, with a view to determining the living standards in the surveyed group of families.

Structure and mobility

According to the applicable typology of rural areas, in Poland such regions represent 93.2% of Poland's total area. Those areas are inhabited by 14.7 million persons, i.e. 38.6% of Poland's population, but the farming population (with farms of more than 1 ha of agricultural land) represents only half of the rural population. It should be noted, however, that the share of the rural population has been slightly increasing. Particularly strong population growth has been in rural areas in the proximity of major cities or in those characterised by attractive rural and natural landscape. At the same time, fluctuations in the number of rural residents is increasin gly accompanied by a marke d downward trend of the farming population, following the fall in the number of family farms. As their number decreases, the role of agricultural holdings in providing the source of income is gradually diminishing.

Since 2000, the migration balance between the countryside and the city has been positive for rural areas, whereas previously an outflow of population from rural to urban areas was recorded. This trend is conducive to a significant

[1] Poland was divided into five Macroregions according to the administrative division into voivodships and similarities between historically develo ped characteristics of the socio-economic structure of particular rural areas and agriculture. Specific Macroregions include the following voivodships: Central-Western – the Kujawsko-Pomorskie and Wielkopolskie voivodships; Central-Eastern – the Łódzkie, Mazowieckie, Lubelskie and Podlaskie voivodships; South-Eastern – the Świętokrzyskie, Małopolskie, Podkarpackie and Śląskie voivodships; South-Western – the Opolskie, Lubuskie and Dolnośląskie voivodships; Northern – the Zachodniopomorskie, Pomorskie and Warmińsko-Mazurskie voivodships. For more on the division into Macroregions see: (Sikorska 2013).

improvement of technical and social infrastructure in the countryside, which reduces the gap in living conditions between rural and urban areas, whereas the development of communication allows relatively quick transfer to the workplace. As a result, in 2002-2011 the number of people living in rural areas increased by 3% (CSO, 2012). The reasons for this situation are believed to be, among others, the dynamic population of suburban towns which, in effect, become an extension of suburbs outside the administrative borders of large urban agglomerations. This situation has a positive impact on the economic development of these areas by increasing demand and increasing investment opportunities for local authorities through additional income to municipalities' budgets due to local taxes. Villages located away from major urban areas (big cities) and above all badly connected with them, face problems typical to peripheral regions. It should be noted that the peripherality of villages occurs not only along the borders of our country (e.g. the problems of the eastern borderland), but it also affects the boundaries of voivodeships (NUTS2 level). This is related to the weakness of the local labour markets and a still high level of backwardness in the development of economic infrastructure.

The analysis of the non-farming population has primarily demonstrated that this group represents a growing and ever more significant share of the rural population. As many as 60% of rural families owned no agricultural land in 2011. Therefore, the rural community can no longer be identified exclusively with agricultural activities.

Table 1. Share of non-farming families in the rural population in Poland

Year	Share of	
	Farming families	Non-farming families
1988	58,5	41,5
1992	54,6	45,4
1996	48,7	51,3
2000	46,0	54,0
2005	43,1	56,9
2011	39,3	60,7

Source: IAFE-NRI surveys.

The regional distribution of non-farming rural residents suggests that the division into in the west and north of Poland, where the rural population was characterised by a high share of non-farming families, and central and eastern regions, with a relatively minor proportion of non-farming households, remained virtually unchanged. In some areas, particularly in the north and southwest, the group in question accounted for three-fourths of all rural fami-

lies. Even in the southern regions, where agricultural holdings are characterised by very traditional family ties, non-farming families represented nearly half of the rural community, irrespective of the economic status of individuals.

For the description of changes observed in rural areas, the increasing share of the non-farming population is significant in a number of ways. First of all, it indicates the diminishing role of agriculture as a determinant of the economic situation of the rural population. For more than a decade, the process has been intensified. In the past, the main mechanism for reducing the economic dependence of rural residents on agricultural holdings was the outflow of rural youth from agriculture to non-agricultural occupations. It was primarily driven by prospects of rapid socialadvancement and frequently involved plans to leave rural areas (Rosner 1991). The outflow of labour from agriculture observed in the past twenty years should be primarilyattributed to necessary adjustments to new macroeconomic conditions, particularly the need to cope with greater competitive pressure and to reduce production costs. Significant land fragmentation, characteristic of Polish agricultural holdings, rapidly increased hidden unemployment in agriculture and, regardless of the imbalance in the labour market, the situation in agriculture pushed farmers to seek alternative incomes. As a result, even though non-farming rural famil ies suffered all the adverse effects of Poland's economic transition, the number of such households continued to rise. Furthermore, partly due to increased interest on the part of rural youth in taking over the farms as rightful successors, the non-farming rural population included a growing number of retired farmers.

After Poland's accession to the European Union, the generally improving economic conditions and significant land fragmentation contributed to greater interest in non-agricultural activities, thus more new rural households became non-farming families. Ever greater job opportunities encouraged such attitudes (Polska wieś.. 2005).

The relatively biggest increase in the number of landless families was seen in the central-eastern macro-region. In this area, as many as 71% of the surveyed villages have seen an increase in landless families, whereas on a national scale it amounted to 55%. However, despite the fact that in the years 2005-2011 the average number of landle ss families in the villages of the central-eastern macro-region has increased by as much as 15% (in the whole data set it was approx. 6%), it still was the lowest number in comparison to all of the separate macro-regions. In 2011, the average village in this macro-region has a population of just 45 landless families, whereas in relation to all surveyed villages the average was 68.

The relatively highest stability as regards the relationship between the number of towns in which the population of landless families decreased or increased could be found in villages located in the south-western and central-western macro-region. In the years 2005-2011, the average number of landless families

living in villages located in the south-western macro-region increased by 3%, while in the central-western macro-region no changes have been recorded.

Socio-demographic structure

The non-farming rural population was characterised by a high share of younger working age persons, as well as by a relatively high proportion of children and young people. The pre-working age population acco unted for ca. one-fourth, a higher share than that of the post-working age population (less than one-fifth of the surveyed group). However, in recent years there has been an intensification of the demographic ageing of the non-farming rural population. In 2005-2011, as compared to 2000-2005, there was an increase in both the post-working age population and the non-mobility working age population.

For years, the demographic structure of the non-farming population in rural areas has been determined by the inflow of persons who discontinued farming and took up paid employment. In recent years, the age structure of the group in question has largely been affected by changes resulting from job migration of families/ind ividuals and more widespread education, particularly higher education. Another important factor has been a growing number of retired farmers in the non-farming population. Combined with job migration by young members of non-farming families, this pattern determines the demographic ageing of the population in question.

With regard to the whole non-farming population surveyed, the working age population accounted for more than half, the majority being the mobility age population, i.e. persons at the stage in life distinguished by greater social activity. It could be reflected in geographical or job mobility, choosing a different type of employment or in the family situation. Presumably, such demographic features of the surveyed group indicated its significant potential and the capacity to influence overall changes in rural communities.

Table 2. Non-farming rural population by age

Specification	Share of*									
	the p re-working age population		the workin g age population		of which: z czego				the post-working age population	
					the age of mobility		the age of non-mobility			
Year	2005	2011	2005	2011	2005	2011	2005	2011	2005	2011
non-farming families	22.2	19.2	58.8	61.3	38.1	37.6	20.7	23.7	19.0	19.5

Source: IAFE-NRI surveys.

Importantly, the rural community is also characterised by significant differences in the educational level between the farming and non-farming population. Relevant data primarily illustrate social and economic aspirations of young people. The improvem ent in the educational level was found to be

stronger in the farming population (in terms of secondary, post-secondary and higher education) than among persons without agricultural land. At the same time, the gap between the farming and non-farming rural population had been gradually narrowing, which is primarily reflected in the growth rate of persons with secondary education (T able 3). It follows that education opportunities and aspirations have been increasingly similar in rural areas, and regardless of the type of economic activity education is perceived as a main precondition of social and economic advancement as well as of improved living standards of the rural population.

Table 3. Rural population aged 15 or over by socio-economic category and education

Specification Y	ear	Share of population with			
		primary education	basic vocational education	secondary and post-secondary education	higher education
non-farming families	2005	36.1	36.1	22.5	5.3
	2011	**26.8**	**33.1**	**29.1**	**11.1**
farming families	2005	34.4	37.4	23.2	5.0
	2011	**26.4**	**30.1**	**31.5**	**12.0**

Source: IAFE-NRI surveys.

The importance of the educational level as a determinant of individual position in the labour market is very clear in data on rural unemployment as the unemployment rate differs between social groups. According to the surveys, the situation of the populatio n in the labour market lar gely depends on the following factors: age, education, trade/profession and the place of residence.

Conclusions

The analysis of the non-farming rural population has primarily demonstrated that persons without agricultural land represent an increasingly significant group of rural residents. From 1988 the number of non-farming rural families rose by 15.4 percentage points, up to as many as 60% of all the rural households in 2011 (Chmieliński, forthcoming). The main determinant of such changes was the abandonment of farming and taking up non-agricultural activities by the rural population or the discontinuation of production at the retirement age. Therefore, the rural population can no longer be identified with the farming population. In some regions of Poland, partic ularly in the north and southwest, the group in question accounts for three-fourths of the total number of families. Even in the eastern Poland, where agricultural holdings have been characterised by very traditional family ties, non-farming families represent nearl y half of the rural community , irrespective of the economic status of individuals.

The processes of changes in the rural community described above are subject to a number of dif ferent, and even opposing factors. These factors can be broadly divided into exogenous and endogenous. The main development potential has its source in endogenous factors, especially in the human and social capital, natural and cultural beauty, natural conditions to specific forms of management (such as agriculture or tourism), as well as in the level of technical and social infrastructure development. Improvement of the situation in the countryside, and above all in relation to the vitality of rural areas and the reconstruction of agricultural structures must be associated with an increase in sophistication of diversification processes of economic activity in these populations – in the so-called multifunctional rural development. The processes of concentration in agriculture, particularly in relation to land, the phenomenon of migration and the increasing importance of location (access to non-agricultural labour markets) will determine the scale of the changes in the rural settlement networks and communities living in rural areas.

Due to the local conditions of occurring transformations in rural areas and agriculture, policy measures influencing the pace of these processes should also be varied. Their construction should be directed by a new philosophy of development, relying on the understanding that, for a village,the development of other economic activities is as important as agriculture , and perhaps even more important, especially the creation of new jobs in non-agricultural fields, as well as the creation of conditions conducive to the implementation of these tasks, the activisation of local communities.

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Chapter 3

Standards of rural municipalities in the Czech Republic and comparison with rural municipalities in Austria

Abstract: *This study was done on the request of the Ministry of Agriculture (MoA CR). The purpose of this study was to define standards for rural municipalities (municipalities) and clarify this approach for assessment of the following measures in The Rural Development Plan 2014-2020. The assessment of standards shows how the principle is more preferred if it is the principle of cohesion in the area (disparity) or competitiveness and support of successful areas.*

Keywords: *standards of rural municipalities, community facilities, rural development*

Introduction

Discussion on standards of rural municipalities is very diverse, regarding their definition as well as regarding the assessment method. They can be seen with regard to community facilities (according to size of municipalities, descriptive approach), to individual perception of inhabitants of rural areas (what is standard for rural inhabitants and users, sociological approach); another point of view are environmental standards, usually related to all inhabitants of the municipalities (water quality , air quality , healthy food etc.). Self-administration activities aiming at quality of lives of its inhabitants can also be marked as standards provided by self-administration within available budgets, political and social approach). The aim of this paper is the last group of standards, which we monitored at the level of selected municipalities with extended powers (MEP). The MEPs were selected in such a way so that the selected sample would represent various types of regions, namely rural, peri-urban and urban regions. There were included municipalities of up to 3,000 inhabitants, defined as rural under the Act on Municipalities.

In the Czech Republic the municipal standards are not directly included in legislation or regional development politics. While in the neighbouring Slovak Republic, there exists a methodology guide "Standards of Minimum Community Facilities" (1) revised in 2010. It is a methodology guide specifying basic requirements implied by the construction law . Methodology guide is an open and amended document of recommending character, but it can also be used for setting of regional politics. It is primarily intended for consultants and users of municipal development plans. The contents of the guide presents specified facilities of the most important functional parts of a municipality such as housing, community facilities, municipal transport and green areas.

On the other hand, municipal powers in the Czech Republic are subject to several regulations, i. a. by the Act No. 128/2000 Coll., on municipalities, which defines self-administration powers and territory of municipalities, so that according to the local situation and local habits it would take care of development of social services and meeting of needs of its inhabitants. This primarily concerns meeting of housing needs, health protection and development, transport and public transport, education and training, overall cultural development and public order protection. According to the law we may regard as standards the following obligations:

- setting conditions for compulsory education;
- obligations related to communal waste treatment.

Other public services are optional depending on decisions of municipal council respecting needs of its inhabitants. The quality of life has an economic, environmental and social and cultural dimension, it includes pragmatic and tangible elements as well as emotional and intangible ele-

ments. The quality of life consists of provision of technical infrastructure, good public transport and services, support of business, municipal community facilities, and looking after cultural and natural heritage.The quality of life in rural areas is influenced by social capital of the municipalities, which has a direct impact on cohesion, attitude of inhabitants to execution of civil rights and their involvement in public life, local non-profit sector etc.).

Neither the Czech Republic nor Austria has established legal standards for public transport or service facilities, etc. Some sociodemographic indicators can be included in the sphere of rural economy , e.g. drawing of grants for the municipality, community facilities, job offers, size and type of housing development, indebtedness of inhabitants, poverty and wealth distribution within the municipality (Trantinová, DP 2010).

The goals of the project were the assessment of dif ference of community facilities of selected municipalities in the Czech Republic and Austria; proposition of standards.

Methodology

In the study, we evaluated 227 municipalities in the Czech Republic and 63 municipalities in Austria. Municipalities in both the countries have been assessed mainly in terms of their civil and technical infrastructure. Furthermore, Czech municipalities were assessed in more detail according to other categories (e.g. size of the municipality, peripheral, stabilised, or development area). Sources of information were public databases, planning documents, special database of MoACR and information gathered by a questionnaire survey. The study has been carried out in 2012-2013 and now we are completing the evaluation and conclusions.

The assessed data were obtained from publically accessible databases, from own questionnaires, and they were statistically processed within Excel environment.

Sources of information for data collection

For the present study we used:

- Czech Statistics Office – public database (http://vdb.czso.cz/)
- Territorial analytical data (TAD) monitor and assess state and development of the territory. The obligation to collect territorial analytical data of the concerned administration area (municipalities with extended powers) was stipulated for the public planning authorities by the Construction Act 183/2006 Coll.

- Database of the National Heritage Institute records information important with regard to preservation of historical monuments. (http://monumnet.npu.cz/monumnet.php).
- The Energy Regulatory Office provides an overview of data on licences granted by the ERO, these may be obtained via WEB application on the ERO page (http://licence.eru.cz).
- Data obtained analytically using GIS analyses.
- WEB pages of the Regional Information Service (http://www.risy.cz) administered by the Centre of Regional Development of the Czech Republic.
- Via the Policie ČR (Police of the Czech Republic) WEB pages, there is gathered information on police stations in individual municipalities (http://www.policie.cz/imapa.aspx).
- Via the Česká pošta (Czech Post) WEB pages, there are gathered information on post offices in individual municipalities (http://www.ceskaposta.cz/cz/nastroje/dokumenty-ke-stazeni-id355/).
- Questionnaire survey
- Sources of information on Austrian municipalities were gathered from web pages of regions and municipalities.

The survey aimed at defining what services and types of facilities may be regarded as standards of rural municipalities and what can be regarded as superstandard. This study deals with this problem in structure (according to various types of areas and numbers of inhabitants). With regard to availability of data sources, there was proposed a framework for definition of standards of rural municipalities (Table 1). Such a defined framework reflects Articles 20 and 21 of the proposal of the EAFRD directive. The primary element aiming for support of rural areas is development of local economies; establishment and development of agricultural and non-agricultural companies; enhancement of their competitiveness; development of innovations in rural areas; networking and cooperation in local economies; and also regeneration, improvement and development of local infrastructure and local basic services, including leisure time and culture, measures aiming at development of cultural and natural heritage, information technologies, primarily fast and superfast internet.

Table 1. Framework of standards of rural municipalities, part A. Socioeconomic sphere, level of commercial services and facilities

Socioeconomic sphere, level of commercial services and facilities				
1. Housing	**2. Education and training**	**3. Healthcare**	**4. Social services, social interaction**	**5. Culture and historical monuments**
Number of completed dwellings in residential buildings	Nursery, kindergarten	Hospital and hospital affiliated office practice	Homes for disabled people	Theatre, cinemas (excluding multi-cinemas) and other cultural facilities
Number of completed dwellings in family houses	Other facilities for children, primary art school	Associated out-patient facilities and affiliated offices of an associated out-patient facility	Homeless shelters, sheltered housing	Centre for leisure-time activities of children and youth
Number of permanently inhabited flats	Primary school (1^{st} – 5^{th} grade)	An independent surgery or an affiliated office of a general practitioner for adults	Homes for seniors and daily fixed medical treatment facilities	Public library including branches
Number of permanently inhabited houses	Primary school (1st – 9th grade)	An independent surgery or an affiliated office of a paediatrician	Nursing homes	Galleries (including branches and exhibition halls)
Housing development within developable area	Secondary schools and vocational schools	An independent surgery or an affiliated dentist surgery	Low-threshold facilities for children and youth	Museum (including branches and separate memorials)
	Secondary schools – secondary training schools and gymnasiums	An independent surgery or an affiliated gynaecologist surgery	Social consulting centres, social care institutions for children and youth	Cultural centres (halls, clubs, common rooms for activities of associations)
	Secondary schools – further education, language school, school of music	Other stay-in facilities, pharmacy or medical dispensary	Field nursing services for elderly citizens, handicapped and others in need	Cultural monument – registered by the NHI and others

Table 1 (continues). Framework of standards of rural municipalities, part A. Socioeconomic sphere, level of commercial services and facilities, continues

A. Socioeconomic sphere, level of commercial services and facilities						
6. Sport	**7. Tourist industry and recreation**	**8. Activities of associations including facilities**	**9. Public administration and its infrastructure**	**10. Places of worship and cemeteries**	**11. Public areas**	**12. Commercial services**
Football fields, volleyball grounds	Number of accommodating facilities	Cultural associations – singing, drama, dance, etc.	Police station	Sacral buildings	Public green, parks	Shop (grocery, general merchandise)
Multi-purpose fields and swimming pools	Number of spa facilities, wellness	Associations – firemen, hunters, aero-modellers, fishermen, beekeepers, gardeners	Post office	Cemetery	Works of art, statues, fountains, memorials, monuments	Shop (other consumer goods)
Stadium/multi-purpose hall, gym	umber of accommodations in spa facilities	Sport associations – football players, skiers, cyclists	Cooperation of public administration – micro-regions	Crematory	Playgrounds	Craftsmen services
Pathways, cycling paths and horse paths. Skiing resorts	Agro-tourism	Other associations	LAG, over-border cooperation, networks, platforms	Hall of Farewell		Restaurants and eateries, accommodation, gastronomy and other services

Table 2. Framework of standards of rural municipalities, part B. Sphere of transport and technical infrastructure

B. Sphere of transport and technical infrastructure
Length of A roads, expressways and highways, accessibility of A roads, expressways and highways
Length of secondary and tertiary roads
Number of local and private roads
Volume of railway transport (freight, passenger)
Volume and quality, accessibility of public transport and integrated systems
Volume and quality, accessibility of high-quality drinking and sanitary water – water supply network
Sewage system without water treatment plant or connected to water treatment plant
Gas supply network
Renewable sources – solar power, water power, wind power
Waste treatment – scheme of municipal waste sorting, composting plants
Collecting plants; metal, glass, paper and plastics collecting plants (secondary raw materials)
Municipal public address system
Public lighting – streets, lighting of objects including memorials

Table. 3 Framework of standards of rural municipalities, part C. Sphere of regional competitiveness and business infrastructure

C. Sphere of regional competitiveness and business infrastructure
Level of registered unemployment – job seekers
Number of job seekers – registered for over 12 months
Migration saldo
Number of working population and number of inhabitants
Number of business enterprises according to their main activity (agriculture, wholesale, retail business, etc.)
Number of business enterprises according to their legal form – (e.g. number of sole-traders)
Tax yield
Extent of commuting to work

Table 4 . Framework of standards of rural municipalities, part D

D. Sphere of environmental parameters
Environmental stability of the area – KES (coefficient of ecological stability)
State of surface waters
State of subterranean waters
Drinking water quality
Air quality
Old ecological loads
Presence of brownfields
Appropriation of agricultural land
Organic farming

As pilot territories for verification of standards of rural municipalities were chosen 6 rural regions (defined as MEP) in the Czech Republic (Figure 1) and 2 regions (districts) in Austria.

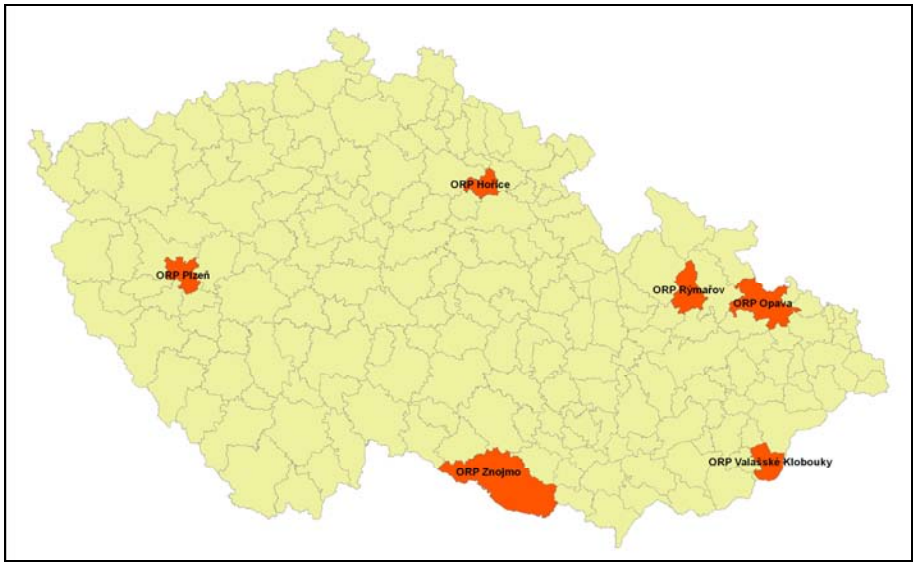

Figure 1. Map of the Czech Republic marking selected MEPs

1) MEP Hořice

- Hradec Králové region
- stabilised territory;
- foothills, interior region of Bohemia.

MEP Hořice is a typical rural area and at the same time a big part of its population lives in municipalities of up to 199 or 999 inhabitants. It has a dominant position within the region with this point of viewOver 45% of the total population of this region lives in municipalities of up to one thousand inhabitants (the regional average is about 23.4%). The average annual unemployment rate in the administration district in the period 2007-2011 was 7.98%. The average number of job seekers per one available working position grew from 5.6 in 2007 to up to 25.4 in 2011. The unemployment is of seasonal character , which is due to higher sha - re of employment in agriculture. One fifth of the territory is covered by woods and agricultural land has 69% of the total acreage. Of the agricultural land, there is majority of arable land (77.8%), which is a higher share than the average of the republic. The second most abundant plantations are permanent grasslands (14.2).

2) MEP Opava

- Moravian-Silesian region;
- urban and stabilised territory;
- lowlands and foothills, northern border area.

MEP Opava territory has acreage of 567.10 km^2 with population density of 180 inhabitants/km^2. The administration district includes 41 municipalities. According to the number of municipalities it is the biggest administration district of this region and it is the third most populated district of Moravian-Silesian region. MEP Opava is an agricultural area with grain and potato growing character and it is a core of agricultural production of the region. Agricultural land has 63.6% of the total territory and woods have 26.1%. There are big industrial plants within this area. The unemployment percentage is over 10% and the long-term unemployment is 3.81% (2012).

3) MEP Rýmařov

- Moravian-Silesian region;
- periphery;
- mountain region, northern border area.

MEP Rýmařov includes 11 municipalities in subalpine regions. Apart from production, the local agriculture also tends the landscape. Agricultural land has 43.3% of the total MEP territory and most of it consists of permanent grasslands of 85.4%. MEP Rýmařov is an extremely wooded territory with 51% of woodlands. Rýmařov lost over one thousand inhabitants in the last decade, despite of its attractive environment. The average annual unemployment rate in the administration district is over 13%. In some of the monitored years, there was created no available working position in half of the municipalities.

4) MEP Plzeň

- Plzeň region;
- urban territory;
- interior region of Bohemia.

MEP Plzeň includes 14 municipalities with positive migration saldo. MEP Plzeň has a lower share of agricultural land of the total area. Agricultural land takes up 46.8% of the total area. The most abundant culture is arable land 71%, the second most abundant plantation is permanent grassland (15.5%), and woodlands take up 24.2%. The average annual unemployment rate in the administration district in the period 2008-2011 was 6%, and in 2011 there remarkably increased the number of job seekers per one working position available (to 7).

5) MEP Znojmo

- South Bohemia region;
- periphery;
- lowlands, southern borderland

The southern border of the administration district (105 km) is the state border with Austria. Znojmo administration district has population density of 73 inhabitants/km ^{2}. The average annual unemployment rate in the MEP Znojmo in the year 2011 was 12.62%, but it used to be even higher, e.g. 14.21% in 2010. The average number of job seekers per one available working position grew from 2007 up to 21 in 2011. Out of the total acreage of the MEP, the agricultural land has 67%, of which 90.5% is arable land, 2.9% are permanent grasslands and 6.7% are permanent cultures. The hospitable altitude and climatic conditions determined primarily agricultural and food-processing focus of the local industry (wine growing, fruit growing, vegetable growing, wine production, and food-packing industry).

6) MEP Valašské Klobouky

- Zlín region;
- periphery;
- mountain region, eastern borderland.

MEP Valašské Klobouky has population density of 92 people/km^2. With regard to population, this area has a rural character with centres in two towns of up to 6,000 inhabitants; there are 6 municipalities with over 1,000 inhabitants, other 6 municipalities have 500-1,000 inhabitants; the remaining 8 municipalities have less than 500 inhabitants. The total number of inhabitants has been stagnating recently. Agricultural land has 44.5% of the total acreage of the MEP. Of which 46.1% is arable land and 48.9% are permanent grasslands; the percentage of woods on the total acreage of the MEP is 46.4%. The long-term unemployment rate reached 25.33% in 2009. Valašské Klobouky belongs among areas with the highest unemployment rate in the region.

The basic data on selected districts in Austria

In order to enable comparison of standards of municipalities at internati - onal level, there were selected 2 primary administration areas (districts) in neighbouring Austria. Both the selected districts have direct borders with the Czech Republic. It concerns areas Mistelbach (Lower Austria) and Freistadt (Upper Austria). Data were collected from available public sources; however it was not possible to obtain as complete data as for the Czech Republic.

7) Mistelbach district (Lower Austria)

Mistelbach district has the second biggest acreage in Niederösterreich. There are 36 municipalities in this district (consisting of 4 towns and 19 small towns). The district town Weinviertel is 30 km from the Czech and Slovak borders. Economic development of the district is more stabilised compared to the Czech regions on the other side of the border.

The central activities of rural development of Mistelbach are local deliveries, enhancement of value of the region and development of residential environment. Austrian agriculture and forestry are a backbone for inhabitants of the rural areas and they also reflect cultural traditions of this country. It is less structured; it has precious natural and cultural resources and rich flora and fauna. It has nearly inexhaustible water sources, which play an important and vital role in Austrian economy.

8) Freistadt district (Upper Austria)

Freistadt district has population density of 66 inhabitants/km^2. The district town is Freistadt and the district has 27 municipalities (consisting of 2 towns and 17 small towns). Wooded area represents 45.4% and agricultural usable area represents 49.1%. The unemployment rate was 3.6% (in 2011). Freistadt district has a border with the Czech Republic in the north and with the Federal Republic of Germany in the east.

In order to evaluate data from the Czech and Austrian municipalities, there was selected division according to size of municipalities, of up to 3,000 inhabitants and over 3,000 inhabitants. Summary of the monitored area is given in table 5.

Table 5. Assessed municipalities – comparison of number of municipalities with the Austrian districts Mistelbach and Freistadt

CR	municipalities	inhabitants
up to 3,000 inhabitants	215	128,095
over 3,000 inhabitants	12	308,194
CR total	**227**	**436,289**
A - Mistelbach		
up to 3,000 inhabitants	31	40,846
over 3,000 inhabitants	5	33,178
A -Freistadt		
up to 3,000 inhabitants	22	40,541
over 3,000 inhabitants	5	21,913
A total	**63**	**136,478**

Evaluation of standards of rural areas according to topics

Housing

Recalculating number of permanently settled houses and flats per 1,000 inhabitants in the similar size of municipalities, situation in Austria is better than in the Czech Republic (Figure 2).

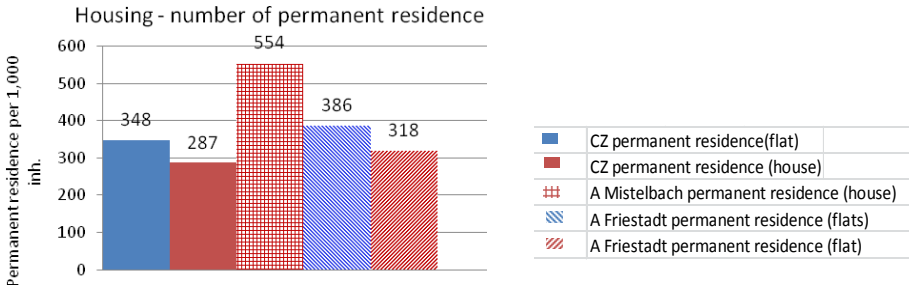

Figure 2. Number of permanently inhabited flats per 1,000 inhabitants – comparison of CR and Austria

Comparison with Austria shows, that the municipalities in the Czech Republic have a lower number of flats per inhabitant. Within the conditions of Austria, Mistelbach district is doing better than Freistadt district; however, we do not have available data for permanently settled houses.

Education and training

There are more facilities in both of the Austrian districts compared to municipalities of the Czech MEPs. The biggest difference is in infant primary schools (see Figure 3 and 4). Municipalities of up to 500 inhabitants (CR) very rarely have school facil ities. Kinder garten is a standard in municipalities of over 287 inhabitants, primary school (unspecified) in municipalities of over 490 inhabitants. In municipalities of up to 500 inhabitants, the best facilities are in stabilised municipalities; in case of municipalities of over 500 inhabitants the situation is quite balanced. In Austria, regardless of the size of the municipality, a kinder garten or a primary school is a standard. The data are comparable for both the Mistelbach district and the Freistadt district. The factors with impact on decision-making on provision of education right in the municipality are primarily a small number of pupils and related insufficient finances for school operation. In many municipalities, the schools were closed exactly due to these reasons. Municipalities with over 500 inhabitants have a kindergarten and a primary school as a standard (grades 1-5 or 1-9). In case of municipalities of up to 500 inhabitants, the school facilities are very rare and

it cannot be regarded as a standard. However, in case of small rural municipalities, it is worth considering support of kindergartens and nurseries.

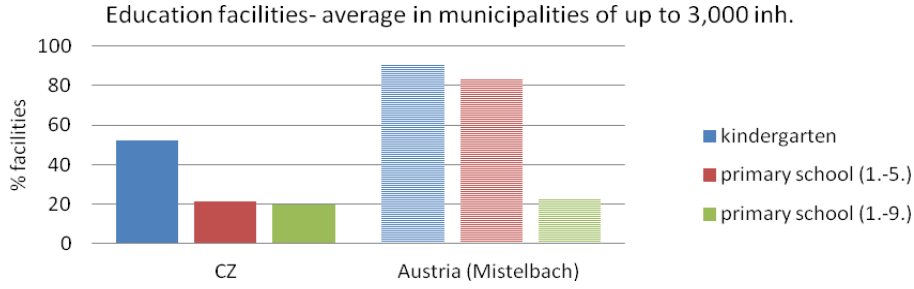

Figure 3. Pre-school and primary school facilities in the Czech and Austrian (Mistelbach) municipalities

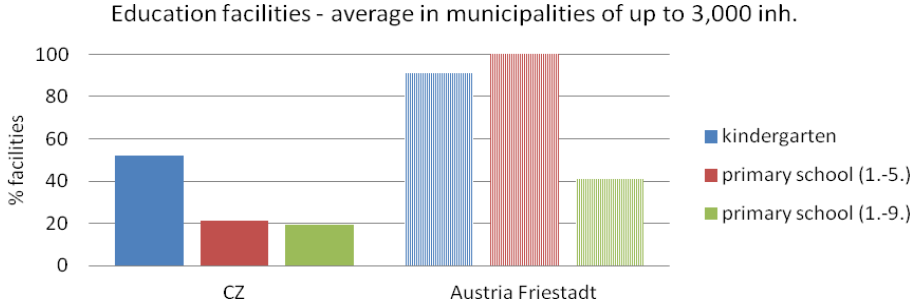

Figure 4. Pre-school and primary school facilities in the Czech and Austrian (Freistadt) municipalities

Healthcare

In Austria, there are more GP surgeries for adults, with 81.8% in Freistadt, and 67.7% in Mistelbach, while in the CR it is only 15.8%. In other categories, the differences are not so big (see Fugure 5 and 6).

In the CR, a general practitioner for adults is a standard in municipalities of over 951 inhabitants, a general practitioner for children and youth and a dentist is a standard in municipalities of over 1,399 inhabitants. It is clear that in small municipalities of up to 500 inhabitants the doctor's surgeries are quite rare. In case of municipalities of over 500 inhabitants, a general practitioner for children and youth is more frequent in peripheral municipalities, compared to stabilised and developing municipalities, where a general practitioner for adults is more frequent. Dentists are most frequent in developing municipalities. According to the data on number of doctor 's surgeries, the standard

healthcare provided in municipalities of over 500 inhabitants is a GP for adults (now in 57% of the municipalities and more, depending on the type), and also a GP for children and youth in peripheral municipalities (76.1%).

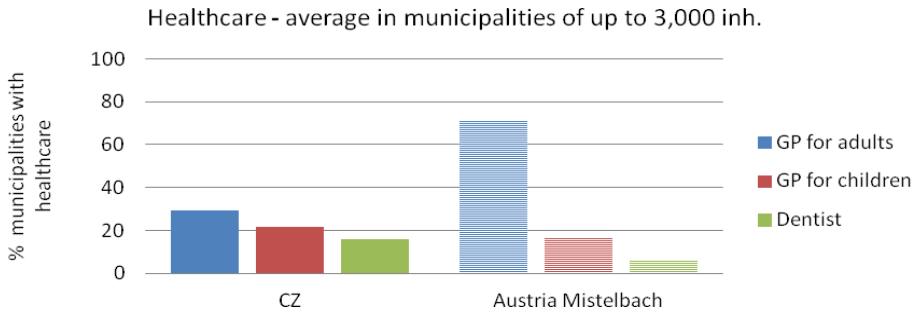

Figure 5. Presence of healthcare facilities in the selected municipalities in the CR and Austria (Mistelbach district)

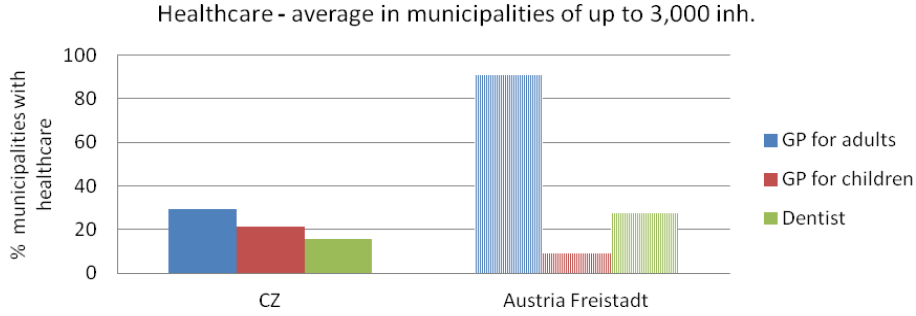

Figure 6. Presence of healthcare facilities in the selected municipalities in the CR and Austria (Freistadt district)

Social services

The selected compared districts in Austria are very different from each other; therefore these cannot be compared with situation in the Czech Republic. None of the monitored social services is a standard in the small municipalities, their provision is very sporadic. These become standard only in municipalities of over 5.000 inhabitants. In all the categories a home with social services is most frequent in stabilised municipalities; however the same does not apply for homes for seniors. Day-care centres are most frequent in developing municipalities.

A library is a standard in all municipalities in the Czech Republic, regardless of the number of inhabitants. Community centres are very frequent too; however it does not depend on the number of inhabitants. These values do not correlate, therefore it is not possible to set a population standard for availability of a community centre. Other types of cultural facilities are a standard for municipalities of over 160 inhabitants. Whether a public library is present is not related to the category of a municipality; community centres are less frequent in developing municipalities regardless of the number of inhabitants.

Sport facilities

Rural municipalities at the monitored territory have better sport facili - ties. Municipalities of over 3,000 inhabitants have quite a high number of football fields and gyms (see Figure 7 and 8). On the contrary in the case of municipalities with smaller number of inhabitants (up to 3,000), the situation is much better in the Czech municipalities. Number of football fields in Austria is by about 20% lower (57.7% compared to 36%). There are three-times more multi-purpose fields in the Czech municipalities (43.7% compared to 13.6%), and similar situation applies to gyms (30.7% to 13.6%). Evaluating the overall presence of all the monitored sport facilities (a municipality with all of these facilities reaching the value of 100%, with individual facilities having the same importance), municipalities of over 3,000 inhabitants have better facilities in Austria (32.3% to 23%).

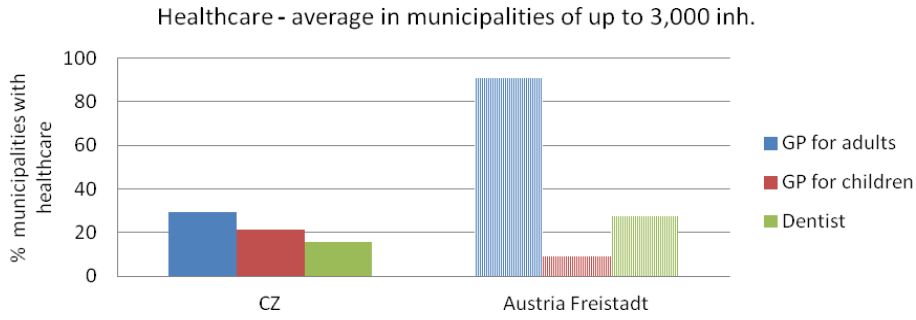

Figure 7. Presence of play-fields and gyms - comparison of the CR and Austria (Mistelbach district)

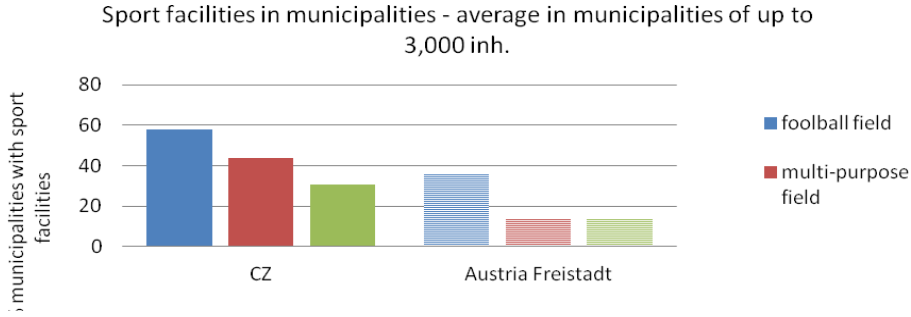

Figure 8. Presence of play-fields and gyms - comparison of the CR and Austria (Freistadt district)

Tourist industry and recreation

In the sphere of tourism, there was monitored number of accommodation facilities recalculated per number of municipalities in the individual categories. As far as this is concerned, the municipalities of over 500 inhabitants have much more facilities (five-times more) than municipalities of up to 500 inhabitants. Comparison with the Austrian municipalities shows that the offer of accommodation facilities in municipalities of up to 3,000 inhabitants in the Czech Republic is five-times lower compared to Mistelbach and seven-times lower compared to Freistadt. Accommodation facilities are a standard in Austria. We also have to consider, that the selected regions, with few exceptions, do not have municipalities of less than 1,000 inhabitants.

Associations

In rural municipalities of up to 3,000 inhabitants in both of the countries, the activity of associations is really high. In the Freistadt district it is even 100%, i.e. every single municipality has a cultural, hobby or sport association. In the Czech and Moravian municipalities of up to 3,000 inhabitants, the situation is very heterogenous. With regard to number of associations per 1,000 inhabitants there is obvious a different character of the two selected Austrian regions. In case of municipalities of up to 3,000 inhabitants, the number of associations in the CR is double compared to the Austrian municipalities in the Mistelbach region, and at the same time only half compared to the Freistadt region. According to the obtained data, there was calculated the standard number of associations per number of inhabitants. In the CR, there are 4,847 inhabitants per one cultural association, 152 inhabitants per one hobby association, and 540 inhabitants per one sport association. In Austria, the cultural associations are more traditional, while hobby associations are more traditional in the CR. More facilities have peripheral municipalities, there applies the rule, the smaller the municipality, the higher the number of associations per one inhabitant.

Within the sphere of infrastructure of public administration, there was monitored presence of police stations and post offices in the municipalities. Comparison of the Czech and Austrian municipalities shows that the number of police stations is remarkably higher in Austria; however the number of post offices is lower compared to the CR. Comparison of the CR and Austria shows that police stations in Austria are present even in smaller municipalities; however post offices do not have such a tradition as in the CR. Once again the Freistadt region is doing better (see Figure 9 and 10). The obtained data show that a post office is a standard in municipalities of over 500 inhabitants (75% municipalities). In smaller municipalities a post office is not very common (about 10% of municipalities).

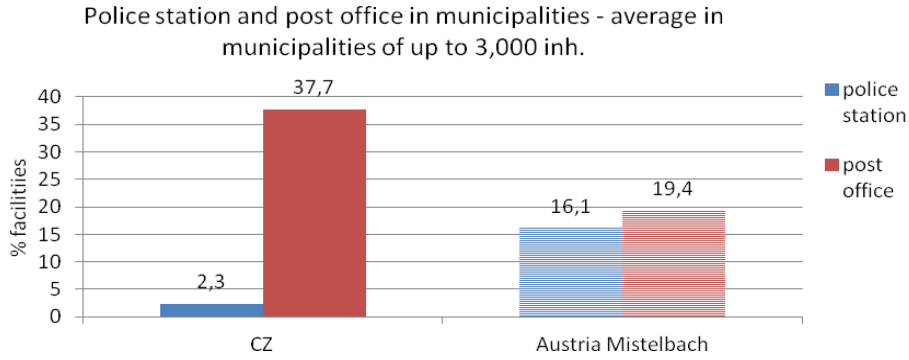

Figure 9. Presence of police stations and post offices - comparison of the CR and Austria (Mistelbach district)

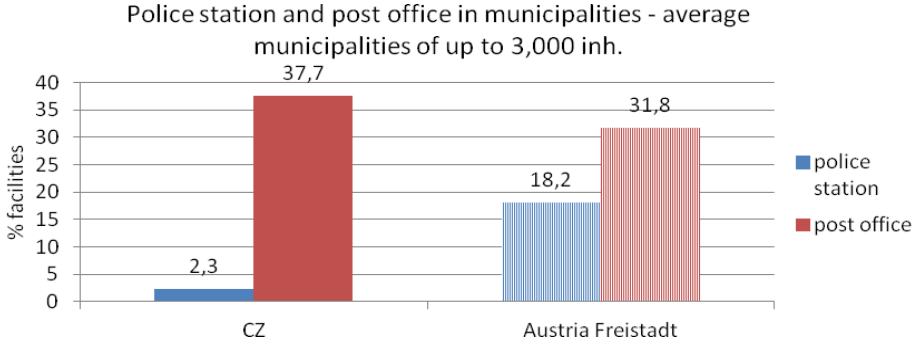

Figure 10. Presence of police stations and post offices - comparison of the CR and Austria (Freistadt district)

Comparison with the Austrian municipalities shows, that in case of cemeteries, the share of municipalities is comparable. The number of sacral buildings is higher in Austria. In the CR, the sacral buildings are frequent in municipalities of over 169 inhabitants; a standard is a cemetery in a municipality of over 283 inhabitants. Halls of farewell are traditional only in big municipalities of over 1,864 inhabitants.

The overall evaluation of the spheres of socio-economy, level of commercial services and facilities is presented in Table 6.

Table 6. Summary of standards A

A. Sphere of socio-economy, level of commercial services and facilities			**CR**	**Austria**	**CR**
		unit	reality	reality	standard
housing	houses	people per house	2.78	2.48	4.08
	flats	people per flat	**3.48**	2.59	3.12
education	kindergarten	% municipalities	52.1	**90.6**	over 287 inh.
	primary school 1-5	% municipalities	21.4	**91.9**	by law
	primary school 1-9	% municipalities	19.5	**31.7**	by law
health care	GP for adults	% municipalities	29.30	**80.9**	over 951 inh.
	GP for children	% municipalities	21.40	12.6	over 1399 inh.
	dentist	% municipalities	15.80	16.9	over 1399 inh.
cultural facilities	public library	% municipalities	**92.10**	63.6	not assessed
sport facilities	football field	% municipalities	57.70	**75.6**	35%
	multi-purpose fields	% municipalities	**43.70**	11.6	35%
	gym	% municipalities	30.70	**48.9**	35%
tourism and recreation	accommodation facilities	% municipalities	19.50	**97.8**	Local influence
associations	cultural associations	% municipalities	13.50	**80.6**	4847
	hobby associations	% municipalities	78.10	**87.1**	152
	sport associations	% municipalities	56.70	**70.9**	540
public administration	post office	% municipalities	**37.70**	25.6	799
	police station	% municipalities	2.30	**17.1**	3280
places of worship	sacral building	% municipalities	37.00	**52.2**	not assessed
	cemetery	% municipalities	68.4	**81.8**	not assessed

The sphere of commercial services is primarily characterised by grocery facilities and shops with other goods and offer of commercial services. The municipalities with the smallest number of shops are the developing municipalities, close to centre. It proves that inhabitants of municipalities close to towns take advantage of their opportunity to shop in supermarkets and small shops do not prosper in such municipalities.

Sphere of transport and technical infrastructure

The primary technical infrastructures of vital importance for life in municipalities are water supply system, sewage water system, gas supply system and supply of electric power. Comparison with Austria shows, that gas supply systems are less present in the Czech Republic, however they are of the same quality. A big difference is in sewage water systems with sewage treatment plants, Austrian municipalities of up to 3,000 inhabitants have them in over 90%, while the comparable municipalities in the CR do not reach even 40%. Evaluation of transport infrastructure primarily focused on road infrastructure and railroad transport.

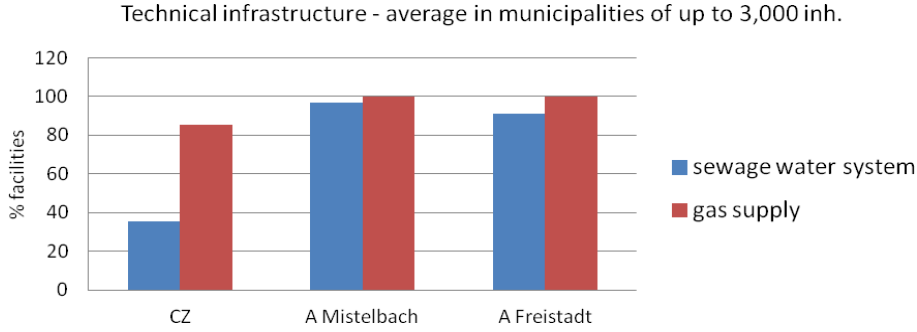

Figure 11. Summary of technical infrastructure in the CR and Austria

In the sphere of technical infrastructure there is primarily evaluated presence of water supply system, sewage water system (sewage treatment plant) and gas supply system in the municipality. Supply of electric power is a standard facility in the municipalities for a long time. The monitored data show that even water and gas supply systems may be regarded as a standard facility in the municipalities. The obligation of building sewage water systems with sewage treatment plants is provided by law for the municipalities with over 2,000 inhabitants.

There was further monitored accessibility of higher classes of roads. This means how long does a driver have to drive from the municipal centre to get

to an A class road, expressway or a highway . The longest connection to A class roads (in average) have the stabilised and peripheral municipalities of up to 500 inhabitants (8.2 km and 6.8 km).

Registered unemployment rate

The registered unemployment rate is remarkably higher in smaller municipalities of up to 500 inhabitants (16.3%), compared to bigger municipalities of over 500 inhabitants (12.7%). Many factors have impact on the unemployment rate; however the negative results in smaller municipalities are permanent. The maximum value of registered unemployment rate is in peripheral areas. There is considerable influence of macroeconomic and social factors. It is necessary to enhance new working opportunities.

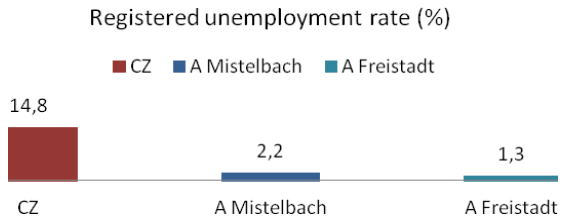

Figure 12. Registered unemployment rates in selected municipalities of the CR and AUT

Old ecological loads

According to evidence of the Ministry of Environment of the Czech Republic, the old ecological loads are primarily in municipalities of over 500 inhabitants. Brownfields represent a problem for a municipality, as well as a development opportunity. The obtained data show that presence of brownfields is nearly the same in the small (up to 500 inhabitants) and bigger municipalities (over 500 inhabitants); it reaches the value of 30% of total number of the municipalities. There are the most brownfields in peripheral municipalities, where it reaches the value of 40%. However if we evaluate brownfields with regard to their size, it shows that brownfields in municipalities of over 500 inhabitants are much bigger – the average size is 1.9 ha compared to 0.3 ha in municipalities of up to 500 inhabitants.

Table 7. Summary of standards

	B. Sphere of transport and technical infrastructure and C. Sphere of regional competitiveness and business infrastructure		unit	CR reality	A reality	CR standard
B	Infrastructure	Sewerage waters system + sewage treatment plant	% municipalities	35.30	**93.8**	100
B	Infrastructure	Gas supply	% municipalities	85.60	**100.0**	
C	Regional competitiveness	Registered unemployment rate	%	14.80	**1.8**	
		Number of entrepreneurial subjects (agriculture, services and trade).	Number of inhabitants per 1 subject	11.7	16.8	
		Tax yield and revenue share of municipalities per capita		10.11	**24.16**	

Conclusions

Summary evaluation showed that the development of a municipality depends on availability and sufficient space for further development (about 30 km per 1,000 inhabitants). On the other hand - too large and rapid development of a community can have negative consequences, especially in terms of social relations and cohesion of population. School attendance in the Czech municipalities is more related to commuting to school in comparison toAustria. Austrian municipalities have more often local doctors for adults, while other categories of local doctors are of similar proportion. Social services forseniors are standard for municipalities of more than 5,000 inhabitants. Libraries and cultural centres were detected more often in the Czech Republic than in Austria. Municipalities were not equipped with sports facilities in 100% but the results were very good. Indoor gyms were more frequent in stabilized municipalities (CR). It turned out that smaller municipalities in the Czech Republic (less than 3,000 inhabitants) have better conditions for sport. The Czech municipalities very often had a football field and this may be understood as a kind of their traditional feature. Accommodation facilities were found in 20% of the Czech municipalities (less than 3,000 inhabitants); while in Austria these facilities were recorded in 97% of all municipalities (less than 3,000 inhabitants). There were observed some other additional characteristics such as the frequency of voluntary associations, post offices, police stations, and so on.

Furthermore, a basic statistical analysis of the obtained results was done. This analysis revealed relationships between community facilities and financial indicators, standards and the quality of life in the rural areas. Subsidies from the EAFRD measures RDP (Axis III and IV) is considered to be insufficient but very important, on the other hand, cohesion, and awareness of identity and uniqueness of locations are being proved to be crucial. Human capital consists of the development of business environment in the country but also of

infrastructure development and public affairs. However, with respect to rural socioeconomic needs, the analysis identified that subsidies from axis III and axis IV of the RDP were not efficient enough in meeting the needs of wider rural economy and community.

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FINANCIAL ASPECTS AND ALTERNATIVES FOR AGRICULTURE AND RURAL DEVELOPMENT

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Chapter 4

Perspectives of income stabilisation tool: the case of Polish Agricultural Sector

Abstract: *Under the new financial framework for the period 2014 to 2020 the shape of Common Agricultural Policy (CAP) will undergo several important changes. With regard to the risk management policy new regulations allow every member state to establish subsidized agricultural insurance scheme and incorporate it into the European Union Rural Development Policy (RDP). In this paper, financial consequences of implementation Income Stabilisation Tools (IST) will be evaluated. IST is one of three new instruments in RDP supporting agricultural insurance. Farmers' income risk reduction and minimum insurance premium is assessed on the basis of data collected by Farm Accountancy Data Network. The analysis is preceded by presentation of theoretical background and major problems of global and Polish agricultural insurance market. Some disadvantages of currently used traditional agricultural production insurance schemes are also presented in the paper.*

Keywords: *insurance, income, income stabilisation tool, FADN*

Introduction

Consecutive CAP reforms during the last decades entire ly transformed the way the European Union supports farmers' income. The shift from price support through market mechanisms towards rural development instruments and decoupled direct payments policy posed new challenges to agricultural producers. Before 1992 high-level intervention prices almost remove price risk from sources of risk that may reduce farmers' income. Today market prices volatility constitutes one of the main reason for income instability in agriculture. It is mai nly due to recent changes in CAP that made it more market-oriented and globalization processes which increased link between global and European agricultural markets (von Ledebur Schmitz, 2012).

Through years there were many different policy makers' responses to the issue of growing income risk in agriculture. Direct payments are undoubtedly the most important ones. However, rising price and production risk in European agricultural sector obliged European Commission to implement new policy instruments.

Observed rise of income risk is caused not only by higher price risk. Increased production risk also had significant impact. Growth of this risk is caused mostly by climatic changes and increased specialization in agricultural production. The first factor seems to be more important. Through complex effects on the bio-physical processes it affects volume, quality and stability of food production.

In order to help farmers to cope with rising incomerisk new risk management supporting instruments are involved in RDP for the period 2014-2020. Every member state will have possibility to implement one or more from three new risk management tools supported by the European Agricultural Fund for Rural Development (EAFRD).

Income Stabilisation Tool

Under the new financial framework for the period 2014 to 2020 the shape of Common Agricultural Policy (CAP) will undergo several important changes. One of the most important change relates to broadening the range of instruments which helps agricultural producers to cope with production and income risk. Most likely there will be new regulations allow every member state to establish subsidized agricultural insurance scheme and incorporate it into the European Union Rural Development Policy. There are three instruments supporting agricultural insurance programs:

- Crop, animal, and plant insurance
- Mutual funds for animal and plant diseases and environmental incidents
- Income stabilisation tool

Two first instruments are very similar to traditional insurance schemes, which were the matter of interests of many scientific papers. The last one covers not specified losses but all kinds of income drops. Since income is value gained within a identified timeframe, IST operates on a yearly basis. This kind of insurance tool never has been before implemented in EU member states on a large-scale and possible outcomes of its implementation should be measured with scrutiny.

IST is an insurance policy which compensates income loss exceeding 30% of a three-year average gross or net income in the last three-year period or a three-year average based on the preceding five-year period, excluding the highest and the lowest value. The indemnity cannot exceed 70% of the income loss. In the figure 1. The payoff function for this kind of insurance is presented. We can see that as long as farmer gets income greater than 70% of historical average he receive no indemnity, and his income is diminish by insurance premium. However every income drop bigger than 30% of historical average is compensated, although not fully. If we assume that premium rate equals 5% of historical income, 100% income loss would result in an indemnity worth 49% of historical average, and his actual income will equal 44% instead of 0% as it would be if he would not purchase any insurance cover.

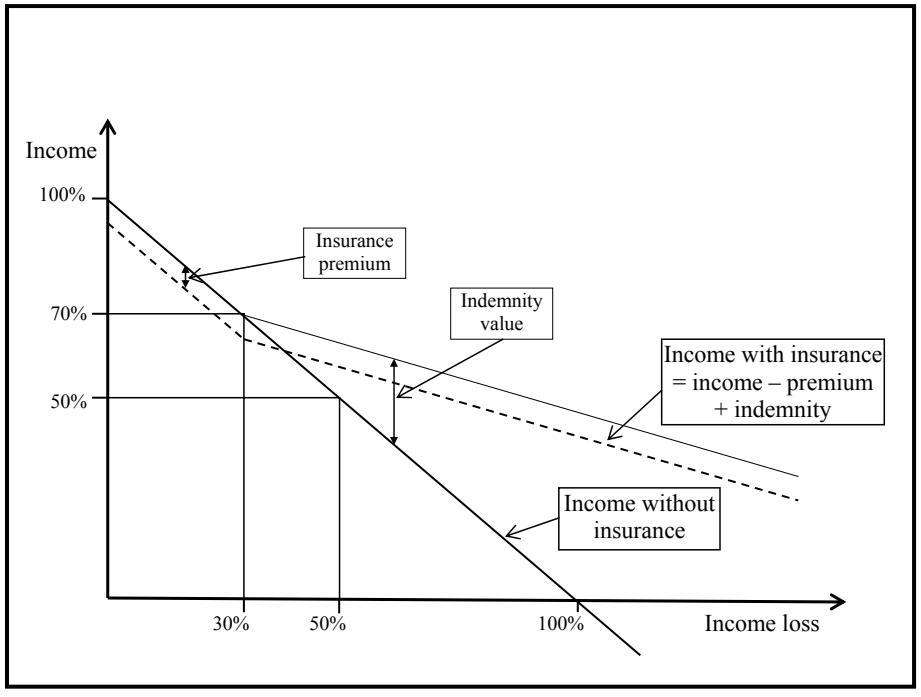

Figure 1. The payoff function for Income stabilization tool

Source: Own elaboration based on FADN database.

The most important advantag e of IST over traditional insurance policies is that it provide a coverage to all farm risks. Losses due to not only production, but also price risk are covere d. Moreover with regard to low prices of sold goods as well as high prices of purchased factor of productions. Farmers generally prefer to insure their whole-farm income than separate components, as they see it closer to optimising their economic objectives (Meuwissen et al., 2003). Since agricultural risks are not perfectly correlated it is also more efficient to put them in one contract than to cover them separately (Diaz-Caneja and Garrido, 2009)

There is a theoretical advantage of IST over traditional specific loss insurance. We can assume that IST can be very helpful tool decreasing the income risk to the level acceptable by the farmers. Still financial consequences of its implementation should be evaluated. But first, traditional agricultural insurance schemes problems are presented. It helps to understand, why alternative method of providing insurance cover are needed.

Traditional agricultural insurance schemes

Traditional agricultural insurance programs poses a few structural programs, limiting the insurability of risks that threatens farmers' income. The most important one refers to systemic risk. Insurer can offer insurance cover at a reasonable price if there are large number of similar exposure units. This condition is violated in agricultural production since the widespread of catastrophic events (droughts, floods etc.) cannot be fully diversified. Insurer needs to buy expensive reinsurance cover which increases premium rates and decreases the demand for the insurance (Miranda, Farrin, 2012).

There are also two serious obstacles dampening the development of agricultural insurance schemes that arise from asymmetric information. The first one, called adverse selection, refers to situation, where farme rs are much better informed about the characteristics of risk that are transferred than the insurer. As a result, only those who face a higher risk purchase insurance, so that the premium rates developed on aggregate data underestimate the cost of indemnities to the insurer (Meuwissen et al., 2011). In such situation the insurer preventively set premium at very high level. The second obstacle, called moral hazard, arises when farmers after purchasing the insurance make their production more risky, increasing their chances of collecting indemnity (Miranda, Farrin 2012).

Agricultural insurance schemes must also cope with problem of disaster aid programs, which are free substitute of insurance that also hamper the development of agricultural production insurance market (Smith, Glauber, 2012).

Specific features of agricultural insurance presented above influenced the development of crop and livest ock insurance market all over the world. There

are few examples of successive performance of agricultural insurance products offered on commercial basis. In most of these cases insurance policies cover very limited range of risks, mainly hail risk. It is due to the fact that hail risk unlike drought or frost risk transfers are not disturbed by informational asymmetry and hail risk is correlated only at a limited regional level.

Without government involvement the coverage of agricultural insurance schemes was limited to single perils. Attempts to sell multiple peril crop insurance ended in failure (Gardner, Kramer, 1986). In the 70. and the 80. numerous multiple peril crop insurances schemes were introduced in Latin America, Asia nad Europe (Mahul, Stutley 2010). Performance of most of this public sector schemes was evaluated as poor (Hazell, 1992; Mahul, Stutley, 2010). This started debate about the effectiveness of such a risk management support instruments. Analyses proved that most of functioning subsidized agricultural insurance scheme are costly and can distort agricultural markets in many ways.

Nevertheless, nowadays more and more countries decided to subsidize crop and livestock insurance in last decades. According to Kalra and Xing (2013), between 2005 and 2011 agricultural insurance premiums worldwide almost tripled from an estimated 8 billion USD to 23.5 billion USD. This growth is a result of World Trade Organization (WTO) agreements. Insurance schemes which meet some criteria outlined in Uruguay Round Agreement on Agriculture can be treated as a green box policy , which is excluded from reduction commitments under the WTO. Since agricultural insurance schemes implemented by most countries exceed some specified threshold of maximum indemnities they are notified as amber box support. Still they are treated as non-product-specific tools and in most cases are not added to a country's Aggregate Measurement of Support (AMS).

Today agricultural insurance programs are not treated as risk-management support tool but rather as a convenient method of supporting agricultural incomes. However, it creates some significant problems. First, subsidies induce farmers to take more risk. They expand production of crops for which they get subsidized therefore cheaper insurance coverage. Second, subsidized insurance increase use of environmentally sensitive lands (Goodwin, Vandeveer, Deal, 2004) and reduce use of alternative risk management tools such as diversification or pesticides (Smith, Glauber, 2012). Sometimes it is also not clear who intercept the subsidies. For example, high level of participation and huge acreage enrolled in American Federal Crop Insurance Program (FCIP) is the result of heavy subsidization of insurance scheme. Total government costs in 2012 exceeded 14 billion USD, which is more than 5% of all (including mostly uninsured animal production) agricultural production in the US. One of the main component of total costs is private insurers administrative and operation expense reimbursement. It accounted for almost 30% of all costs in 2007-2009 and almost 15% in 2010-2012.

The same problems affect the development of agricultural insurance in Poland. During the 90. agricultural production insurance market remained undeveloped. About 4% of farmers purchased any kind of policy covering losses in agricultural policies. Asymmetric information problems drove insurance premium at a high level. Farmers' income drop at the beginning of the 90. was another reason for small number of purchased insurance policies. It is worth to mention that insurers afraid of claim accumulation did not offer insurance cover against drought risk, which is the main source of losses in crop production in Poland.

Although hardly anyone purchased insurance cover , farmers did not retain whole risk. In fact large amount of production risk was transferred to taxpayers, since after every large natural catastrophe, government launched post-disaster aid program. Especially costly support was introduced after floods in 1997 and 2001 and after drought in 2000 and 2003.

In 2003 Ministry of Agriculture and Rural Development (MARD) appointed a group of experts to prepare assumptions about future subsidized agricultural production insurance scheme. After several months of debate guidelines were ready and discussion among policy-makers started. The final result of these proceedings was the Subsidies to Crop and Animal Production Insurance Act passed on 7th July 2005, The new law allow to subsidize from budgetary resources up to 50% of insurance premium paid by farmers for animal production policies and up to 40% of premium for crop insurance.

Table 1. The number of policies and value of insured production [in thousands PLN] in 2006-2010 in Poland

	Crop insurance policies	Value of insured crops	Animal production insurance policies	Value of insured animals
2006	10738	734 953	318	28 730
2007	28412	1 827 215	416	63 701
2008	87150	3 858 851	220	45 409
2009	144080	6 490 378	248	38 004
2010	150833	7 843 804	279	48 906

Source: [Ministerstwo… 2012]

Since hardly any farmer purchased crop or animal production insurance during next years, many amendment of this Act took place in following years. The name of the discussed regulationwas changed to presently valid Crop and Animal Production Insurance Act. The most significant modification turned previously voluntary program into the obligatory insurance scheme. Precisely, purchasing insurance cover is obligatory for every farmer who receives direct payments. Agricultural producer is obliged to cover 50% of crop production against at least one specified risk.

The number of purchased crop and animal insurance policies is presented in table 1. We can see that although insurance cover is mandatory for every direct payment beneficiary, most of the agricultural producers do not purchase any agricultural production insurance. There are about 1.4 million farmers who receive direct payments in Poland. Since the subsidized insurance scheme started only in 2009 and in 2010 number of purchased insurance policies exceeds 140000, which constitutes 10% of number of farmers. There is also significant disparity in number of crop and animal production policies. Only crop insurance cover can be considered as widespread. Looking into details, it can be discovered that even crop production is not covered against the most popular and most danger risks. The figure 2. presents the number of insurance covering specified risks. Most agricultural producers purchase only hail insurance. Smaller percentage ofthem covers their crops against winter and spring freeze risk. However, flood and drought risks, main source of losses in Polish agriculture, are generally not insured at all.

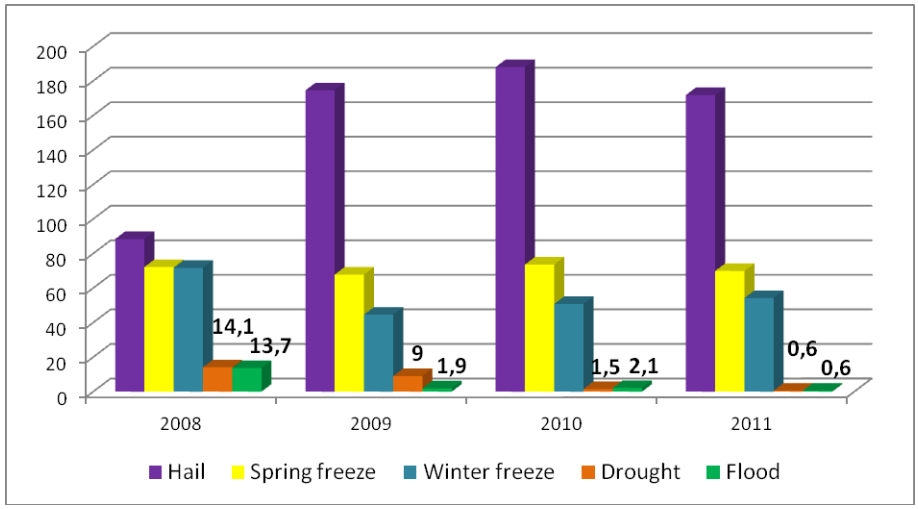

Figure 2. Number of insurance policies [in thousands] covering losses caused by selected risks in 2008-2011 in Poland

Source: (Janc 2012)

There are many unsolved problems on Polish agricultural insurance market. Despite strong subsidization, insurance policies covering losses against the most severe risk like flood or draught are not always available. Hail insurance are the most prevalent on the agricultural insurance market. There is a strong need to change it, although it can be very difficult. Taking this into account the whole-farm income insurance seems to be very attractive alternative. It is worth to examine if such an risk transfer instrument could be affordable in Polish agriculture conditions.

Results

To assess impact of implementing ISTon income of Polish farmers we used data from Farm Accountancy Data Network (FADN). In 2011 the field of observation in Polish FADN consisted of 11082 agricultural holdings with an economic size – measured as the total Standard Output[1] – exceeding 4000 euro. Since data from farms surveyed by FADN continuously from 2004 till 2011 were needed, information of income from 5364 farms created the final database.

There are numbers of different FADN indicators, that can be used to approximate income that will be main index in IST insurance. So, the problem is to choose the best one. The most obvious option would be Gross farm income (SE 410)[2], which is the sum of Balance current subsidies and taxes (SE 600) and excess of Total output (SE 131) over Total intermediate consumption (SE 275). Gross farm income is the biggest and the most important component of much broader indicator Farm net income (SE 420). Additionally it contains these elements which are the most prone to price and production risks. Still using gross farm income as a proxy of insured income is connected with some disadvantages. The most important one is the fact, that subsidies and taxes balance variability over years cannot be treated as a insurable risk effect. This is especially true in Polish conditions, where changes in subsidies are mostly due to planned growth of direct coupled payments in consecutive years.

The problem of subsidies and taxes balance insurability cannot be ignored, since the share of subsidies in total income is significant. In figure 3 the average share of subsidies in farm net income on every farm in ascending order is shown. In 73,9% of all farms this share is larger than 20%, and is bigger than 40% for more than a quarter of all farms. For less than 1% agricultural holdings average farm subsidies were smaller than average taxes that farmers had to pay. On the other hand there were 11 farms where average excess of production over specific costs was negative which result in over 100% share of subsidies in farm net income.

Although Farm net income as a proxy for insurable income poses some problems, the alternatives are not perfect as well. The intuitive approximation for agricultural income could be the excess of Total output (SE 131) over Total intermediate consumption (SE 275) which equals the production minus the specific costs. However this indicator is very often negative, which causes serious problems. The most important one is that it is impossible to estimate the value of insurance premium as a share of historical values of this indicator. There should be as well additional mechanism to assess the threshold from which reimbursement will be paid. It would be also questionable whether the idea of insurance scheme where not every loss in indemnified would seem attractive for farmers.

[1] The methodology details can be found in (Commission… 2009).

[2] The symbols in parenthesis are the FADN denotations.

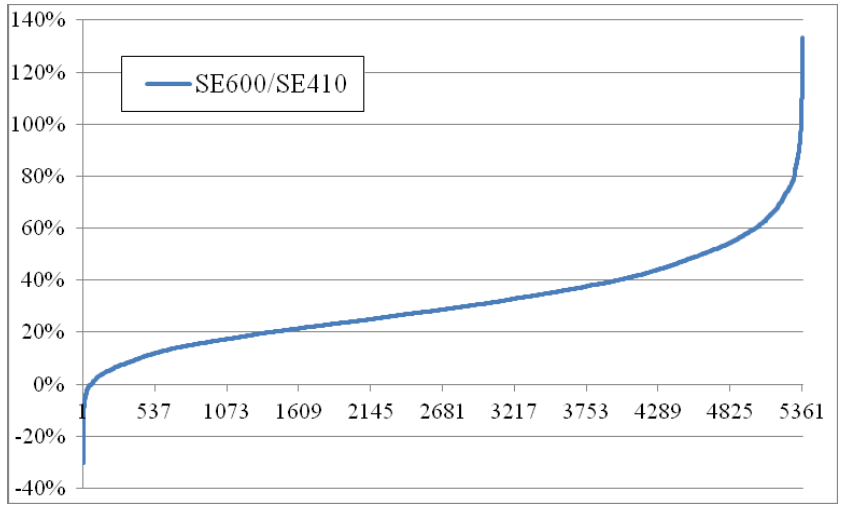

Figure 3. The average share of Balance current subsidies and taxes in Farm net income in 2005-2011 [in %]

Source: Own elaboration based on FADN database.

Taking this into account we should focus onTotal output as a possible alternative for Farm net income. Although there is a big difference between insuring income and revenues, it can be assumed thatIST based on total production value is very useful insurance tool which meet all needed requirements. Results presented below are concerning two types of IST: based on Farm net income (SE 410) and on Total output (SE 131).

At the first sight minimum thresholds established in article 40 of European Commission proposals (European Commission, 2011) appears to be very strict. However the number of agricultural holdings that would experience indemnifiable losses is not negligible. Historical values of SE 410 and SE 131 were calculated as the average indicator for individual farmer in the preceding three-year period. It means that 2007 is the first year, where information about number and value of indemnities is available.

As it is shown in table 2. if IST with SE 410 as an index were introduced in 2007, the number of farmers who received indemnity would be quite large (from 9.45% of all farms in 2011 to 27.13% in 2009). However the average indemnity value constitutes no more than 4% of average income (1.79% when data for whole analysed period is summed up). The number and relative values of indemnities are even lower if insurance cover would apply for value of production. In this case the number of reimbursements received by farmers would be from 103 in 2007 to 644 in 2009. The same with average value of indemnity, which do not exceed 1% of average total output in any year.

Table 2. The number and relative value [in %] of indemnities for two types of insurance instruments in 2007-2011

SE 410	2007	2008	2009	2010	2011
Number of indemnities	587	960	1455	563	507
Average value of indemnity as a percentage of average income [%]	1.22	2.48	3.64	1.19	1.03
SE 131	**2007**	**2008**	**2009**	**2010**	**2011**
Number of indemnities	103	266	644	275	139
Average value of indemnity as a percentage of average production value [%]	0.13	0.34	0.76	0.27	0.15

Source: Own elaboration based on FADN database.

Significantly higher number of indemnities under the scheme where net income is an index is the result of the dif ference in variability between two analysed indicators. For both cases there were significant growth in losses in 2009, which is mostly due to substantial decline in agricultural prices. There is also visible difference in 2007, when the net income dropped in many farms not due to production or price risk but because fall in value of subsidies.

In our simulation we accepted thresholds that are the most favourable for farmers under restriction conclude in proposals. There is 30% franchise and 30% deductible. Although these conditions can be considered as rather strict, IST still gives a significant support that helps farmers to maintain income (or revenues) at certain level.

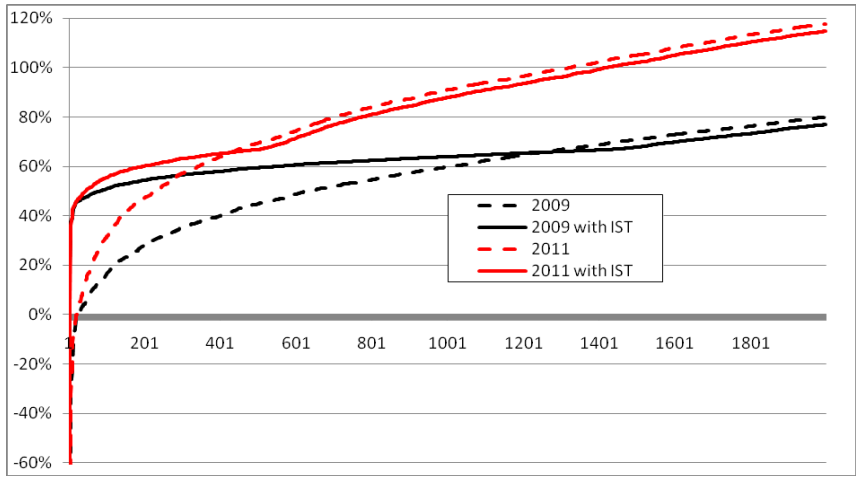

Figure 4. Farm net income in 2009 and 2011 in relation to historical average with and without IST for 2000 farms with highest losses [in %]

Source: Own elaboration based on FADN database.

In figure 4. we put farms in order from these who suffered the biggest income drop to those who experienced the lar gest growth of income in comparison to three-year historical average and presented their farm net income with and without IST for the first 2000 farms. Data from year 2009, which was the most disastrous, and 2011, where the least number of losses occurred, is presented. In 2009, 1251 farmers would increase their income as a result of buying IST policy (432 farmers in 2011). There would be 200 more indemnities, however their value would not exceed the insurance premium (about 70 in 2011)[3]. The number of farmers with income less than 50% of historical average would decrease from 635 to 82 (228 to 45 in 2011). These figures let us realize how helpful the IST cover would be.

Results of analysis of IST with SE 131 as an index are similar. However, as it was mentioned, the variability of Total output is much smaller . Hence, there are less indemnities in this case. The number of farms with SE131 less than half of historical average would decrease from 138 to 7 in 2009, and from 40 to 7 in 2011.

The data concerning average level of SE410 and SE 131 in years 2007-2011 gives even broader look at usefulness of IST. In figure 5. the relation of average value of analysed indica tors in case of existing IST and actual average values in 2007-2011 for every farm put in ascending order is presented. For significant majority of all farms there would not be any insurance claim. In fact, implementing IST would result in income reduction for nearly 70% of all agricultural holdings in the case of Farm net income (SE 410) IST, and almost 95% in the case of Total output (SE 131) IST.

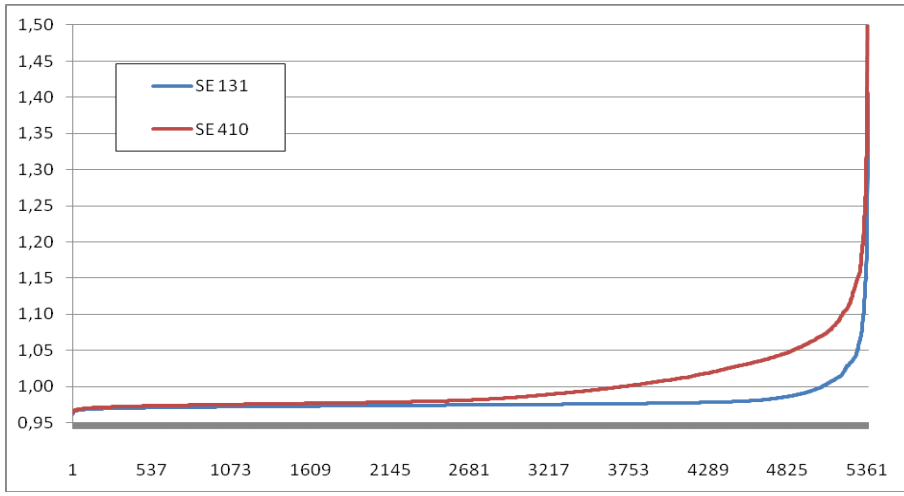

Figure 5. The average value of analysed indicators in case of existing IST compared to actual average values in 2007-2011

Source: Own elaboration based on FADN database.

[3] Insurance premium was fixed at 3% of average historical income.

Although the number of farms that get compensation is not very high, income stabilisation tool considerably diminishes the number of sudden income drops. As it can be seen in table 3., the drop in numbers of farms for which analysed indicator is lower than 50% of historical average is especially significant for insurance where SE 131 is set as an index. Furthermore there would be no farms with total output value lower than 20% of historical average. In the case of IST where farm net income is main indicator, there are even more farms who maintain income bigger than half of historical average thank to indemnities paid by insurer – from 183 farms in 2011 to 553 farms in 2009. There are only exceptional cases where farm net income is lower than 20% of historical average if drop of incomes are reimbursed, although it is not uncommon situation for actual data.

Table 3. The number of farms with income smaller than 50% (above) and 20% (below) of historical three-year average for two types of analysed Income Stabilisation Tool in 2007-2011

Specifications	SE 131					SE 410				
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
Number of farms with income lower than 50% of historical average										
Actual	24	48	138	65	39	256	380	635	233	228
With IST	2	1	6	3	6	26	42	82	35	45
Number of farms with income lower than 20% of historical average										
Actual	2	1	11	5	8	40	73	119	50	63
With IST	0	0	0	0	0	0	1	2	1	3

Source: Own elaboration based on FADN database.

The usefulness of IST for Polish farms seems to be undoubted. However, the most important question is the one related to the price of such an insurance tool. Simulation results show that even small premium would make IST scheme financially viable. In case of insurance with SE 131 as an index, premium worth 1% of three-year historical average Total output let the entire scheme to be profitable. It means that the value of earned premium exceeds the value of incurred losses and under writing expenses[4]. For IST with SE 410 as an index premium should equal 3% of three-year historical income. Taking into account that premium at this level cover all risks that can reduce farmers' income it should be considered as relatively small. Furthermore, RDP supports would lower these premiums significantly. It is also worth to mention that prices of present-day insurance tools covering specific production risks are very often higher than 6%. Polish farmers in general are not willing to buy insurance policies which premium is higher than 2,5% (Janc 2012).

[4] We assumed that additional costs equals 100 PLN per farm.

Of course all above-mentioned figures refer to whole population, which is not homogenous. For example the value of indemnities in group "permanent crops" are significantly higher than in group of farms that mainly produce milk. When we look at different economic size classes, the smallest farms are much more risky then bigger ones. This would strongly influence for example the method of calculating the premium or financial viability of the entire scheme, however there is no space to present all results.

Conclusions

Using data about farmers' income in Poland in years 2004-2011 collected by Farm Accountancy Data Network possible advantages of implementing IST in Polish agriculture are shown. First of all ISTprovides whole-farm level risk management tool at a reasonably low price, especially when compared to premium rates of specific peril insurance instruments currently offered by insurance companies.

Still there are some importa nt problems relating to this kind of insurance. The main problem of the whole-farm approach of the IST stems from the requirement to measure and collect accurately the farm income in a manner that avoids moral hazard and is acceptable for the management of the mutual fund (Meuwissen et al. 2003). The same problem connected with asymmetric information is underlined by Finnish agricultural economists (Liesivaara et al. 2012). They noticed that, the efficiency of the IST as an income transfer policy in Finland is questionable due to its lar ge transaction costs. It should be also noted, that the Canadian AgriStability programme, which is similar to IST, is highly subsidized (Schaufele et al., 2010).

Not only IST scheme would suffer from asymmetric information problems, systemic risk could also generate significant problems. Income insurance tools are dependent on price fluctuations. Many policyholder can face huge losses at the same year, as it was in 2009 when a large amount of indemnities in 2009 would be a result of substantial fall of agricultural prices. It is one of the main reason to subsidize such an insurance scheme.

Nevertheless IST scheme probably could not operate on a commercialbasis, it is still much better instrument of reducing farmers' income risk that traditional insurance programme. Unlike traditional insurance IST offer real whole-farm income risk cover, and thank to covering all risk that are not correlated it can be provided at a much smaller cost.

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Chapter 5

European guidelines for the institutional frameworks of agrarian development in Ukraine

Abstract: *Transformation of the economy in Ukraine since its independence took place fast enough. However, the former communist system had a powerful influence on market mechanisms. As a result, the effectiveness of their actions did not justify expectations, because the market mechanisms could not provide equal opportunities for the development of different economic units, especially for agricultural producers. As a consequence, nowadays Ukrainian agriculture has a dual structure with the high developed corporate and the low commercial individual sectors.*

The present paper is based on the rural development concept which explores agriculture and rural area regarding the requirement of economic, ecological and social balance. The paper investigates the development of agriculture and institutional environment in Ukraine. It has been established that Ukrainian agrarian policy contributed to the development of corporate agrarian holdings, which don't satisfy the social and the ecological purposes of agrarian and rural development while individual agricultural producers, which are provided the national food security, survive in unfavorable institutional environment and conditions of large capital market power.

The main conclusion of this study is that the rural development policy requires not only to create effective institutions but also to change Ukrainian society understanding of their nature.

Keywords: *agriculture, rural area, individual and corporate sectors, agroholdings, rural development policy, Common Agricultural Policy, institutions.*

Introduction

Problem statement

Search for investments and actual owner in the process of agrarian transformations in Ukraine for more than twenty last years ended with advent of a "rural landlord", who established a new corporate-like agrarian organization with prevalence of large capital, of non-agricultural origin mostly. Individual sector, represented by peasant farms and households, functions in strongly unfavorable institutional environment and conditions of large capital market power. Investors of agricultural production act exceptionally as business entities, which main purpose is multiplying own capital by means of transferring agricultural production to the individual basis. However, generally accepted fact that agricultural production, save for industry, is connected to wildlife and human beings, is neglected. Economic activity in rural areas may be viewed beyond general system of its social connections and ecologic limitations. Agriculture is not only a sphere of production, but also a sphere of life. Economic behavior of economic entities in rural area is being shaped not so much by a market as by a complex of social relations and norms, composing institutional environment of rural development. Interaction of this environment with economic interests determines nature and targeting of economic decisions. This means that analysis of current trends in agricultural production development without analysis of their close relation with change trends and dynamics in other spheres of economic and social rural life shall not reflect a real situation.

Research objective is to analyze agricultural development of Ukraine compared to the common European principles of farming and rural area development in order to establish on this basis scientifically grounded directions for harmonizing further agricultural transformations in Ukraine according to the needs and interests of different producers and rural communities.

Results

Rural areas and agrarian economy occupy an important place in Ukrainian society. Rural population makes up almost one third of the population (31.6%, 2011). Share of employed in agriculture decreases, but it is still on a high level compared to the European one (15%). Notwithstanding that agriculture contribution to the GDP has decreased compared to the 2000-s, it remains significant – 9.5% (Fig. 1).

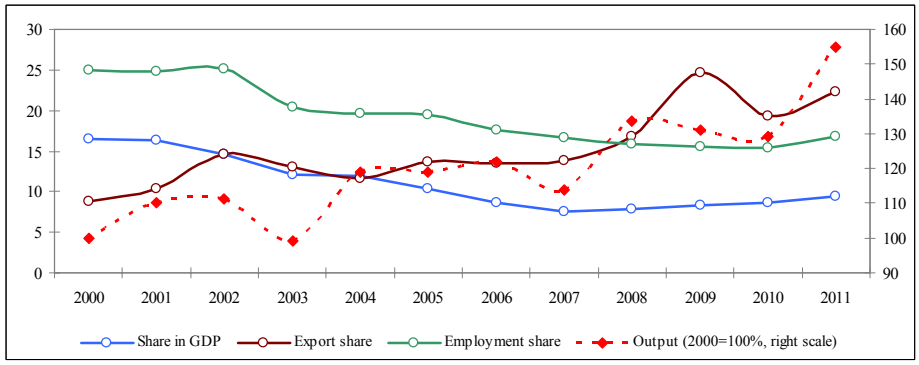

Figure 1. Ukrainian agriculture in the national economy (%)

Source: own calculations based on the Statistical Yearbook "Agriculture of Ukraine, 2011".

Regardless of insignificant decrease of agriculture role in economic development of the country, we may see a build-up of its production and export potential. Volume of agricultural production increased almost three times (Fig. 1), and volume of export of agricultural products – almost ten times (Fig. 2) over 2000-2011. Owing to this, Ukraine occupies a leading position on the global market: first place in terms of sunflower oil export, second place – rape and barley export, fifth place – corn export, sixth – sunflower seed export, seventh – wheat export, ninth – soy export (FAO, 2010). However, regarding livestock raising Ukraine is not even among twenty world leaders-exporters (save for hard cheese – 17 place). Along with that, general economic figures do not reflect trends in sharing benefits from ramping up agricultural production and export, and processes in rural society may be identified as systemic degradation:

- general employment level in agriculture has decreased over the period studied (by 20%);
- number of workers employed in corporate sector has decreased almost four times (form 2.75 Mio in 2000 to 0.73 Mio in 2011);
- salary level in agriculture remains low (⅔ of salary in economics);
- large share of unemployed (7%) and self-employed in farming households has emerged (70% of economically active rural population);
- service sector in rural area gradually diminishes.

At the beginning of the reforming period in 90s advisers in young independent countries of the former USSR propagated the ideas that success of agrarian transformations depends on speed of asset flow from inefficient collective farms and state owned farms (so-called kolkhozes and sovkhozes) to new effective owners (Csaki, Nash, 1998). As they hoped, family farms were to become those new owners. None could even imagine that creation of new owners may have resulted in land grabbing by large capital and excessive economic power concentration by agroholdings in agriculture.

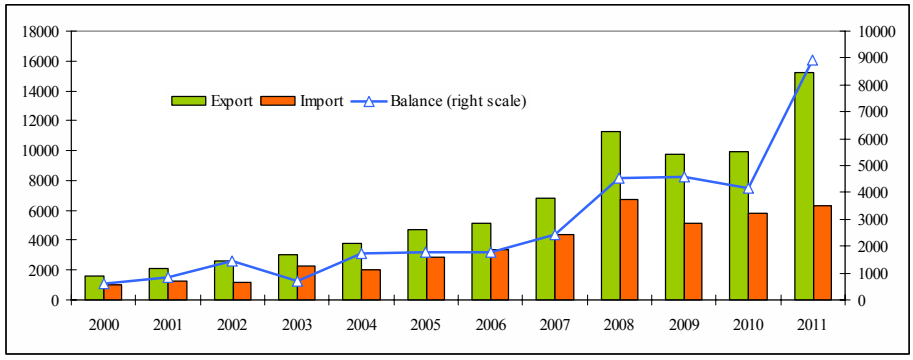

Figure. 2. Foreign trade in agricultural products, 2000-2011 (Mio dollar)

Source: calculated based on data: Commodity structure of foreign trade. State Statistic Service of Ukraine. – Access at: http//www.ukrstat.gov.ua.

There were preconditions for establishing corporate mechanism in agriculture of Ukraine (Rilko, 1999; Khramova, Serova, 2002):

1 Existence of transition markets, which leads to exaggerated development of vertical and horizontal integration as an instrument, which allows opposing excessive transaction costs and risks.
2. Huge constrains for entering into the "traditional" sectors of agriculture, stipulated by debts and many shortfalls of newly established economic entities on the bases of reformed kolkhozes and sovkhozes. External financing of agriculture under such conditions could be performed only through establishment of new business structures.
3. Influence of foreign investments on the national economics through close relations among new agricultural operators with foreign investors, chiefly employed in food industry and trade.
4. Dynamics of the global macroeconomic sectoral structure of variable (alternative) costs, which is defined by the fact that long-term outward investment in agriculture and agribusiness are viewed as one of the most attractive long-term directions for capital allocation.

It is obvious that each of these factors af fected establishment of corporate structure to a certain extent. However, in our opinion, this problem lies much deeper. Heavy role here belongs to informal institutions of the soviet times, which, as is known, changetoo slowly. On the political level it is seen in terms of active state supporting for development of a large commodity agricultural production and neglecting of a role and significance of family farms (peasant farms and farming households). The latter, existing under such institutional conditions, have to adjust gradually to their "needlessness" in social production. That is the reason why they lease out their land to corporations or just sell it, without a second thought about after-effects of such actions.

The Government of Ukraine over the entire period of agrarian transformations favored establishment and development of large business in agriculture.

The same old way they intrude opinion uponsociety that it is large enterprises that can ensure food safety , "pull back" agriculture out of recession, ensure high quality of products manufactured, build up export potential etc. Instead, family farms are assigned a role of "part-time" farms, which they were during pre-reform times. Thus was established a dual structure of producers in agriculture of Ukraine: corporate (agroholdings, VISs) and individual (peasant farms and households) sectors.

Regardless of privileged position of the corporate structures, over a half of agricultural GDP in Ukraine is ensured by the individual sector. They remain major producers of essential types of agricultural products, which ensure food security of the state, in particular. Instead, corporate structures are involved in production of mostly export-oriented products, oil and grain crops (Fig. 3).

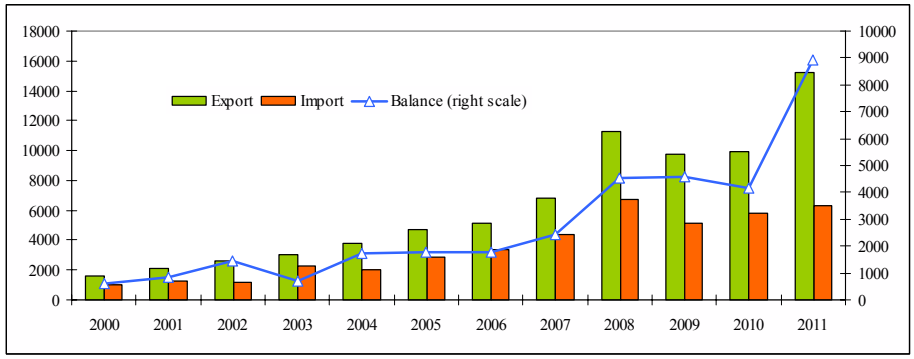

Figure. 3. Shares of individual and corporate sectors in production of main agricultural products (%)

Source: Statistical Yearbook "Agriculture of Ukraine 2011"

At present corporate sector sizably strengthens its influence on structural dynamics of agrarian sector. Agro-industrial corporations of a holding-like type are being gradually enlarged, acquiring agricultural enterprises and land. As a result, as of the end of 2012, 10 the largest agroholdings control 22% of arable land in Ukraine (Fig. 4).

From the institutional point of view, this can be identified as misbalanced institutional development, which leads to certain motives in behavior of economic entities, aiming it at seeking natural resources and disregarding tasks of socio-economic society development. Production and land concentration process continuous regardless of existing limitations. The main problem lies in whether agroholdings are able to increase effectiveness of the sector and how their emergence can affect domestic producers, economic welfare of small agro-producers and rural population (Rilko, 1999), considering that during the period of agrarian transformations limitation of pre-reform socioeconomic rights of rural population took place. The State does not guarantee any more:

steady prices on agricultural products and food; incomes amounting to minimum subsistence level; full-time work and absence of unemployment. Rights to free medical care and education have been limited as well. These changes in institutional and legal sphere have officially introduced new "rules of game" for corporate structures in rural area, which stimulates them to apply certain managerial models of functioning.

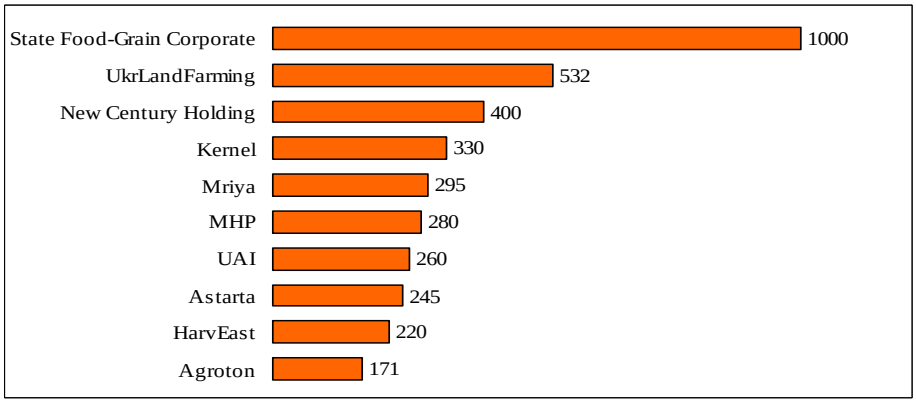

Figure 4. Land banks of the largest agroholdings in Ukraine (1000 ha)
Source: BAKERTILLY; FINANCE

Literature analysis (Borodina et. al., 2012; Gutorov, 2011) and empirical studies show that accretion of economic power of agro-industrial holdings bears a heavy danger, relating to significant distortions in the national economy, as well as in the sphere of socioeconomic, demographic and ecologic development of rural territories. Small and medium agro-producers under pressure on their land rights and under conditions of monopoly power on agrarian markets and in policy of agroholdings can hardly survive. Absence of real state support for small and medium producers in agricultural sector implicitly contributes to intensification of agro-industrial holdings positions in agriculture. Threat to food self-production is growing, as far as it is small and medium business that is able to support economics and population under conditions of financial instability or new crisis phenomena in economics. Export-orientated lar ge agrarian capital destabilizes internal supply, thus leading to deficit of certain types of food and raw materials. As for Ukraine, membership in WTO prohibits quantitative limitations of export that is why the best way of filling-up domestic food market was to push prices up. Such situation triggers food inflation, decrease of purchasing power of the population, which worsens structure and quality of its consumption and may increase frequency of "supply shocks", which became almost ordinary situation in Ukraine.

However, the most severe danger resides in agricultural development sphere, as agriculture represents not only mere production of agro-food. This is

a sphere of public goods production, which is as important for the country as food and agricultural raw materials. Along with that, providing public goods and undistorted prices on inputs are key macroeconomic conditions for controlling unregulated concentration in agriculture of the countries in transition (World Bank, 2011).

Rural economy in European countries is based on family management patterns. They have proved to be effective and able capable of adjusting to changeable internal and external institutional environments within several decades. That is why current European institutional environment of agricultural and rural area development is mostly aimed at achieving long-lasting, economically efficient development of family farming while saving natural grounds of life activity and providing all strata of rural population with economic and social protection. The environment is created on the basis of major mechanisms of sustainable development (DEFRA, 2011).

Methodology of sustainable development through understanding of social role of agriculture and defining its multifunctionality forms the basis of Common Agricultural Policy (CAP) of the European Union for the period of 2006-2013 (EUROPA, 2009). For practical implementation of sustainability principles there were extracted two separated directions of the CAP: support for agro-production and sustainable development policy. The latter is viewed as an integrated (multidisciplinary) process, which includes not only economic figures of growth and development of agro-production, but also ecologic safety and adjustment of rural communities to changeable business environment. Important role is given to the processes of political partnership, which is an integral part of the integrated approach. Recently a ranking place is dedicated to the extended influence of knowledge-based economy on rural development and possibilities of extending its potential owing to new technologies, such as telecommunications, biotechnologies, and Internet.

On the level of practical implementation EU funds are spent on realization of sustainability principles, embodied in four directions of rural development: support for farms compatibility; safe environment and land use; economic diversification within and beyond agriculture to increase standard of living of rural population. These three directions are grounded on one methodological basis (fourth direction) – establishing and functioning of local action groups (community leaders), that mobilize local population for developing and implementing complex local development strategies on democratic principles. Fourth direction is titled «LEADER» and characterized with realization of human potential and social capital of rural communities , and also point at providing with priority conditions for women and youth. Major purpose of the «LEADER» program is to involve rural population into designing and implementing original strategies of integrated rural territory development in general context of priority European tasks: improving standard of living in rural area; involving high technologies to rural areas; optimization of using natural and cultural resources of local level. Strategic directivity of the EU

CAP on rural development has been justified and this approach is reserved for the future period of 2014-2020. Stipulated changes are related to main priorities of the EU rural development: promoting knowledge sharing and innovations in agriculture and forestry and rural area; competitive growth and viability of all types of activity; promoting organization of food supply chain and risk management in agriculture; recovery, preservation and strengthening of ecosystems, depending on agriculture and forestry; stimulating of effective use of natural resources and transition to a low carbon, resistant to climate changes economics of agriculture, food and forestry sectors; promoting social integration, poverty reduction and economic development in rural areas.

Within several decades CAP has been major financial strategy of the EU expenditures. Till the last reform almost 70% of the budgetary costs were spent on agrarian policy, according to the current budget – approximately 35%. Costs, spent on support for agrarian sector of Ukraine, are significantly lower, however "at ineffective institutions even huge state investments in support for economics are in vain; they will result in mere "application of funds" and will not result in a real effect. Moreover, increase of state subsidies in agrarian sector (preserving a status-quo – author's note) shall result in widespread and intensification of leading-strings mentality, rooting of thoughtless and irrational spending of budgetary funds, bribery expansion. By improving institutional system it is possible to reach much better results, then by simple filling in of economics with additional resources» (Barlibaev, 2011), as effective institutions allow involving not only finances, but also organized collective efforts for solving common problems and reaching common purposes.

Imperfection of rural and agricultural development institutions in Ukraine may be characterized by the following:

A. Lack of institutional coordination. An issue of development of agriculture and rural areas is within cognizance of various state bodies – ministries of agriculture, economics, social development, finances, ecology etc. Nevertheless, their policy is aimed at own interests and does not serve commonpurpose of rural development. This results in institutional chaos on the rural territory level. Maladjustment requires institutional integration for reaching final targets and coordination between various organizations and law authorities at all levels of decision making and protection of rural community interests from uncontrolled grabbling of their resources.

B. Institutional inability to act collectively – means lack of effective social institutions, able to resist pressure of big business: agricultural advisory services, farmer organizations, rural community organizations, institution of trust and cooperation between the parties regarding protection of rural people rights etc.

There has been established a lot of social institutions in Ukraine within the period of agrarian transformations: associations, unions, agrarian chambers etc. They have been mainly established on the initiative of public authorities of donor organizations and support of technical assistance projects. Upon support reduction, these structures undergo influence of local authorities. Another part of them continue function only for the purpose of receiving costs for self-financing of administrative staff. Similar transition forms of institutional authorities may be observed on the level of sectoral management bodies. They influence financial disposition on the local level, using own status, image and power to solve the issues not included into the range of their direct duties.

C. Pseudodemocratization of governance. During the period of agrarian transformations a certain progress in decentralization of governance structures of rural development and villages was reached. A role of governmen - tal institutions was changed and new structures of decentralized governance were established. Notwithstanding this, local communities do not participate in making decisions regarding local development, or their participation is insignificant. Thus, decentralization process, relating only to structural changes, but not ensuring qualitative changes (such as actual participation, transparency, competency and reliability) has a little impact on establishing governance system with active participation in policy making of rural population. Save structural and qualitative changes, decentralized structures (state, as well as social) should possess sufficient rights and financial resources to protect social interests.

D. Underdevelopment of private ownership institutions. With introduction of private ownership on land and property , rights and obligations regarding use of natural resources in agriculture were not defined clearly. This resulted in uncontrolled resource concentration, land in particular. Also a question remained who should a right to receive lease payments from their use (land firstly) and who shall bear expenses on their renewal. Right of ownership in land relations system reflects all complexity of allocation, governance problems and adjusting various expenditures and gains flows for resource, technologies and agricultural equipment use.

Compared to establishing of euro-institutional space of the EU CAP , these difficulties are greatly intensified by the fact that Ukraine does not have experience in evolution of market economy institutions in agrarian sector and established new institutions on the heritage of the admin istrative command system. Notwithstanding that collapse of the Soviet economic system serves as an obvious proof of its inviability, still, even Western European economics, which was mainly shaped and developed by market mechanisms, was not aimed at sustainability at once. Such conclusion is well supported by external displays, peculiar to the European agricultural practice of the previous century. This includes, in particular, agro-food processing, significant ecologic expenses, problems of rural population migration and rural communities decline etc. These are the problems that Ukraine faces in the twenty first century.

Institutional problems of agricultural development of Ukraine are in the interface of economics, natural environment and society. Agricultural system is a specific form of institutional changes, which should base on understanding that achievements in economics are connected with losses in other sectors, as for example, destruction of social relations or dysfunction of ecosystem. That is why it is important to balance institutions for ensuring sustainable development and mitigating consequences of fast economic growth. Institutions, ensuring sustainable development, may be defined as a set of rules, which effectively help and contribute to reaching ecologic, economic and social targets. In European community, an assembly of institutions, contributing to sustainable development, is characterized by the following:

- system orientation: institutions of sustainable development in agriculture are developing at the interface of economic, ecologic and social systems, empowered in more scaled systems;
- dynamic orientation: systems of decision making and policy designing are adaptive to changes and include training process;
- participants orientation: participants unification, their interaction, motivation and resources, preconditioning behavior patterns;
- resource orientation: consideration of the natural resources peculiarities and consequences of their use, such as exceptionality, competitiveness, specificity, complexity and uncertainty (FAO, 2003).

«Europeization» of agricultural and rural area policy, as well as administrative governance of rural development is based on making and implementing range of various laws and legal procedures, widespread in the EU. They represent distant prospects, which shall be implemented in case of Ukraine's accession to the EU.

However, it is now required to harmonize institutional systems towards implementation of European principles of sustainable development, as one right and safe direction of increasing agrarian production and its export potential.

The process of the «institutional Europeization» emphasizes importance of potential development on the local level. Structures of the lower level should have respective rights, obligations, possibilities and resources for creating political course regarding limitation of corporations' power and preservation and reproduction of bases of sustainable rural development. Possibilities of local authorities and state structures of local levels are very limited due to limitation of resources and powers. Significant capital investments in development of local potential of institutional changes are required, which shall cover:

- creation of local, regional and state institutions, which are involved in problems of rural development;
- availability of well prepared and rightly organized system of public governance on the local level;
- intensification of institutions of society as an active partner in solving socio-economic and ecologic development tasks for agriculture and rural areas.

In the context of shaping European institutional development these tasks may be solved successfully via creation of direct relations between the EU states and Ukraine within the framework of Institutional partnership programs to share knowledge between the politicians, scientists and practitioners on the local level for the purpose of learning common and different problems. Such sharing with scientific approaches and experience shall serve as an initiator of euro-oriented institutional transformations.

Conclusions

Notwithstanding incompleteness of institutional transformations in agrarian sector of Ukraine, current institutional environment is differs significantly from pre-reform owing to those steps, which were done towards creation of new institutions. Along with that degree of moving towards European-like institutional environment is not that one, which may be seen in the context of assessing in terms of formal characteristics of those or other institutions.

Methodological aspects of institutional transformation of agriculture and rural areas in EU are incorporated in the CAP and are intensified in the European integration project. For the entire period of the existence, CAP has undergone many changes and for the period of 2014-2020 transformed into multifunctional policy of sustainable development, which supports innovative rural development and market oriented agricultural production in Europe along with securing life-sustaining activity of rural communities, territories and ecosystems. Primary targets of the CAP remained the same. However, their essence has changed significantly; in particular sustainable development (combination of economic, social and ecologic targets) became major purpose of the EU CAP.

Trends of contemporary agrarian development in Ukraine prove that market possibilities to solve socio-economic and ecologic problems in rural area are limited. In the given context it is required to study which institutional structure and motivations should be created in order agricultural practice became socially and ecologically safe. Current system of agriculture and mechanisms, regulating agrarian sector, do not promote using methods of agriculture that shall preserve communities and ecosystems.This problem is very topical taking into consideration that major priority of agrarian system restructuring was and remains increase of economic efficiency of agrarian sector. Thus, it is required to review the role of the market in governing agrarian sector, which stimulates development of socially and ecologically unacceptable agricultural policy.

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COMPETITIVENESS OF AGRI-FOOD PRODUCTS ON EU INTRA AND EXTRA TRADE MARKETS

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Chapter 6

Competitiveness of the Romanian extra-European agri-food trade

Abstract: *Romania's accession to the EU meant a significant increase in both the volume and value of the Romanian agrifood trade, and a continuation and increase of the trade flows with the EU. On the other hand, although joining the Single Market meant the discontinuation of the free trade agreements that have been in force for the last 15 years with Republic of Moldova, Turkey, Israel, AELS etc., Romania kept its traditional extra-EU partners, under the new rules. Since the EU is the world largest agrifood products exporter, the present paper is analyzing the position of Romania among the other EU member countries in terms of values, quantities and directions. The competitiveness of the Romanian extra-community agrifood is analyzed as well, since it improved significantly for the last three years.*

Keywords: *agri-food trade, post-accession, extra-community trade*

Introduction

Romania has been, traditionally, and still is, an important producer and exporter of agrifood products, given its natural basic resources: one of the largest agricultural areas in the EU, good soil quality and temperate climate. Romania's accession to the EU and the enforcement of the CAP and Single Market rules resulted in new opportunities, priorities and orientations in the agrifood trade. Consequently, Romania performed better on the intra and extra-EU markets, and the agrifood trade increased significantly both in volume and value. The directions and the structure of the trade flows changed as well.

The term "competitiveness" is largely used in the economic literature, and its definition is varying widely. In a general EU definition (EU, 1999), "competitiveness" is "to be able to withstand market competition". At macroeconomic level, OECD defines competitiveness as "the degree to which [a nation] can, under free and fair market conditions, produce goods and services which meet the test of international markets, while simultaneously maintaining and expanding the real income of its people over the long term" (Thomson and Ward, 2005).

The present paper is analyzing the evolution of the Romanian extra-EU agrifood trade in the last decade, its position among the EU member countries, with a focus on the changes in the post-accession period in terms of values, quantities and directions of the trade flows.

The competitiveness of the Romanian extra-community agrifood is analyzed as well in terms of trade balances, concentration of product groups and share of processed versus primary agricultural products in exports and imports.

Methods and Data

The data used for the calculations in the present paper have been extracted from Eurostat database, in the Combined Nomenclature, at two-digit level of aggregation (chapters HS 01-24). Trade values are analyzed for 2002-2012, as well as the composition and ranking of export and import flows by main groups of agri-food products, export destinations and import origin.

There are many opinions on the way to separate as accurate as possible the large variety of agrifood products in raw (basic) agricultural products and processed agrifood products. The product grouping of Regmi et al. (2005) was the basis for the analysis, although in the present paper only two major groups have been separated: primary agricultural products and processed products. The breakdown to 2-digit level is unsatisfactory, since there are cases where primary agricultural products (specified by four-digit HS codes, such as 0407-bird eggs, 2401-tobacco etc.) are included statistically in two-digit HS chapters designing mostly processed products, or, on the contrary, processed pro-

ducts (such as 0710…0714-processed vegetables and 0811…0814-processed fruit) are included statistically in two-digit HS chapters designing mostly primary agricultural products. Therefore, the correct separation of the products required the analysis of trade data detailedat 4-digit level. All four-digit codes (184 positions) have been analyzed and separated, in order to go into the right product group.

Results and discussions

EU extra-community trade

Over the last twenty years, the EU has been the largest player in the global agrifood market (total trade calculated as the sum of export and import values). Nonetheless, the EU has shown a permanent deficit of its agrifood trade balance, ranging from 9 to 13% of its total agrifood trade.

Consecutive EU enlargements in 2004 and 2007 from 15 to 25, then to 27 Member States had a significant impact on overall EU trade. One cannot speak of an impact of the last enlargement (to EU-28), is far too early to be evaluated.

Although in absolute terms the EU agrifood international trade has increased, its share in the world markets declined due to several contradictory factors. The main one is the statistical separation of trade for the new Member States (NMS) (the total extra-EU trade is reduced by the value of EU-NMS trade, is but is increased by the value of trade between the NMS and third countries, and the NMS are adding the value of their trade with non-EU countries to the overall volume of extra-EU trade). Secondly, both the old Member States (OMS) and NMS have increased trade volumes in 2004-2007, amid the general period of economic expansion in Europe; then the continuous increasing trend in exports and imports after 2001 has temporarily reversed in 2008-2009 due to the financial turmoil in late 2008 and the economic crisis that followed.

After the two rounds of enlar gement, the extra-EU trade (both exports and imports) increased immediately (Figure 1). The same thing happened with the total agri-food trade deficit of the EU, as the cumulative extra-EU trade balances of the 10 then 12 NMS were negative. In 2008, the total value of EU27 the agrifood trade (export + import) reached a peak (EUR 149 billion EUR).

The economic crisis produced its effects upon trade as late as 2009, by a contraction of both exports (-8.5%), and imports (-11.1%) as compared to the previous year. Since 2010, the upward trend of the trade flows resumed, and in 2012 a new peak has been reached: a total agrifood trade value of EUR 228 billion, of which exports EUR 112 billion and imports EUR 116 billion. The trade deficit, which reached the highest value (EUR 28 billion) in 2008 (just before the crisis), diminished signnificantly, due to a higher (almost double) export growth rate (30.5% in 2012/2010) than the import growth rate (18.1%

in 2012/2010). Consequently, the agrifood trade deficit diminished 5 times: from EUR 23.7 billion (in 2007) down to EUR 4.5 billion (in 2012); as a result, the share of the deficit in the total trade value (export+import) decreased from 13.2% în 2008 down to 2.0% in 2012.

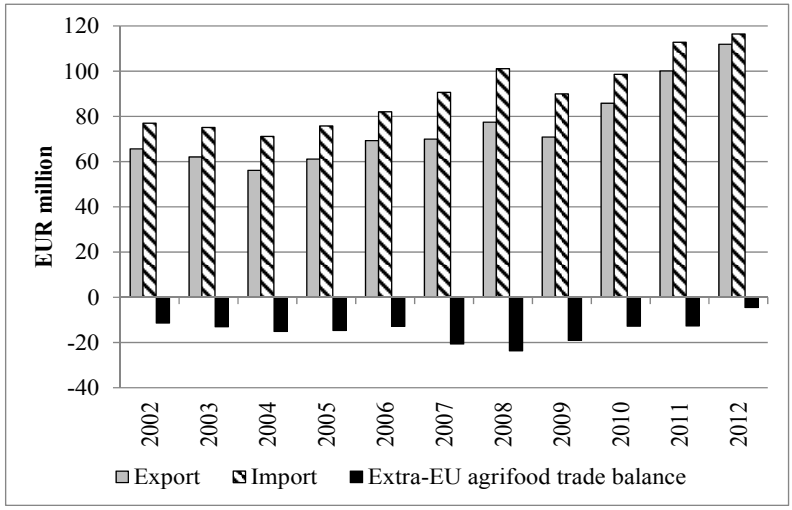

Figure 1: Extra-community EU27 trade in the decade of last two enlargements
Source: own calculations based on Eurostat data

Generally speaking, the two enlargement waves of 2004 and 2007 had eventually a positive ef fect upon the agrifood exports, imports and trade balance of the EU.

The increase in export value has been mainly the result of a significant larger volume of traded products, and to a far lesser extent the consequence of price variations. For most product chapters (HS 01-24), the volume indexes are higher than the price indexes, indicating an increase in the quantities of exported goods during the period 2010-2012 as compared to baseline year 2007. On the contrary, for imports, during 2010-2012, EU27 imported lower quantities of agrifood products, but at higher prices (such as for cereals and beverages).

Romanian total agrifood trade

Major changes occurred in the agricultural sector in the first decade of transition to a market economy in both the ownership and the management re - gime resulted in fracturing the food production chains and reducing the fluidity of the functioning of markets (Gavrilescu & Voicilas, 2014). The food industry has also faced problems due to privatization, interruptions of raw materials flows and dispersal of finished products flows, and, last but not least, severe problems of financing and capitalization. FDI started coming in

the agrifood processing sector after 2000, hence a supplementary time gap in the development of the new agrifood products chains. The penetration of large international retail companies on the Romanian market came a few years later than in other Central European countries (such as Poland, Hungary, Czech Republic, Slovakia), and the real fast development of large supermarkets and hypermarkets networks occurred after 2004. These networks have not found functional agrifood chains in the country able to provide fresh agricultural products and processed food products in the necessary quantities, at required quality and at the necessary pace, which is why they resorted to agrifood imports.

The economic growth achieved by Romania since 2001 resulted in an increased demand for food products, both in terms of quantity and quality. This extra demand faced a domestic supply deficit that could be met only through increasing agrifood imports.

The lifting of import bans since 1990, then the partial and finally the complete removal of import and export restrictions, together with the adoption of a moderate tariff regime after 1997 allowed the access of imported food products on the Romanian market. As a result, since 2000, one has witnessed a continuous and accelerated growth of agrifood products imports.

The overall result has been a steady growth in imports of agrifood products (intra + extra-EU) up to EUR 4.3 billion (in 2008), followed by a decline during the crisis (down to EUR 3.9 billion in 2009); then growth resumed at a slower pace, reaching EUR 4.8 billion in 2012.

The agrifood trade balance has always been negative after 1990, and the coverage of imports by exports was on average 34.3% in 2002-2007. The deficit increased massively in 2002-2007, reaching a historical maximum of EUR 2.2 billion in 2007 (Figure 2).

The proximity of the EU accession put more pressure on the Romanian agri-food producers, pushing for increased investments in the food processing sector, with both foreign and domestic capital, as well as for investments through pre- and post-accession investment programs (such as SAPARD and NPRD) in the basic agricultural sector. The result was a slow but continuous capitalisation in basic agricultural sector, and start of modernisation in the food processing sector, which, due to improved enterpreneurship and know-how, managed, on one hand, to regain (at a slow pace, though) the domestic agri-food markets, and on the other hand, to penetrate the Single Market while observing the quality and food safety requirements.

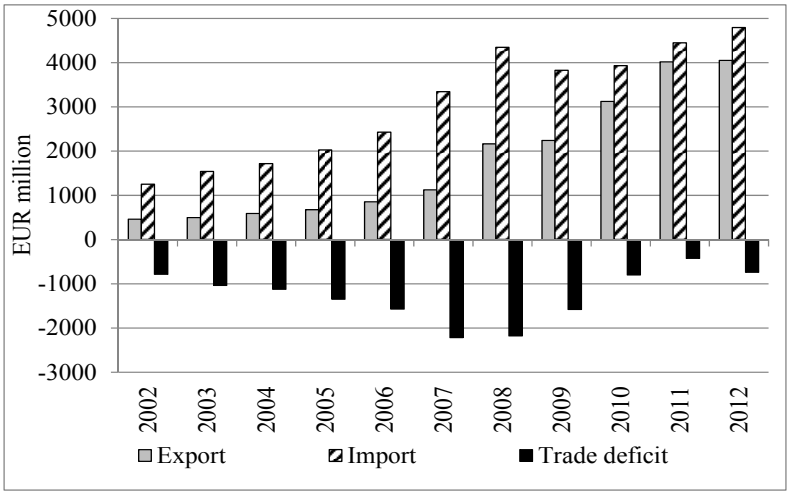

Figure 2. Romanian international agrifood trade (2002-2012)
Source: own calculations based on Eurostat data

EU accession meant for Romania, at least for the first two years, a considerable increase in the agrifood trade volume: in 2008 the amount had doubled as compared to 2006, the last year before accession. The economic crisis has resulted in a contraction of the total agrifood trade volume in 2009 (by 12%), after which the upward trend resumed.

One should note, however , despite the crisis, the steady upward trend in agrifood exports. Devaluation of the national currency was a factor favo - ring exports, as well as the free access to the EU Single Market. The Romanian exports of agrifood products increased spectacularly immediately after accession: after the first two years in the EU, exports had increased 2.5 times as compared to 2006 (the last year before accession), and after seven years, that is in 2013, exports had increased 6.2 times as compared to 2006.

Imports increased as well after accession, but at a rate somewhat lower than exports: in the first two years, imports have increased 1.79 times (2008/2006).

The general economic slowdown, accompanied by rising unemployment and reduced population's income has translated into a significant contraction of demand, reflected in a drastic reduction in the agrifood products imports. In 2009, imports decreased by 12% compared to 2008, after which the trend growth resumed, albeit at a slower pace than exports. Consequently , the export growth at a rate higher than that of imports resulted in a dramatic decrease in the agrifood trade deficit, from the peak of EUR 2.2 billion in 2007, down to only EUR 434 million in 2011, rising slightly in 2012 up to EUR 742 million.

Coverage of imports by exports has increased substantially since 2007, from 49.8% in 2008 up to 90.4% in 2011.

Romanian extra-EU agrifood trade

In the post-accession period, the Romanian agrifood trade shifted significantly to the EU: the extra-EU exports fell from 34% (of the total Romanian agrifood exports) in 2004 to 22% in 2009, but increased again to 30% in 2012, while extra-EU imports fell from 47% (of the total Romanian agrifood imports) in 2004 down to 18% in 2010, and increased again to 20% in 2012.

Trends in extra-EU trade show some similarities with the general agrifood trade, but are different from the intra-EU ones (Gavrilescu et al., 2012). Thus, extra-EU exports multiplied 4 times after accession (2012/2006), reaching a maximum in 2012 (EUR 1.23 billion), while the upward imports trend in the pre-accession years reversed after 2007, decreasing until 2010 to a minimum of EUR 720 million (down to 67% of the 2006 value), then climbing again until 2012 to EUR 954 million (Figure 3).

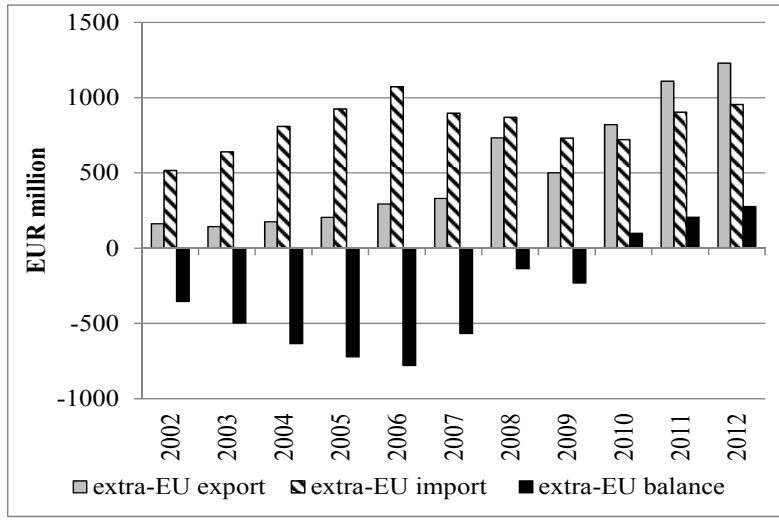

Figure 3. Romanian extra-EU agrifood trade (2002-2012)
Source: own calculations based on Eurostat data

As a result, the extra-EU agrifood trade deficit halved in just three years, from EUR 567 million in 2007 down to EUR 276 million in 2009, by the combined action of exports expansion and import contraction. The year 2010 stands out in that it is for the first time after 1989 that the extra-EU agrifood trade balance turned positive: exports exceeded imports (Figure 3), a trend that continued in 2011-2012.

The top destinations of the Romanian agrifood products exports to non-EU countries are rather variable, with one exception: Turkey. For the rest, exports are going mostly to Middle East countries, based on export yearly opportunities rather than on constant export markets (table 1).

Table 1. Top destinations of Romanian extra-EU agri-food exports and origins of imports

Rank	2003		2006		2010		2012	
	Country	**%**	**Country**	**%**	**Country**	**%**	**Country**	**%**
Destination of exports								
1	Croatia	18.1	Turkey	19.6	Turkey	17.3	Egypt	13.9
2	Turkey	16.0	Croatia	14.8	South Korea	10.6	Turkey	9.7
3	Syria	14.2	Pakistan	9.2	Syria	6.5	Saudi Arabia	7.9
4	Moldova	10.4	Moldova	6.4	Israel	5.5	Libya	7.4
5	Pakistan	7.9	Russia	5.2	Saudi Arabia	5.4	Iran	6.0
6	USA	4.5	Bosnia & Herzegovina	5.1	Philippines	4.9	South Korea	5.6
	Export concentration rate (CR6)	**71.1**	**Export concentration rate (CR6)**	**60.3**	**Export concentration rate (CR6)**	**50.1**	**Export concentration rate (CR6)**	**50.7**
Origin of imports								
1	Brazil	20.6	Brazil	25.3	Brazil	21.5	Brazil	28.2
2	USA	13.0	USA	12.6	Turkey	15.6	Turkey	11.5
3	Russia	9.3	Turkey	8.5	USA	6.8	USA	7.3
4	Turkey	7.5	Canada	7.6	China	6.7	Moldova	7.1
5	Canada	5.6	Moldova	5.3	Argentina	5.7	Zimbabwe	5.8
6	Moldova	5.5	Ecuador	5.0	Moldova	4.4	China	4.6
	Import concentration rate (CR6)	**61.5**	**Import concentration rate (CR6)**	**64.2**	**Import concentration rate (CR6)**	**60.6**	**Import concentration rate (CR6)**	**64.4**

Source: own calculations based on Eurostat data

In 2012, Romania exported agrifood products to Egypt (major cereals exports), Turkey, Saudi Arabia, Libya, Iran. These destinations accounted for 45% of the extra-EU exports, composed mainly of cereals and live animals.

The origin countries for the extra-EU imports have been rather constant both in pre- and post-accession period (table 1). Brazil is accounting for 21-28% of the total extra-EU imports (mainly sugar and coffee), while Turkey is the origin for 8-16% of the imports (mainly fresh vegetables and fruit). Before accession, Moldova has been the source for 4-7% of imports (miscellaneous edible preparations, wine and dairy products), but declined in share after 2007; lately imports from China increased up to 5% in 2012 (mainly canned vegetables and fruits). The top 6 origin countries accounted for 61-64% of the Romanian extra-EU agrifood imports.

Table 2 is showing the evolution of the Romanian extra-EU agrifood trade balance over the period 2002-2012, separated by the main product groups (in 2-digit Combined Nomenclature classification); the negative values are highlighted.

Table 2. Romanian extra-EU trade balance by product groups, 2002-2012

Product group CN2	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
01 - Live animals	+	+	+	+	+	+	+	+	+	+	+
02 - Meat	-	-	-	-	-	-	-	-	+	+	+
03 - Fish	-	-	-	-	-	-	-	-	-	-	-
04 - Milk & dairy prod.	-	+	+	-	-	+	+	+	+	+	+
05 - Other animal prod.	-	-	-	-	-	-	-	-	-	-	-
06 - Flowers, bulbs, trees	-	-	-	-	-	-	-	-	-	-	-
07 - Vegetables	-	-	-	-	-	-	-	-	-	-	-
08 - Fruit	-	-	-	-	-	-	-	-	-	-	-
09 - Coffee & tea	-	-	-	-	-	-	-	-	-	-	-
10 - Cereals	+	-	-	+	+	-	+	+	+	+	+
11 - Flour, malt, starch	-	+	+	-	-	-	+	+	+	+	+
12 - Oilseeds	-	-	-	+	+	+	+	+	+	+	+
13 - Lac, gums, resins	-	-	-	-	-	-	-	-	-	-	-
14 - Other vegetable prod.	+	-	-	-	-	-	-	-	-	-	-
15 - Fats & oils	-	-	+	+	-	-	-	-	-	-	-
16 - Meat & fish preparations	-	-	-	-	-	-	-	-	-	-	-
17 - Sugar	-	-	-	-	-	-	-	-	-	-	-
18 - Cocoa	-	-	-	-	-	-	+	+	+	+	+
19 - Bakery & pastry	+	+	+	-	-	-	-	-	-	-	-
20 - Veget. & fruit prepar.	-	-	-	-	-	-	-	-	-	-	-
21 - Edible preparations	-	-	-	-	-	-	-	-	-	-	-
22 - Beverages	+	+	+	+	-	-	+	+	+	+	+
23 - Animal feed	-	-	-	-	-	-	-	-	-	-	-
24 - Tobacco	-	-	-	-	-	-	-	-	-	-	-
Grand Total	-	-	-	-	-	-	-	-	+	+	+

Notes: for the product group (CN2) in the respective year: + denotes a positive balance, while – denotes a negative balance

Source: own calculations based on Eurostat data

Live animals have been the most successful product group in the Romanian extra-EU trade, showing constant positive trade balance. Next important product groups with positive balance and high values are cereals and oilseeds, but since their production is climate-dependent, there are years when domestic supply is insufficient for export, and imports are needed, thus turning the balance negative.

After EU accession, exports outside the EU of product groups such as 04-milk & dairy products, 11-flour, malt & starch and 22-beverages (mostly wine) be-

came positive in trade balance; although still low in value terms (less than EUR 10 million trade balance value), they are showing an upward trend since 2010.

The product composition of the extra-EU Romanian exports is unfortunately dominated by basic agricultural products with low value added: live animals, cereals, and oilseeds (table 3). Moreover, their combined share in the total extra-EU exports increased from 62% in 2003 to 83% in 2012. Exported processed products (such as wine, bakery & pastry products, dairy products) increased in absolute value over time, but their share is still very low.

Table 3. Top 10 products of Romanian extra-EU agrifood exports and imports

Rank	2003		2006		2010		2012	
	Product group	%	Product group	%	Product group	%	Product group	%
Exports								
1	01 - Live animals	36.0	12 - Oilseeds	22.9	10 - Cereals	55.7	10 - Cereals	61.9
2	12 - Oilseeds	20.1	01 - Live animals	20.8	12 - Oilseeds	16.3	01 - Live animals	13.9
3	22 - Beverages	8.5	10 - Cereals	20.8	01 - Live animals	8.3	12 - Oilseeds	7.2
4	08 - Fruit	7.4	15 - Fats & oils	6.9	24 - Tobacco	2.5	21 - Edible preparations	2.2
5	10 - Cereals	5.4	22 - Beverages	5.9	22 - Beverages	2.3	23 - Animal feed	2.2
6	15 - Fats & oils	5.3	08 - Fruit	4.5	08 - Fruit	2.0	24 - Tobacco	1.9
7	04 - Milk & dairy prod.	3.3	17 - Sugar	3.7	02 - Meat	2.0	22 - Beverages	1.8
8	19 - Bakery & pastry	3.0	23 - Animal feed	3.7	21 - Edible preparations	1.9	08 - Fruit	1.6
9	23 - Animal feed	2.8	24 - Tobacco	2.2	23 - Animal feed	1.6	19 - Bakery & pastry	1.5
10	20 - Vegetable & fruit prepar.	1.8	19 - Bakery & pastry	1.5	19 - Bakery & pastry	1.4	17 - Sugar	1.1
Imports								
1	10 - Cereals	18.1	02 - Meat	22.1	23 - Animal feed	16.4	17 - Sugar	23.4
2	17 - Sugar	15.0	24 - Tobacco	14.1	17 - Sugar	15.7	23 - Animal feed	18.6
3	24 - Tobacco	13.2	17 - Sugar	13.7	08 - Fruit	9.9	24 - Tobacco	10.2
4	08 - Fruit	8.5	08 - Fruit	11.2	07 - Vegetables	7.9	12 - Oilseeds	6.7
5	02 - Meat	7.8	09 - Coffee & tea	4.6	24 - Tobacco	7.4	08 - Fruit	5.3
6	09 - Coffee & tea	5.6	03 - Fish	4.2	21 - Edible preparations	6.4	21 - Edible preparations	5.2
7	12 - Oilseeds	4.6	20 - Vegetable & fruit prepar.	4.1	12 - Oilseeds	5.9	09 - Coffee & tea	5.0
8	15 - Fats & oils	4.2	21 - Edible preparations	3.8	09 - Coffee & tea	5.4	15 - Fats & oils	4.6
9	23 - Animal feed	3.9	15 - Fats & oils	3.3	15 - Fats & oils	5.0	07 - Vegetables	4.0
10	20 - Vegetable & fruit prepar.	3.7	07 - Vegetables	3.0	03 - Fish	4.0	05 - Other animal prod.	2.6

Source: own calculations based on Eurostat data

Sugar is the main import product, and its share increased after accession (from 14% in 2006 up to 23% in 2012). The development of animal husbandry farms pushed up the demand for animal feed (mostly soy cakes), resulting in significant increases in imports after accession: from 4% share in imports in 2003,

up to 19% in 2012. The share of fruit and vegetables coming from outside EU (mostly from Turkey), although still high (9.3% in 2012) decreased after accession, due to the shift to imports from intra-EU countries, and to the fact that these products (as all unprocessed agricultural products) are not included in the customs union with Turkey. Romania is net importer for meat, but after EU accession, almost all meat is imported from inside the EU.

Table 4 is showing the evolution of the Romanian agrifood trade balance, separated by the main product groups (in 2-digit CN classification), and ranked by the balance value and sign.

Table 4. Extra-EU agrifood trade balance, by product groups

Rank	2003		2006		2010		2012	
	Product group	EUR million	Product group	EUR million	Product group	EUR million	Product group	EUR million
Top product groups with positive trade balance								
1	01 - Live animals	50.99	01 - Live animals	60.97	10 - Cereals	445.99	10 - Cereals	739.59
2	22 - Beverages	7.13	10 - Cereals	38.65	12 - Oilseeds	91.13	01 - Live animals	171.24
3	04 - Milk & dairy prod.	3.12	12 - Oilseeds	35.55	01 - Live animals	67.42	12 - Oilseeds	24.23
4	19 - Bakery & pastry	1.81			22 - Beverages	8.07	04 - Milk & dairy prod.	8.26
5	11 - Flour, malt, starch	0.25			02 - Meat	6.95	11 - Flour, malt, starch	5.84
6					04 - Milk & dairy prod.	5.73	18 - Cocoa	5.52
7					11 - Flour, malt, starch	3.64	02 - Meat	4.78
8					18 - Cocoa	3.14	22 – Beverages	1.60
Top ten product groups with negative trade balance								
1	10 - Cereals	-108.14	02 - Meat	-235.84	23 - Animal feed	-105.10	17 - Sugar	-210.63
2	17 - Sugar	-95.14	24 - Tobacco	-145.51	17 - Sugar	-101.59	23 - Animal feed	-150.85
3	24 - Tobacco	-82.87	17 - Sugar	-136.00	08 - Fruit	-54.71	24 - Tobacco	-73.73
4	02 - Meat	-49.56	08 - Fruit	-106.39	07 - Vegetables	-54.40	09 - Coffee & tea	-45.60
5	08 - Fruit	-44.02	09 - Coffee & tea	-46.01	09 - Coffee & tea	-36.19	15 - Fats & oils	-38.88
6	09 - Coffee & tea	-35.06	03 - Fish	-45.26	24 - Tobacco	-32.54	07 - Vegetables	-35.88
7	21 - Edible preparations	-21.77	20 - Veget. & fruit prepar.	-41.83	15 - Fats & oils	-31.10	08 - Fruit	-31.02
8	20 - Veget. & fruit prepar.	-21.28	21 - Edible preparations	-37.56	21 - Edible preparations	-30.62	05 - Other animal prod.	-21.90
9	23 - Animal feed	-20.91	07 - Vegetables	-30.02	03 - Fish	-27.74	21 - Edible preparations	-21.74
10	03 - Fish	-20.62	05 - Other animal prod.	-16.91	05 - Other animal prod.	-22.48	20 - Veget. & fruit prepar.	-20.02
	Total balance	**-496.07**	**Total balance**	**-779.25**	**Total balance**	**99.94**	**Total balance**	**276.23**

Source: own calculations based on Eurostat data

In the pre-accession period, very few product groups showed a positive balance: 5 product groups in 2003, accounting together EUR 63 million (while the total extra-EU trade balance was EUR -496 million). In 2006, last year before accession, only 3 product groups were showing a positive trade balance, accounting together EUR 135 million (while the total extra-EU trade balance was EUR -779 million).

In 2010, the total extra-EU trade balance turned positive (EUR +100 million). Still, only 8 product groups out of 24 showed positive balance. Three groups (cereals, oilseeds and live animals) are representing 96% of all products with positive balance, indicating a very narrow range of products competitive on international markets.

Basic agricultural products versus processed products in the Romanian extra-EU agrifood trade

Although the Romanian agrifood trade (both general and extra-EU) expanded spectacularly after EU accession, trade in high value agrifood products (particularly processed products) is still low . Agrifood trade comprises traditional basic agricultural products (bulk commodities), such as cereals, oilseeds, fresh fruit and vegetables, coffee, eggs; semi-processed (or primary processed products) such as meat, milk, flour, oils; and processed products (or secondary processed products) such as edible preparations (canned soups, breakfast cereals), prepared meats (sausages), beverages, sugar and confectionery, canned fruit and vegetables, etc.

For the purpose of the present study , primary and secondary processed products have been included in a single group, as opposed to basic (raw) agricultural products.

The results of the calculations show that the basic (raw) agricultural products are predominant in the Romanian extra-EU exports, and their share increased after accession up to about 85% (Figure 4). Since almost all the products included in this grouping are crop products, the climatic dependence is rather high, rendering the exports very vulnerable to climatic hazards. The low share of processed products in exports shows the incapacity of the Romanian food processing sector to compete on the international markets.

The share of the processed products in the Romanian extra-EU agrifood imports shows an increased as well after accession (from 58% in 2007 up to 82% in 2012). It merely shows the dramatic degree of dependence on imports of specific products supply (such as sugar, animal feed, and edible preparations). For sugar, as staple food, the share of extra-EU imports increased from 50% to 61% after accession.

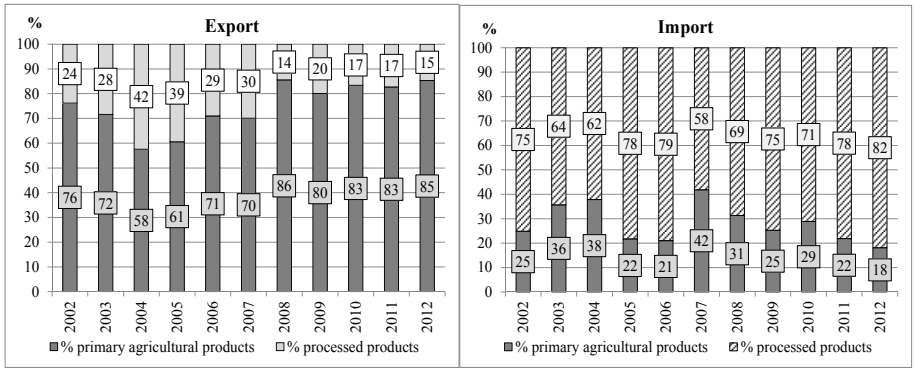

Figure 4. Share of primary (raw) agricultural products and processed products in the Romanian extra-EU agrifood trade

Source: own calculations based on Eurostat data

Conclusions

The EU has been the lar gest player in the global agrifood market for the last twenty years, and the last enlargement waves (from 15 member States to 25 and then 27) consolidated this leading position. All in all, these enlargements generated positive effects in terms of the EU agrifood trade, and contributed to a sharp diminishing of the agrifood trade deficit after 2010.

The disfunctionalities that cumulated during the last two decades within the Romanian agrifood sector resulted in an overall low competitiveness of the agrifood products, which encounter on the domestic and international markets competition from similar foreign products with lower prices. The lack of domestic supply organization, mostly in the fresh fruit and vegetables, as well as in the meat and dairy sectors in modern and functional supply chains are among the factors favoring extensive imports of such products, despite the fact that the domestic supply is quite high and of good quality (as it happened in 2011).

The EU accession of Romania resulted in significant increase in both the overall and extra-EU agrifood trade flows: in six years since accession, total exports increased 2.5 times, while extra-EU exports multiplied 4.2 times. Total imports increased 2 times, while extra-EU imports diminished by 10%. Consequently, the overall agrifood trade balance diminished by half, while the extra-EU trade balance reversed from negative to positive since 2010.

The Romanian extra-European agrifood trade flows are relatively different from those of the EU in terms of destination countries for exports and origin countries for imports. The top 6 destinations for the Romanian extra-EU exports are opportunistic, they vary yearly (with the single exception of Turkey which remained the leading destination country), making the position ofthese

exports rather fragile on international markets, unlike the top 6 destinations of the EU27 extra-EU exports, which remained rather constant in rank and share for the last decade.

The top origin countries for the Romanian extra-EU imports are far more constant and concentrated, denoting well established trade relations and rather constant product composition, with Brazil and Turkey being in the leading positions.

The breakdown of the extra-EU trade by HS 2digit chapters shows that there are quite few product groups showing positive trade balance. Among them, with the notable exception of live animals, the remaining products are mostly crop products, thus vulnerable to weather hazards. Only few processed products showed positive balances since 2010; nevertheless, their share and value is increasing.

The product composition of extra-EU exports is heavily dominated by live animals, cereals and oilseeds; their combined share increased by 20% over the last 10 years, up to more than 80% in 2012. The extra-EU imports are also highly concentrated: more than half are composed of just four products: sugar, animal feed, fruit and vegetables, but their share didn't change much over the years.

The share of primary (raw) agricultural products in the Romanian extra-EU exports is high, and it increased even more after accession, up to 85%. In the extra-EU imports, the large share of processed products (even for a staple food as sugar) show the heavy dependence on imports, which is rather disquieting, and is pointing at the need for increasing competitivenes s of the Romanian agrifood products on both domestic and international markets.

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Chapter 7

Agro-food trade flows and economic integration in the European Union

Abstract: *After approval of the Declaration of Independence (August 27, 1991), Moldova strives to strengthen its place among the democratic nations of the world and to reform the national economy. The appearance of the new socio-economic system open to the world, the triggering process to join the own efforts with the international community has produced arguably significant changes not only in nature, but also in the background, in the trade flows of agricultural products.*
Naturally, the trade of food products must be directed towards markets ensuring the free movement of products through progressive abolition of restrictions on trade between countries and/or groups of countries that head for balance the interests of producers and consumers.
In the article the authors reflect on the market of food products, study the import and export of food products, search for the practice operation of the CIS market and Common Market, pursuant to which the authors come up with some proposals that would change the situation on the domestic food market for the better, and would accelerate the integration of the national market of agricultural goods in the EU Common Market.

Keywords: *agriculture, market, import, export, politics, reforms, mechanisms, efficiency.*

Introduction

For all the countries, including the Republic of Moldova, agriculture was and remains the support of human existence and, therefore, is the most powerful factor in harmonizing the balance of economic development. The overall development of agriculture is the result of a complex political, legal and economic factors, among which, in the conditions of the economy based on market relations, are highlighted the trade stands. The purpose of the investigation is the study of evolution, trends and structural changes in the trade of agricultural goods of our country, the factors that cause them and formulation of some proposals that would make them be more effective.

Knowledge level of the problem

Aspects regarding the study of food products market can be found in natio - nal and interna tional research. Still, even if this problem has been studied, discussed at various official meetings in our country, addressed at scientific sessions, presented in various national and international publications, this study remains current and important for our country which follows a misty and difficult way to economic reformation of the national economy.

Material and method

From the materials used in the research are national and international legal acts, policies and mechanisms on food import and export of goods produced and applied by countries with prosperous economy, publications specific to the theme that have helped us to understand and explain the phenomena taking place in trade with agricultural goods. The study of statistical informationon agricultural goods market has provided us relevant meanings and explanations on the evolution of import and export on which proposals are made for agricultural goods to be more competitive and trade flows more efficient. In the research were applied specific methods and techniques of economic investigations.

Results and meditations

Agriculture in national market

The national economy is characterized by the increasing of gross domestic product (GDP) at current prices, from about 19 in 2001 to 82.17 billion lei in 2011, or by 4.3 times. But GDP in comparable prices for the reference years increased only by 1.6 times. The GDP in current prices per capita increased from 5.25 thousands lei in 2001 to 23.08 thousands lei in 2011, or by 4.4 times.

Major changes occurred in contributing to the creationof branches of national economy GDP (Table 1). If in 2001, dominated the so-called other activities which include provision of services (46.9%) followed by industry (18.7%),

trade and net taxes on products (by 12.0% each), then in 2011 remain dominant the services (31.7%), but are followed by net taxes on products (17.0%), industry (13.3%), trade (13.3%).

Table 1. Evolution of GDP by industry formation, %

Economic branch	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Agriculture	22,4	21.0	18,3	18,2	18,4	15.1	10.0	8.9	8.4	12.0	12.3
Industry	18,7	17,3	17,6	16,4	15,9	14.3	14.2	13.9	13.0	13.3	13.7
Constructions	3.1	3.0	2.9	3.4	3.4	4.0	4.8	4.9	3.4	3.4	3.4
Trade	12.0	11.1	10.8	10.6	10.4	11.5	12.6	13.0	13.0	12.8	13.3
Transports and communications	10.4	10.0	10.8	11.8	12.2	11.8	12.3	12.2	12.3	11.3	10.7
Other activities	23.7	26.9	27.1	27.7	27.8	29.4	31.5	31.7	35.6	32.7	31.7
Services of financial intermediaries	-2.3	-2.0	-2,3	-2.3	-2.0	-2.5	-2.3	-2.1	-1.7	-2.1	-2.
Net taxes on products	12.0	12,7	14,8	14,5	14,3	16.6	16.9	17.7	16.0	16.6	17.0
Nominal GDP	100	100	100	100	100	100	100	100	100	100	100

Source: elaborated by the authors based on the statistical yearbooks of Moldova

Although agriculture's contribution to gross domestic product of our country (Table 2) is reduced from 22.4% in 2001 to 12.3% in 2011, it remains extremely important to our economy.

Table 2. Agricultural production, billion lei

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total	8.65	9.47	10.35	11.82	12.69	13.73	12.83	16.50	13.30	19.87	22.12
of which - vegetable	5.73	6.30	7.09	7.90	8.45	9.08	7.94	10.80	7.86	13.62	15.50
- animal	2.65	2.87	2.94	3.52	3.85	4.28	4.51	5.52	4.99	5.79	6.12
- services	0.26	0.31	0.33	0.39	0.39	0.38	0.38	0.38	0.45	0.47	0.49
the level of production profitability - vegetable %	19.2	22.9	29.8	24.8	17.1	17.1	23.1	27.9	5.2	43.2	-
- animal %	9.4	1.1	-8.6	7.4	25.0	20.1	-3.0	18.4	21.4	20.7	-

Source: elaborated by the authors based on the statistical yearbooks of Moldova

The total of agricultural production at current prices (Table 2) increased from 8.65 billion lei in 2001 to 22.12 billion lei in 2011 or by 2.56 times. This growth is definitely due to the price. If the total of agricultural production at current prices increased from 10.35 billion lei in 2003 to 19.87 billion lei in 2010 by 1.9 times then in the comparable prices of 2005 increased to 10.18 billion lei in 2003 to 12.15 billion lei in 2010 or by 1.2 times.

In the total of agricultural production marked with 66.2% in 2001 and 70.0% in 2011, dominates vegetable production. In principle, this situation is due to

the level of sold production profitability which for the vegetable production exceeded the animal production except for the years 2005, 2006 and 2009. Moreover, animal/livestock production had losses in 2003 (-8.6%) and in 2007 (-3.0%).

It is growing the share of private sector in national agriculture. Although the global agricultural production obtained in the private sector in comparable prices of 2005, ranges from 9.43 billion lei in 2007 and 12.32 in 2008 (Table 3) it definitely dominates against the one gained in the public sector. If in 2008, the global agricultural production obtained in the private sector exceeds the public sector about 9 times, then in 2009 – by 18.1 times.

Table 3. Global agricultural production by ownership, in comparable prices of 2005, billion lei

	2003	2004	2005	2006	2007	2008	2009	2010
Total	10.18	12.30	12.40	12.27	9.43	12.46	11.26	12.15
Including: - public	0.069	0.139	0.117	0.106	0.075	0.137	0.062	0.078
- private	10.11	12.16	12.28	12.16	9.36	12.32	11.20	12.07
Of which: - collective	2.40	3.72	3.51	3.36	2.59	4.31	3.37	3.81
of households	7.71	8.44	8.78	8.80	6.77	8.01	7.82	8.25

Source: elaborated by the authors based on the statistical yearbooks of Moldova

In the years 2003 -2010 two-thirds of the global agricultural production obtained in the private sector it is of the households. If in 2003 the production in households was 76.24%, in 2010 - it is reduced to 68.4 percent of private sector production.

The agricultural production structure on branches (Table 4) did not suffer major change. Over the years the share of vegetable production is reduced from 70% in 2001 to 66.2% in 2010. Share sprouts cereal crops to 9.5% in 2007 to 33 percent in 2004, the grapes - from 8% in 2001 to 19.4 percent in 2007.

Table 4. Structure of Agricultural production in all categories of households,%

Indicators	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total	100	100	100	100	100	100	100	100	100	100
of which: vegetable production	70	70	67	71	68.9	67.3	58.1	74.3	68.1	66.2
Including cereal crops	32	32	20	33	22.9	18.4	9.5	24.6	18.4	18.8
- sugar beet	3	3	2	2	2.6	3.	2.1	2.5	1.0	2.3
- tobacco	2	1	1	1	0.5	0.4	0.4	0.3	0.4	0.6
- sunflower	4	5	7	6	6.3	7.2	3.8	6.9	5.9	7.3
- vegetables and melons	6	6	6	4	7.3	9.3	6.2	6.0	79	7.4
- fruits and berries	4	4	9	5	4.4	3.9	4.0	4.2	4.6	3.9
- grapes	8	10	12	10	12.8	11.6	19.4	15.	18.7	12.1
- animal production	30	30	33	29	31.1	32.7	41.9	25.7	31.9	33.8
Including: - milk	12	12	14	12	10.9	10.6	13.3	9.1	10.7	10.2

Source: elaborated by the authors based on the statistical yearbooks of Moldova

The current situation in the national agriculture is influenced considerably by the market.

National market for food products

In all countries, usually, food production is addressed, primarily, to the domestic market. If the value of retail sales (Table 5) through the national commercial units increases from 2.76 billion lei in 1995 to 33.81 billion lei in 2011 or 12.25 times, then the value of food products retailed in those years increased only 8 times.

Table 5. Retail sales value in the national commercial units

	1995	2000	2005	2006	2007	2008	2009	2010	2011
Total, billion lei	2.76	6.01	11.03	13.62	16.97	21.39	19.96	25.10	33.81
Including: Food products	1.27	2.74	3.61	4.29	5.49	7.09	7.06	8.05	10.17
% of total	46.2	45.6	32.7	31.5	32.5	33.2	35.4	32.1	28.9
From which:, fresh vegetables and fruits	-	-	0.9	0.7	0.9	1.0	1.3	1.4	1.5
Meat and derivates	8.5	7.0	5.2	4.7	4.4	5.2	6.1	4.9	4.0
Bread, pastry and confectionery	10.6	6.0	6.3	5.9	6.2	6.3	6.4	5.9	5.0
Beverages	7.4	7.4	9.2	9.3	9.1	8.7	9.3	8.0	6.8
Other food products	5.3	6.0	9.6	9.5	10.5	10.4	10.7	10.3	9.8

Source: elaborated by the authors based on the statistical yearbooks of Moldova

The share of food products in the total of the retail sold products decreased from 42.6% in 1995 to 28.9% in 2011, or by 17.3 percentage points. Moreover, the structure of the demand has changed as well.

If in 1995 in the structure of retail food products sold through commercial units dominated the bread and pastries and confectionery (10.6%) followed by meat and meat products (8.5%) and alcoholic beverages (7.4%), then in 2011 structurally dominated alcoholic beverages (6.8%), followed by bread, pastry and confectionery (5%) and meat and meat products (4.0%), which is extremely dangerous for any human being.

In 1990 were sold 88% of harvested fruits and public procurement formed 65%. In 1999 were sold 31.6% of harvested fruits, including 29% that were purchased by the state. The same trend was characteristic for vegetable market development.

Over the last decade the retail value of potatoes, fresh fruit and vegetables has increased from 97.1 million lei in 2005 (Table 6) to 351.6 million lei in 2010 or by 3.7 times, whilst the fruit and vegetable juices rose modestly from 62.4 to 160.3 million lei or by 2.6 times.

Table 6. Trading fruit and vegetables on domestic market

	2000	2005	2006	2007	2008	2009	2010
The value of retail sales, million lei							
Potatoes, fresh fruit and vegetables	56.8	97.1	100.0	147.8	206.9	246.9	361.6
Fruit and vegetable juices	-	62.4	80.5	119.8	158.2	163.8	160.3
The sale by agricultural enterprises, thousand tones							
Fruits and berries	113.1	182.7	131.5	146.1	182.3	135.1	131.9
Including: processing units	26.1	68.9	49.8	65.0	82.0	42.5	31.1
- by other trade means	87.0	113.8	81.7	81.1	100.3	92.6	100.8
Vegetables	63.0	44.4	51.8	30.8	45.6	36.0	36.9
Including: processing units	14.6	12.3	20.9	14.6	22.1	13.7	14.6
- by other trade means	48.4	32.1	30.9	16.2	23.5	22.3	22.3

Source: elaborated by the authors based on the statistical yearbooks of Moldova

In 2000 the agricultural enterprises traded 113.1 thousand tons of fruits and berries, which form 89.6% of those harvested in these companies, increasing sales by 131.9 thousand tons in 2010, or by 16.6 percent. During these ten years the selling of fruit and vegetables dominated the non-processing units. So, fruits and berries sold to the processing units in 2000 formed 23.1% and in 2010 - 23.6 percent, vegetables – i.e. 23.2% and 39.5 percent.

The domestic demand of food products in our country is limited by approximately 3.6 million consumers and the average monthly disposable incomes (Table 7) which increased from 185.8 lei in 2000 to 586.6 lei in 2005, or by 3.6 times and to 1444.7 lei in 2011 or by 2.54 times compared with 2005. The monthly average pension basically has the same behavior.

Table 7. Main indicators which characterize the population's capacity of buying

	2000	2005	2006	2007	2008	2009	2010	2011
Disposable incomes, lei	185.8	568.6	839.6	1018.7	1188.6	1166.1	1273.7	1444.7
Average monthly pension, lei	85.1	383.2	442.3	548.3	646.4	775.5	810.9	874.1
Minimum subsistence level, (monthly average/person), lei	-	766.1	935.1	1099.4	1368.1	1187.8	1373.4	1503.0
Minimum subsistence in % against: - disposable income	-	74.2	89.8	92.7	86.9	98.2	92.7	96.1
- average monthly pension	-	50.0	47.3	49.9	47.2	65.3	59.0	58.2

Source: elaborated by the authors based on the statistical yearbooks of Moldova

Given that the average monthly value of the minimum subsistence level per person is growing from 766.1 lei in 2005 to 1503.0 lei in 2011 or about 2 times, the monthly average disposable income of the population doesn't cover the minimum subsistence average level, even if their report rose from 51.4% in 2001 to 74.2% in 2005 and to 96.1% in 2011. Only 26.2% of the population's total, inclusively 13.4% in rural areas, in 2011 had incomes which exceeded the disposable average level.

Therefore, the production obtained in the national economy exceeds the domestic market demand and our country is doomed to commercial relations with other countries and/or groups of countries.

Export and import of the food products

The total export increased from 471.5 mil USD in 2011 in 2000 to 2216.8 mil USD in 2011 (Table 8) or by 4.7 times, then the food products export, in the specified years rose only by 3.15 times.

Table 8. Exports by sections, mln USD

	2000	2005	2006	2007	2008	2009	2010	2011
Total export	471.5	1091.2	1051.6	1341.8	1591.2	1287.5	1541.5	2216.8
Including agro-food products	291.0	582.9	464.0	533.8	595.0	609.2	732.2	917.1
From which: animals and animal products	22.8	17.2	16.2	13.6	10.1	9.1	27.0	38.0
Vegetable products	65.9	131.9	136.5	162.9	210.1	268.4	340.7	471.0
Fats and oils	3.9	37.8	34.9	55.3	62.9	50.7	47.6	77.5
Food products, alcoholic beverages and soft drinks	198.4	396.0	276.4	276.0	311.9	281.0	316.9	330.6

Source: elaborated by the authors based on the statistical yearbooks of Moldova

The share of originating agro-food products in total export decreased from 61.72% in 2000 to 41.37% in 2011, or with 20.35 percentage points.

Structurally, there were made changes in the export of agricultural products in the analysed years. If in 2000 categorically (by 68.2%) prevailed food products, alcoholic and soft drinks, followed by vegetable products (22.6%), animals and animal products (7.8%), then in 2011 the largest share (51.4%) had vegetable products, followed by food products, alcoholic and soft drinks (36.0%), fats and oils (8.5%).

Total import increased from 776.4 mil USD in 2000 to 5191.3 mil USD (Table 9) or by 6.7 times.

With tempos slightly lower (6.3 times) in the years of analysis increased the import of food products, which caused reduction of agro-food products originating in total imports from 14.1% in 2000 to 13.2% in 2011.

The import's structure of these products didn't suffer any major changes. Therefore, both in 2000 (with 65.0%) and in 2011 (with 51.7%) dominated the import of food products, alcoholic and soft drinks, followed by vegetable products (i.e. by 23.1% and 28.9%) and animals and animal products (respectively 9.8% and 15.7%).

Table 9. Imports by sections, mil USD

	2000	2005	2006	2007	2008	2009	2010	2011
Total import	776.4	2292.3	2696.2	3689.9	4898.8	3278.3	3855.3	5191.3
Including agro-food products	109.6	279.6	315.6	466.0	631.3	513.7	591.4	687.8
From which: animals and animal products	10.7	57.2	51.9	61.7	100.3	75.3	94.7	107.8
Vegetable products	25.3	65.0	72.8	150.4	166.7	132.6	168.8	199.1
Fats and oils	2.4	9.9	11.1	16.0	20.9	16.1	19.3	25.1
Food products and beverages	71.2	147.5	179.8	237.9	343.4	289.7	308.6	355.8

Source: elaborated by the authors based on the statistical yearbooks of Moldova

Both for the national economy and for the agro-food sector of any state, including our country, extremely important is to be ensured a balance between import and export.

Covering degree of total imports with total exports (Table 5) in 2000 made 60.7%, decreasing to 47.6% in 2005 and 42.7% in 2011.

Table 10. Covering degree of imports by exports, %

	2000	2005	2006	2007	2008	2009	2010	2011
Total	60.7	47.6	39.0	36.3	32.5	39.1	40.0	42.7
Including agro-food products	265.5	208.5	147.0	114.5	94.2	118.6	123.8	133.3
From which: animals and animal products	213.1	30.1	31.2	22.0	10.1	6.8	28.5	35.2
Vegetable products	260.5	202.9	187.5	108.3	126.0	202.4	201.8	236.6
Fats and oils	162.5	381.8	314.4	345.6	300.9	314.9	246.6	308.8
Food products and beverages	278.6	268.5	153.7	116.0	90.8	97.0	102.7	92.9

Source: elaborated by the authors based on the statistical yearbooks of Moldova

Even if exporting food products, in the reference years, exceeds their import, the coverage degree of imports by exports of food products reduces from 265.5% in 2000 to 208.5% in 2005 and 133.3% in 2011.

It is significant that in our country, which is mainly agro-economic with a significant mainly agro-economy, with a considerable share of food, beverages and spirits coverage of imports by exports shrinks them from 278.6% in 2000 to 92.9% in 2011, Republic of Moldova has reached to import more food, alcoholic and soft drinks than it exports.

The integration vector of the national economy, declared by the public authorities and accepted by the majority of the population of our country is the European Union.

European Union: an important actor/a major player in the global market

The European Union has been and remains an important actor/a major player on the world market and is of a main interest to us. Naturally, firstly we need to know the trade policies of the EU and to adjust the national trade policy to the community requirements..

The Treaty of Rome states "common commercial policy" that limits, in fact, tariffs, agricultural duties and anti-dumping duties. The principle governing the EC trade policy after the Maastricht Treaty is that of an "open market economy with free competition" (Article 4).

Even in such conditions the Common Market tends to exclude any discri - mination between producers or consumers within the Union and elaborates mechanisms that are designed to efficientize the extra community relations. Thus, the Regulation (EC) no. 178/2002 of the European Parliament and of the Council since 28 January 2002 provides the establishment of the European Food Safety Authority to develop the requirements, principles and procedures regarding the commercialization of food products.

Currently EU trade policy is and tends to be focused in the future more and more on the removing of barriers, including the non-tarif f barriers in tradeway, but global competition is strong, and the European positions tended to regress in the benefit of more aggressive players.

According to Article 207 of the consolidated version of the Treaty on the Functioning of the European Union's common commercial policy shall be based on uniform principles, particularly in regard to changes in tariff rates, the conclusion of tariff and trade agreements relating to trade in goods and services and the commercial aspects of intellectual property , investment foreign direct uniformity in measures of liberalization, export policy and measures to protect trade such as those to be taken in the event of dumping or subsidies.

Competition rules under Article 42 of the consolidated version of the Treaty on European Union shall apply to production and trade of agricultural products only to the extent determined by the law approved by the European Parliament and the Council under the procedure laid down in paragraphs 2 and 3 of Article 43.

Pursuant to Article 44 “in case, if in a member state, a product is subject to a national market organization or to internal rules having equivalent effect which af fects the competitive position of similar production in another member state, the member states applying countervailing duty on imports of this product coming of the member state where such orga-

nization or rules exist, unless that state applies a countervailing charge on export."

Another major task of the current EU trade policy is consumer 's protection. In accordance with Article 169 of the consolidated version of the Treaty of Lisbon, the Union shall contribute to protecting the health , safety and economic interests of consumers as well as to promoting their right to information, education and organization.

Obviously, it is necessary to know as well the extra community trade in order to acquaint ourselves with what place our country would align the common market. The community extra exports share in total of EU corresponding flows increased from 32% in 2000 to almost 36% in 2011 and imports and from 37% to 39%.

Extra EU exports in 2011 dominated (80% of their share) the processed products enrolling on a downward path in the latest years. In the extra EU imports the processed products had a share of about 56% of the extra community imports. In 2011 the EU had recorded positive trade balances for 14 groups of products and negative balances for 7 groups of the combined nomenclature, which generated a deficit of about 160 billion Euro.

Agricultural products imported from the European Union countries (Table 11) range from 78712 million Euro in 2007 to 90224 million Euro in 2008, and their export increased from about 78031 million Euro in 2007 and reached a value of more than 95 billion Euro in 2010.

If in 2007 the export of food products in the European Union yields insignificantly to the import with 681 million Euro (0.9% of export) and then in 2010 export exceeds food products import from the EU memb er states with little more than 7.7 billion Euro or 8.1% of export.

Import exceeds export in Belgium, Cyprus, Elada/Greece, Germany, Netherlands, United Kingdom, Portugal, Romania and others. Export is higher in relation to the importation into Austria, Denmark, France, Spain, Hungary and other EU countries.

The final products represent 64 percent of this volume, first being placed spirits and wine products (16%). Currently, agricultural exports are almost all without refunds (385 million Euro in 2010 compared to over 6000 million Euro in 2000).

Table 11. Extra EU Trade, mln Euro

	Import				Export			
	2007	2008	2009	2010	2007	2008	2009	2010
EU– 27	78712	90224	79373	87632	78031	84997	78460	95361
Austria	1269	1334	1255	1393	1859	1916	1690	1911
Belgium	5704	6584	5974	6110	3787	4254	3496	4152
Bulgaria	456	611	570	618	614	1121	873	1281
Czech	347	399	339	398	404	447	409	448
Cyprus	164	265	183	219	53	59	57	69
Denmark	1519	1728	1364	1559	3901	4192	3856	4920
Elada/Greece	7410	8449	6395	7010	4856	5274	4821	5979
Estonia	78	85	78	70	230	207	149	225
Finland	451	544	602	761	745	814	710	1039
France	804	678	706	761	4361	3973	3835	4549
Germany	12417	13964	12399	14152	9200	11163	10668	12523
Ireland	1379	1619	1302	1404	1282	1549	1555	1849
Italy	7871	8913	8001	8785	7496	8299	7674	8843
Latvia	245	339	265	282	694	1094	817	1119
Lithuania	151	186	137	132	244	420	380	483
Luxembourg	58	51	63	89	13	13	12	17
Malta	57	63	44	44	37	46	51	61
Great Britain	11462	11739	10839	11691	5771	5746	5441	6709
Netherlands	14111	17559	15761	17413	10920	12048	11530	13419
Poland	1568	1761	1490	1720	2139	2458	2448	3049
Portugal	1442	1742	1219	1404	863	1016	963	1109
Romania	926	1121	980	1125	440	899	695	1115
Slovakia	92	94	96	129	135	179	160	224
Slovenia	507	535	579	709	264	346	301	351
Spain	6547	8024	7167	7736	14928	14085	13144	16553
Sweden	1291	1443	1337	1513	1323	1481	1265	1505
Hungary	384	395	267	403	1471	1898	1510	1859

Source: elaborated by the authors based on the Eurostat (online data code: aact_eaa01)

Trading relations of Moldova

During the years our country's trade has suffered sizable changes. Thus, the export to CIS increased from $ 543.1 million in 1996 (Table 12) to $ 919.3 million in 2011 or by 1.69 times. However, the share of the export from CIS is reduced from 68.3% of total exports in 1996 to 41.47% in 2011. In the respective years the export of national goods in the EU-27 has increased from $ 78.1 million to $ 1083.0 million or about 13.9 times, while their share in total exports increased from 9.8% in 1996 to 48.8%.

The import of goods from the CIS increased from $ 652.7 million in 1996 to $ 1713.4 million in 2011 and by 2.62 times, while their share in the total import decreased from 60.86% in 1996 to 33.0% in 2011. Imports of goods from our country in the EU-27 increased from $ 177.2 million in 1996 to $ 2256.3 million in 2011 or 12.7 times, while their share in total imports increased from 16.5% in 1996 to 43.5% in 2011.

Table 12. Foreign trade, million $

	1996	2000	2005	2006	2007	2008	2009	2010	2011
Total - Export	795.0	471.5	1090.9	1050.4	1340.0	1591.1	1283.0	1541.5	2216.8
- Import	1072.3	776.4	2292.3	2693.2	3689.5	4898.8	3278.3	3855.3	5191.3
- Trade balance	-277.3	-304.9	-1201.4	-1642.8	-2349.5	-3307.6	-1995.3	-2313.8	-2974.5
Including: CIS - Export	543.1	276.1	551.2	423.6	548.9	623.0	490.4	624.0	919.3
- Import	652.7	259.8	905.2	1020.8	1333.7	1737.3	1141.8	1256.9	1713.4
- Trade balance	-109.6	16.3	-354.0	-597.1	-784.8	-1114.3	-651.4	-632.8	-794.2
U E - 27 – Export	78.1	102.2	443.2	536.9	678.9	820.1	667.3	728.9	1083.0
- Import	177.2	226.0	1038.8	1218.5	1681.0	2103.5	1421.2	1704.2	2256.3
Trade balance	-99.1	-123.8	-595.6	-681.6	-1002.0	-1285.2	-753.8	-975.3	-1173.3

Source: elaborated by the authors based on the statistical yearbooks of Moldova

A great interest to us is the geography of trade with in agricultural products. The amount of fruit and vegetables exported to CIS countries increased from $ 33.3 million in 2001 (Table 13) from $ 146.5 million in 2011 or by 4.4 times. More modestly increased the amount of fruit and vegetab les exported to the EU from $ 24.4 million in 2001 to $ 67.9 million in 2010 or by 2.8 times. An opposite situation was created in import.

Table 13. Export and import of fruits and vegetables, mil USD

	2001	2005	2006	2007	2008	2009	2010
Export							
Fruits and vegetables - in EU states	24.4	51.5	54.9	93.8	52.6	55.6	67.9
- in CIS countries	33.3	53.9	49.2	72.7	78.2	112.5	146.5
Vegetables, plants, roots and tubers	24.1	60.9	64.6	92.8	85.4	125.4	167.6
Including: - in EU states	16.5	33.5	38.0	47.0	36.1	36.8	49.2
- in CIS countries	5.1	23.1	20.3	39.2	41.6	78.2	104.7
Edible fruits	34.1	46.5	42.3	79.5	51.4	50.1	52.3
Including: - in EU states	7.5	15.8	15.4	45.9	15.9	18.0	17.6
- in CIS countries	25.9	29.5	26.5	32,8	34.5	31.4	33.9
Import							
Fruits and vegetables - in EU states	6.2	17.3	19.1	27.0	31.0	34.4	56.2
- in CIS countries	1.6	6.9	9.0	13.5	13.4	12.0	11.0
Vegetables, plants, roots and tubers	5.5	17.7	20.5	28.7	29.5	40.3	58.0
Including: - in EU states	2.0	9.8	9.6	10.7	7.5	15.6	33.1
- in CIS countries	1.2	1.3	2.3	3.3	2.6	1.7	1.6
Edible fruits	2.6	13.6	14.5	20.9	30.1	20.0	22.7
Including: - in EU states	1.8	4.9	6.5	9.6	12.2	9.2	9.0
- in CIS countries	0.2	5.6	6.5	7.4	9.9	7.8	8.4

Source: elaborated by the authors based on the foreign trade statistical yearbooks of Moldova

The fruit and vegetables value imported from CIS countries increased from $ 1.6 mil $ in 2001 to $ 11 mil $ in 2010 and gives to those imported from EU states that increased from 6.2 mil $ (by 3.8 times more than in the CIS) to 56.2 mil $ in 2010 (by 5.1 times than in the CIS). In fact, the increase of

imports is alarming for our country. If in 2001 the import of fruit and vegetables from CIS was as 4.8% and from the EU states - 2.5% compared to exports, and 7.5% respectively in 2010 and 82.8 per cent.

If in 2001 dominated the export of edible fruit in the EU states (68.5% of total), then in 2010 dominated the export to CIS countries, forming 62.5% out of their total export. Edible fruit imports increased significantly from $ 5.5 mil $ in 2001 to 58 mil $ in 2010 and by 10.5 times. Dominates the edible fruit import from the EU that in 2001 was by 1.7 times, and in 2010 – by 20.7 times higher than that from the CIS.

Export of vegetables and fruit preparations for the reference years increased from 34.1 to 52.3 mil $ or by 1.5 times. Their importance has increased respectively from 2.6 to $ 22.7 mil $ or by 8.7 times. If prepared fruit and vegetable export is oriented mainly to EU countries, then they are imported primarily from CIS countries.

Grapes and grape products have been and remain our country's most exported goods. The decline in the volume of grapes harvested from 82.5 thousand tonnes in 1990 to 40.1 thousand tonnes in 2000 caused the reduction of their export from 16.6 thousand tonnes in 1991 to 5.4 thousand tonnes in 1999. Those 7.3 thousand tonnes of grapes harvested in 2010 neither provide the domestic demand.

Exports of alcoholic beverages (Table 14) increased by 11.8 percent compared with 2009, amounting to USD 175.84 million (11.1 percent of total exports).

Wine exports totaled 138.47 million, while the divine - 32.71 million USD. The main markets remained Russian Federation, Belarus, Ukraine and Kazakhstan, to be mentioned is the increase of exports to China, USA, Czech Republic and Azerbaijan.

Export of wine and grape stum/must swings from 9633.0 thousands dal in 2009 to 12606.8 thousands dal in 2010 and 12118.1 thousands dal in 2011. Exports of wine and grape formed an income of $ 128.70 million in 2009, $ 137.87 million in 2010 and $ 132.49 million in 2011.

The structure of export products made from grapes suffered essentially changes. In 2009 to 12606.8 thousands dal in 2010 and 12118.1 thousands dal in 2011. The wine and grape export income formed in 2009, $ 128.70 million, $ 137.87 million in 2010 and $ 132.49 million in 2011. Thus, the dominant grape wine export, which in 2009 accounted for 96.4%, in 2010 - 98.0 and 2011 - 95.4% of total wine exports.

Table 14. Exports of wine from grapes

Indicators	2009		2010		2011	
	ths dal	$ mil	ths dal	$ mil	ths dal	$ mil
Wine and grape stum/must	9633.0	128.70	12606.8	137.87	12118.1	132.49
Including in: - UE	1079.4	19.39	1122.4	18.32	1470.0	20.64
- CIS	8014.0	103.99	10729..2	110.64	9864.1	100.93
- other countries	539.5	5.32	755.2	8.91	784.0	10.92
Sparkling wine, total	286.4	6.88	318.5	7.00	428.9	10.21
Including in: - UE	19.1	0.57	14.6	0.39	21.3	0.54
- CIS	246.2	5.84	281.0	6.13	362.6	8.65
- other countries	21.1	0.47	22.9	0.47	45.0	1.02
Wine from grapes, total	9289.3	121.31	12351.2	130.86	11558.9	121.41
Including in: - UE	1060.4	18.82	1107.8	17.93	1314.5	19.24
- CIS	7717.4	97.37	11243.4	104.50	9501.4	92.28
- other countries	503.5	4.75	732.3	8.43	739.0	9.90
Other grapes stum/must	65.3	0.51	4.8	0.01	134.2	0.86
Including in: - UE	-	-	-	-	134.2	0.86
- CIS	50.3	0.42	4.8	0.01	-	-
- other countries	15.0	0.09	-	-	-	-
Vermouths and other wines	8.0	0.12	37.0	0.59	21.1	0.40
Including in: - UE	2.6	0.03	3.0	0.03	3.4	0.04
- CIS	5.4	0.09	34.0	0.56	17.1	0.34
- other countries	-	-	-	-	0.6	0.02

Source: Foreign Trade of the Republic of Moldova, 2011

Even though sparkling wine exports increased from 286.4 thousands dal in 2009 to 428.9 thousands dal in 2011 or by 1.5 times it forms only 3.5 percent of total wine exports. Vermouth and other flavored wine exports increased even more categorically from 8.0 thousands dal in 2009 to 21.1 thousands dal or by 2.64 times in 2011, but they account for only 0.001 percent.

The main consumer of our drinks was and still remains the Russian Federative Republic. In 1999 on its markets we have sold more than four fifths of wines from grapes and more than 90 percent of sparkling wines. In 2009 on the Russian market were exported 2886.7 million dal forming only 30% and in 2011 - 20.9% of total wine exports. In the reference years increasingly important for our country becomes the common market. Thus, the export of wine and grape must in 2009 formed 11.2% or 1079.4 mln dal in 2011 - 1470.0 mln dal or 12.1 percent of the total exported wine and grape.

In the last years has intensified the import of alcoholic beverages, including those made from grapes. If in 2009 were imported 47.3 thousands dal, which form 4.9% of the wine and grape exports (Table 15), than in 2011 it rose to 273.9 thousands dal or by 5.8 times already forming 27.4 percent in relation with the exported wine.

Table 15. Imports of wine from grape

Indicators	2009		2010		2011	
	ths dal	$ mil	ths dal	$ mil	ths dal	$ mil
Wine and grape stum	47.3	928.9	425.2	3163.3	273.9	2434.5
Including in: - UE	3.2	299.7	294.9	1806.1	237.1	2024.2
- CIS	-	-	3.9	89.5	-	-
- other countries	44.1	629.2	126.3	1267.7	36.8	410.3
Sparkling wine, total	2.3	236.8	5.9	382.1	7.4	527.6
Including in: - UE	2.3	236.8	3.6	331.7	6.2	503.1
- CIS	-	-	2.3	50.4	1.2	24.5
- other countries	45.0	692.1	419.3	2781.2	266.6	1906.8
Wine from grapes, total	0.9	62.9	291.3	1474.4	230.9	1521.0
Including in: - UE	-	-	3.9	89.5	-	-
- CIS	44.1	629.2	124.0	1217.3	35.6	385.8
- other countries	6.7	189.9	10.0	335.3	12.7	482.7
Other grapes stum/must	6.6	188.4	9.6	325.9	12.7	482.7
Including in: - UE	-	-	0.4	9.4	-	-
- CIS	0.1	1.5	-	-	-	-

Source: Foreign Trade of the Republic of Moldova, 2011

The import of wine from grapes dominates firmly, forming 95.3% in 2009, 98.6% in 2010 and 97.3% of the total imported wine. If in 2009, the most (93.3%) was imported from countries that do not belong to either CIS or EU then in 2010 - 68.5% and in 2011 - 84.3% of all imported wine stand for the EU member states.

Analyzing the causes that generated the alarming situation in this segment of the national economy, strongly enviable, references are made to the negative grapevine agricultural reform and/or low winter temperatures or other natural disasters.

Definitely, this is an indisputable truth, but not unique. There are factors preferred not to be remembered, as it was the decision on the so-called "battle with alcoholism" adopted in 1985 by the Communists, or the prohibition of wine from our country on the Russian Federation market by the authorities of this state, a thing that is happening this year.

One of the factors that determine the spatial orientation of trade exchanges is the price which is to provide the balance of the interests of consumers and producers. The complex of vine and wine develops normally if the production price exceeds its cost.

In the last years, on the domestic market, has outlined a dangerous trend of the costs and selling price report. If from 1995 till 2000 the report selling price: cost price was increasing forming by the end of this period 1.5 to 1, then in 2005 it was 1.3 to 1, reaching in 2010 to be 0.97 to 1. Obviously, the report which was formed between cost and price cannot

provide the manufacturer profitable activity. It even brings him to losses and bankruptcy.

External market price is influenced by the developments taking place in the country which are sold vine products. The price of a decil itre exported wine and grape must (Table 16) fell from 13.36 $ in 2009 to 10.95 $ in 2011.

Table 16. The price of a dal wine grapes in export and import, USD

Indicators	2009		2010		2011	
	export	import	export	import	export	import
Wine and grape stum	13.36	19.65	10.94	7.44	10.95	8.89
Including in: - UE	17.95	9.39	16.36	6.12	14.04	8.54
- CIS	12.98	-	10.31	2.28	10.23	-
- other countries	9.85	14.20	11.80	10.04	14.00	11.15
Sparkling wine, total	24.57	10.12	21.87	6.46	23.74	7.15
Wine from grapes, total	13.06	15.36	10.59	6.63	10.50	7.38
Other grapes stum/must	7.84	-	2.08	-	6.61	-
Vermouths and other wines	15.00	28.55	15.94	33.66	19.04	37.85

Source: elaborated by authors based on information from the Foreign Trade of Moldova, 2011

The price of a decilitre of wine exported both in the European Union declined from $ 17.95 in 2009 to $ 14.04 in 2011, or with 21.8%, as well as in the CIS – and namely from $ 12.98 to $ 10.23 or 21.2%. But the price of a deciliter of wine and grape must exported to EU member states in 2009 was higher than in the CIS countries - 38.3% and in 2011 - 37.24 percent respectively.

The EU market for our country is more advantageous than the CIS.

To ensure both the internal and external market with food products it is required to be provided their production. Some of the important instruments that regulate the activity of farmers are **firstly taxes and fees**.

In our country's agriculture are applied the income tax andland tax, which fulfil regulatory and stimulation functions of manufacturer' s activity. Definitely, the income tax decreased from 17853 thousands lei in 2006 to 1080 thousands lei in 2009. Land tax which equals 1.5 lei per grand-hectare of agricultural land, regardless of income level, in the reference years decreased slightly.

Particularly important are excise duties and value added tax which function fiscally and influence both the farmers' activity and the formation of revenue in the budget and extra-budgetary funds. In the structure of the taxation system of agricultural enterprises on the first position with 44% in 2006 and 59% in 2009 and has the tendency to increase from 265.6 in 2006 to 435.8 mil lei in 2009 is the value added tax.

The fiscal burden on agriculture increases slightly from 14.4% in 2006 to 15.67% in sales revenue in 2009. The share of agriculture's contribution to the state budget is higher than the share of this sector in GDP, which speaks of a relatively high tax pressure and obviously hampering the development of this very important segment of the national economy.

The situation in our country's agriculture is heavily influenced by grants, compensations and subsidies from the national budget increased from 76740 thousands lei in 2005 to 413354 thousands lei in 2009 or by 5.4 times.

The current system of subsidizing Moldovan agriculture, which can be characterized by reduction/ in real worth/ of financial allocations and ad-hoc non-monetary support, intends short-term objectives and does not reflect in any way the general objective of the subsidies which is to increase agriculture development by correcting market failures. Therefore, according to the authors' opinion, regrettable is that in 2009 only 2.3% of total support was intended to offset expenses for planting perennial plants.

According to the State Budget Law for the year 2012 for development of agriculture there are provided 775967.8 thousands lei, representing 3.5% of total expenditures provided in the national budget. From the sum granted to the development of agriculture 40617.6 thousands lei (5.2%) are special means and 112561.2 thousands lei (14.5%) refers to projects financed from external sources.

The allocated amounts from the public budget for agriculture subsidies in our country, does not meet the demand. In addition, the mechanisms of subsidies sharing do not ensure fairness, and certainly, there is no efficient use of resources intended for the subsidization.

Conclusions and recommendations

As a result of the study we conclude:

1. Domestic demand, including food products, is limited by the number of consumers and their purchasing power, which condemns us to export.
2. Export of agro-food products is increasing while their share in total exports has a clear tendency to decrease.
3. Import of agro-food products is increasing and covering degree of imports by exports of agro-food products reduces with an accelerated speed.
4. Enforcement mechanisms and levers used both on the domestic market and on the export and import of agro-food products are not efficient enough

In order to change the situation on the market of agro-food products in our country we consider appropriate:

1. To adjust our country's agricultural sector to the EU market's demand.
2. To adapt mechanisms and levers applied to our country's agro-food products market to the requirements of the EU Common Agricultural Market as follows:

- to apply the "guaranteed price" which covers product costs and provides profit, the agricultural producers need to renew agricultural activities. When the quantity of agricultural products causes the price collapse on the market public authorities purchase (buy) from the agricul tural producers the excess of products at a guaranteed price for storage and/or processing and sets them up for sale when the market is in favour of the request;
- to apply reduced VAT rates on water supply and other agriculturalproducts consumed in our country's agriculture and on the basic food-products;

3. In order to optimize national agriculture subsidies:

- to stimulate the agro-food products export through preferential exchange rate. Every Euro obtained by changing the ratio of export is transformed to the increased rate with 1-2 lei compared with the existing one;
- to give up the ex ante/support before obtaining the production/and ex post government intervention/after which the production is acquired/. The ex post type of support can be provided through two mechanisms:

a. The state subsidizes a part of the market price covering production costs;
b. The state purchases the production at the negotiated price but higher than the cost. The production is then sold, including to the processing industry, at a price that may be lower than that paid for the farmers in order not to affect the purchasing power of the population.

- it is subsidised the production realised on the market and especially on the foreign markets.

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Chapter 8

Ukrainian rural areas: a hidden development potential or a potential burden for Europe

Abstract: *In the article the peculiarities of rural development in Ukraine are reviewed. Economic potential and economic activity of Ukrainian rural areas has been analyzed. It has been defined that past twenty years of Ukrainian history could be defined as inefficient and inconsistent in the terms of rural development, as well as regulation of agricultural production and markets. It is stressed that integration with EU could be the needed push towards increase of competitiveness of Ukrainian agricultural produce and the possibility to comply with the EU standards in terms of quality of agricultural produce and food-stuffs.*

Keywords: *rural development, agriculture, competitiveness, Ukraine.*

Introduction

Euro-integration has been proclaimed as a strategic goal for the nearest future by each of five Presidents of Ukraine. Yet political issues and practical indecisiveness have been postponing the process, which even now is more of a wish than a fact.

As of now, the association of Ukraine with the EU is planned to be signed, yet it is not final. Association with EU would establish a framework for further integration and possibly a membership in this union, as well as give boost to economic cooperation between Ukraine and EU.

Ukraine has been integrating economically into global trade all these ye - ars, with its international trade volumes rising from $35 billion in 2002 to $153 billion in 2012. Economic connections with the EU have been developing rapidly as well, generating $43 billion of exports and imports altogether in 2012.

As for the rural areas, the situation is quite more difficult. Rural development in Ukrainian state policies is still understood as the development of agriculture, while diversification of social and economic activities is only being discussed, but not practically supported. Due to this situation agriculture is still the main economic activity on rural areas and primary source of income for rural population, making it a mean of survival, and not a business.

Discussions and results

Ukrainian rural development: main trends

While employment in agriculture in economically developed countries is shrinking, in Ukraine it has even grown slightly in the last years. At the same time the involvement in agricultural activity is often an inevitable measure of survival for rural population, for which there are no available alternatives. Yet large share of such production is not oriented for the market, it is meant for consumption of the households, which produce it on their small plots of land. Mechanization of agriculture is on a very low level as well, which makes work even harder and efficiency much lesser.

Yet speaking of the development potential in agriculture, it needs to be noted that Ukraine makes quite an input into world' s production of agricultural goods (Table 1).

Although the share of production is significant, unfortunately this is the production level and not the share in international trade, in which Ukraine is not an important player so far. The competitiveness of Ukrainian agricultural pro-

duce is often not sufficient to go to external markets, and its increase requires large investments and changes in approaches to production management, both of which are a problem.

Table 1: Shares of selected countries in global agricultural production by types of produce, %

Countries	Wheat	Rye	Barley	Potatoes	Sugar beet	Vegetables	Fruits
Belarus	-	8.9	1.4	2.8	1.5	0.2	0.1
Canada	3.3	1.6	8.2	1.6	0.3	0.3	0.1
China	-	-	-	18.2	3.6	49.7	18.5
France	5.4	0.8	7.1	2.3	13.5	0.6	1.7
Germany	3.4	18.3	7.8	3.8	10.2	0.4	0.5
Poland	1.4	21.2	3.0	3.8	5.1	0.6	0.2
Russian Federation	8.2	26.5	11.7	11.9	11.7	1.8	0.8
Ukraine	***2.3***	***3.8***	***4.5***	***6.2***	***6.9***	***0.8***	***0.3***
U.S.A.	9.2	1.4	3.4	6.6	12.9	4.3	4.7

Source: Glowny Urzad Statystyczny Polski, 2012.

Ukrainian agriculture has been developing in the past two decades in a changeable manner, depending mostly on the type of produce (Table 2). While production of cereals was changing only slightly, mostly due to weather conditions, just as potatoes' and vegetables' production, the sunflower production increased almost three times, making Ukraine one of the leading producers and exporters of sunflower oil in Eastern Europe. This is one of few things Ukraine is competitive in, since some modern sunflower oil processing plants were constructed, as well as vertical agri-holdings were founded and developed over the decade.

At the same time sugar beets' production has dropped significantly, yet this is a tendency that affects a lot of Central and Eastern European countries. Sugar production is not as profitable as it once was, and with over-production and excessive quantity of processing plants of this kind it has led to decrease of profits and bankruptcy of many of them. Even though Ukrainian government has been using measures to stabilize the situation by introducing mandatory minimal prices for sugar, it hasn't helped much, but only led to appearance of illegal schemes aimed at overcoming the existing limitations. But generally speaking, the decline of sugar beets' production is a normal tendency, leading to purification of market and leaving only the most competitive players – this is something many post-socialist countries have gone through and now its Ukraine's turn.

Table 2: Dynamics of agricultural land use under various crop types in Ukraine in 1990-2011, thousand ha

Years	Cereals	Sugar beet	Sunflower	Potatoes	Vegetables	Forage crops
1990	14583	1607	1636	1429	456	11999
1995	14152	1475	2020	1532	503	10898
2000	13646	856	2943	1629	538	7063
2005	15005	652	3743	1514	465	3738
2010	15090	501	4572	1408	462	2599
2011	15724	532	4739	1439	498	2477

Source: State Statistics Service of Ukraine, 2012.

As far as forage crops production is concerned, this may be considered the weakest link in Ukrainian agriculture. As it is shown in table 2, production volumes have dropped almost five times in twenty years. At first this decline was caused by transformation processes in economy and decrease of livestock numbers, which meant lesser demand for forage crops. Yet with time it was the lack of sufficient fodder volumes that caused farther decline in livestock production, since because of its small volumes the fodder prices have gone up. Only in 2010-2011 market year the prices for some fodder types have gotten more expensive by 40-50%. This is quite a problem for Ukraine at the moment, since livestock production is in depression and Ukrainian producers, even though all the preconditions exist – do not produce enough to meet the national demand.

As the data in table 3 shows, production volumes of meat per capita in Ukraine are smaller than actual consumption level, while milk falls short only of the recommended consumption level (set by Ukrainian Ministry of Health). Production of eggs is sufficient for national market needs, so is with vegetables. At the same time there's a large overproduction of potatoes, since they are used as an alternative to fodder, although as statistics show, over 30% of grown potatoes are just wasted yearly, so inefficiency is present here.

Table 3: Comparison of production volumes of selected agricultural products with the level of factual and recommended consumption in Ukraine, per capita a year

Types of produce	Production	Factual consumption	Recommended consumption
Meat, kg	44.9	52.0	80
Milk, kg	245.4	206.4	380
Eggs, pcs	372.0	290.0	290
Potatoes, kg	408.0	128.9	124
Vegetable, kg	193.5	143.5	161
Fruits and berries, kg	47.0	48.0	90

Source: State Statistics Service of Ukraine, 2011.

Such overproduction of some goods, such as potatoes or sugar beets, exists due to lack of organization of the agricultural production, which causes prices to fall under profitability levels. At the same time severe underproduction of meat products, volumes of which are not sufficient even to meet the needs of national markets at the present level of consumption by 15-20%, and falling short of a recommended consumption level by two times. Yet at the same time, production of meet is often unprofitable, showing the statistics of down to -36% profitability (Table 4). It's a paradox at first sight, yet there are simple explanations to the problem, such as high fodder prices and yearly decline of land area under forage crops, low levels of income and consumption of Ukrainian population, high retail and low producers' prices of meat, excessive number of intermediaries in the meat processing and sales chain.

Table 4: Profitability of agricultural production (in %)

Types of products	Years			
	1990	2000	2005	2010
Cereals	275.1	64.8	3.1	13.9
Sugar beet	29.5	6.1	4.8	16.7
Oilseeds	236.5	52.2	24.3	64.7
Potatoes	27.2	14.0	17.8	62.1
Vegetables	27.6	-0.7	16.1	23.5
Fruits	83.8	-1.1	12.7	14.9
Beef	20.6	-42.3	-25.0	-35.9
Pork	20.7	-44.3	14.9	-7.8
Poultry	17.0	-33.2	24.9	-4.4
Milk	32.2	-6.0	12.2	17.9
Hen eggs	27.3	10.6	23.5	18.6
Wool	-2.4	-75.8	-72.8	-82.2

Source: State Statistics Service of Ukraine, 2011.

There are also some regional dif ferences in agricultural production over the vast Ukrainian territory. The figures in table 5 show the same indices as in table 3, only calculated for the Carpathian region of Ukraine, covering 4 oblasts (an administrative division unit in Ukraine, whole territory of which is divided into 24 oblasts plus an Autonomous Republic of Crimea) and hosting 1/5 of rural population of Ukraine. The situation with meat production is even worse here, although Western Ukraine has always been considered more livestock-oriented due to landscape peculiarities. But because of problems mentioned before, unfavorable conditions exist for this kind of production.

On average, over 50% of agricultural goods in Ukraine is being produced by small family-owned farms (T able 6), although regional differentiation is present, meaning that in some regions (primarily Western Ukraine) production in such farms amounts to 75-90% of total agricultural production. This

would be fine, if they were efficient, competitive, and quality-oriented. Yet, as it was mentioned before, in fact only up to 30% of their produce is considered a commodity and could enter the market, while the rest is meant for personal consumption.

Table 5: Comparison of production volumes of selected agricultural products with the level of factual and recommended consumption in Carpathian region of Ukraine, per capita a year

Types of produce	Production	Factual consumption	Recommended consumption
Meat, kg	42.3	43.4	80
Milk, kg	318.4	245.1	380
Eggs, pcs	325.5	260.3	290
Potatoes, kg	559.3	162.3	124
Vegetable, kg	160.3	118.9	161
Fruits and berries, kg	47.8	42.2	90

Source: State Statistics Service of Ukraine, 2011.

Table 6: Share of individual households in agricultural production in various regions of Ukraine, %

Regions and oblasts' (administrative territories)	Share of individual households in the production of:	
	crops	livestock
Western region (Volynska, Zakarpatska, Ivano-Frankivska, Lvivska, Rivnenska, Ternopilska, Khmelnytska, Chernivetska oblas'ts)	69.5	76.2
Southern region (Autonomous Republic of Crimea, Zaporizka, Mykolayivska, Odeska, Khersonska oblas'ts)	52.3	67.1
Eastern region (Dnipropetrovska, Donetska, Lughanska, Kharkivska oblas'ts)	55.6	42.9
Central region (Vynnytska, Zhytomyrska, Kyivska, Kirovogradska, Poltavska, Sumska, Cherkaska, Chernighivska oblas'ts)	49.7	56.7
Ukraine in total	**55.1**	**55.3**

Source: State Statistics Service of Ukraine, 2011.

On the other hand, Ukraine is also undergoing swift processes of formation of large agricultural holdings, with their share in production and agriculturalland rising every year. Yet they still concentrate on low value-added products and their yield is not improving as it should. The lack of understanding that only a full process of food-stuffs' production with high quality as the goal could lead to foreign markets and bigger profits.

It should be noted, that in case of integration with Europe, Ukraine would have the largest share of agricultural land (18.1%) and largest number of people officially employed in agriculture (3.5 million). But comparing production efficiency of crops with EU countries (Table 7), Ukraine does not show good results. Between 27 EU member-countries, it could be placed 19th by yield of cereals, 22nd in potatoes, 18th in sugar beets, and 6th in vegetables (but only due to lack of vegetables' production statistics on 18 of EU countries). For a country with such production potential the improvement of productivity should be a major priority, but it is not.

Table 7: Productivity of selected crops in the European Union and Ukraine, 100 kg per 1 ha

#	Countries	Cereals	#	Countries	Potatoes	#	Countries	Sugar beet
1	Ireland	86.0	1	Belgium	501.4	1	France	912.4
2	Belgium	81.4	2	Netherlands	460.5	2	Spain	881.4
3	Netherlands	78.5	3	Germany	457.6	3	Belgium	869.6
4	Great Britain	77.5	4	Great Britain	423.0	4	Netherlands	798.9
5	Germany	70.1	5	Denmark	389.4	5	Austria	742.0
6	Denmark	67.7	6	France	386.0	6	Denmark	675.0
7	France	65.3	7	Austria	357.1	7	Czech Republic	668.4
8	Austria	58.6	8	Sweden	318.4	8	Great Britain	650.0
9	Czech Republic	56.9	9	Luxemburg	309.9	9	Slovakia	641.4
10	Luxemburg	55.4	10	Czech Republic	304.5	10	Sweden	629.0
11	Sweden	53.8	11	Spain	300.0	11	Germany	628.7
12	Slovenia	51.8	12	Ireland	280.1	12	Greece	588.7
13	Slovakia	45.2	13	Finland	275.9	13	Italy	570.1
14	Hungary	42.1	14	Hungary	269.9	14	Hungary	535.4
15	Poland	41.4	15	Greece	266.4	15	Poland	506.4
16	Bulgaria	39.2	16	Slovenia	264.2	16	Lithuania	498.8
17	Finland	38.5	17	Italy	249.5	17	Finland	479.2
18	Italy	38.4	18	Cyprus	222.8	***18***	***Ukraine***	***363.0***
19	***Ukraine***	***37.1***	19	Slovakia	209.4	19	Romania	343.1
20	Romania	36.3	20	Poland	204.7	20	Portugal	247.8
21	Spain	34.6	21	Latvia	171.4	21	Bulgaria	*
22	Lithuania	33.9	***22***	***Ukraine***	***168.0***	22	Estonia	*
23	Greece	31.3	23	Romania	165.5	23	Ireland	*
24	Latvia	30.6	24	Estonia	162.3	24	Cyprus	*
25	Estonia	27.4	25	Lithuania	155.8	25	Latvia	*
26	Cyprus	20.4	26	Portugal	147.1	26	Luxemburg	*
27	Portugal	13.7	27	Bulgaria	143.4	27	Malta	*
28	Malta	*	28	Malta	133.8	28	Slovenia	*

Source: Eurostat, State Statistics Service of Ukraine, 2011.

In the livestock sector, Ukraine has been falling well short of its production potential as well. The livestock numbers in 2012 compared to historical maximums equal 16.8% for cattle in general, 27.9% for cows, 25.5% for pigs, 16.4% for sheep and goats, and 81.6% for poultry (Table 8).

Table 8: Changes of livestock and poultry quantity in Ukraine during the 1950-2012 (as of 1st January of each year)

Year	Cattle				Pigs		Sheep and goats		Poultry	
	total		including cows							
	million heads	% of max value (year 1980)	million heads	% of max value (year 1980)	million heads	% of max value (year 1970)	thousand heads	% of max value (year 1960)	million heads	% of max value (year 1990)
1950	11.2	42.41	4.8	51.90	7.8	37.43	6.7	63.40	-	-
1960	17.6	66.87	7.8	84.28	18.2	87.70	***10.6***	***100.00***	129.6	52.67
1970	21.4	80.98	8.6	92.36	***20.7***	***100.00***	9.0	84.39	155.2	63.06
1980	***26.4***	***100.00***	***9.3***	***100.00***	19.8	95.36	9.1	85.14	233.6	94.91
1990	24.6	93.39	8.4	90.37	19.4	93.64	8.4	79.19	***246.1***	***100.00***
2000	9.4	35.74	5.0	53.48	7.6	36.89	1.9	17.64	123.7	50.27
2005	6.5	24.70	3.6	39.21	7.1	34.00	1.6	15.33	162.0	65.82
2008	5.1	19.26	2.9	30.81	6.5	31.46	1.7	16.24	177.6	72.15
2010	4.8	18.31	2.7	29.52	7.6	36.52	1.8	17.24	191.4	77.77
2011	4.5	17.05	2.6	28.38	8.0	38.37	1.7	16.29	203.8	82.81
2012	4.4	16.78	2.6	27.85	7.4	35.54	1.7	16.36	200.8	81.59

Source: State Statistics Service of Ukraine, 2013.

Most of aforementioned problems in Ukrainian agriculture are caused by lack of proper regulation of agricultural production and markets, and, at the same time, residues of communist system and underdevelopment of market mechanisms. Ukraine's economy has been in transition for over 20 years, and still many signs show that it has not fully turned into a market-regulated one. The structure of national economy, although different from two decades ago, still resembles the old soviet one, mainly because of emphasis upon low value adding industries.

Ukrainian policy declares a financial support for agricultural producers, yet state budget often is not sufficient to meet the declarations, and such support is 10-15 times smaller than subsidies in EU. There is also a problem of mentality, of the way Ukrainian agricultural producers think and plan their activity, choose what crops to grow or which goods to produceThe educational system in agriculture is not giving producers the needed ideas and understandinghow to be efficient, and the consulting services are still not developed in Ukraine.

Another major problem of agricultural produce, as well as food-stuffs, is that it does not meet the current requirements of foreign countries toward quality,

components, production technology, which limits the development potential of Ukrainian agricultural export. Since the liberalization of economic activities, it became usual for Ukrainian companies to produce their food-stuffs according to their own "technical conditions", and not state standards. This means that any component in food can be altered or replaced by cheaper low-quality substitutes, and it is not illegal. And because of the lack of better or affordable alternatives, the consumers purchase such goods, thus farther subsidizing such production.

Conclusions

Present major problems of Ukrainian agricultureinclude low competitiveness, efficiency and organization. All these issues must be addressed in order to supply Ukrainian and world markets with quality products, and to ensure sustainable rural development, including proper income for rural residents.

At the moment Ukrainian rural territories can be considered a hidden potential, since they do not realize it neither towards agriculture, nor multifunctional development. Yet with proper regulation and deregulation measures, investment and educational measures, this potential could be revealed and used for the good of Europe and Ukrainian producers and consumers. Though without such measures, Ukrainian rural areas in general and agricultural activity in particular, are a big, yet unavoidable burden, for Ukraine at present, and for Europe in case of future integration.

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Chapter 9

Enhancing the competitiveness of small and medium enterprises in rural areas of Kosovo

Abstract: *A key issue for Kosovo's economic future is how to provide the maximum benefit for local enterprises through the liberalization and globalization of product markets. Data from the Ministry of Trade and Industry clearly show that most enterprises in Kosovo are of micro, small and medium size and the problems they face fall into two categories: the first one is to determine if they can participate in production for local and regional markets or do they remain excluded? And the second one is related to the fact that our economy is facing high levels of trade deficit, which continues to have a negative impact on economic growth, and because our SMEs are mainly based on trade and services, they have limited capacities to create added value to the economy and generate new jobs.*

In addition to addressing the questions, the paper tries to provide a thorough explanation of ways of enhancing the competitiveness of SMEs in rural areas of Kosovo based on the field study, research reports, country strategies and views of several scholars. Recent studies have proved the relation and impact of SMEs in the development of rural areas.

The paper is divided into three sections and ends with a conclusion. The first section reviews the different usage of the terms SMEs from different theories and dimensions.

The second section deals with the results of 308 interviews randomly conducted all around Kosovo. In addition the questionnaire was prepared and tested in advance in order to avoid any useless questions, and to provide information regarding the types, reasons, and the problems that the SMEs are facing.
The paper concludes with some personal reflections and conclusions drawn on this topic.

Keywords: *SME, enhancing, constrains, sustainability, rural development, economic growth,*

Introduction

The Republic of Kosovo is one of the poorest countries in Balkans. The sector of small and medium-sized enterprises and the agriculture sector are the most important sectors for the economy of Kosovo in terms of employment and economic growth opportunities and represent a good potential to ensure the progress of Kosovo towards EU integration. Moreover, the sector of small and medium-sized enterprises has played an important role in increasing the income level and employment, following the end of hostilities. Therefore, the further development of this sector has an important role in poverty alleviation in the country.

However, the effects of the global economic crisis have also been reflected in the economy of the country , mainly through the decline of exports and direct foreign investments. Also trade liberalization has put pressure in the production sector and competitiveness in order to compete with the local and international markets. As a result, there is a low level of local production, and the export of goods is focused only on a limited range of products and as a consequence, the economy of the country has continued to register a high trade deficit.

The SME sector in Kosovo is facing challenges which are reducing the competitiveness and preventing it from fulfilling its production potential. The main constraints on increasing the productivity and improving the competitiveness are the low use of modern techniques and technologies in both production and management of enterprises, lack of funds, the low use of inputs and the limited ability to meet international standards of food safety (MEI, 2013).

Because of the lack of investment funds or investments the Kosovar SMEs are not as productive as they otherwise might be, and as such they cannot be sufficiently competitive at the international level and are characterized by weak performance and a negative export ratio (MTI, 2010). Consequently the local economy suffers from an imbalance of trade payments where imports visibly

exceed exports. The lack of creative and innovative culture in entrepreneurship also presents a problem itself for Kosovar SMEs.

Despite problems, challenges and difficulties faced by Kosovar small and medium-sized enterprises, they still represent a crucial factor of economic growth in the country and they play an important role in the economic development of Kosovo. They are the main source of new jobs and income generation. Starting from this general objective, the argument of this study is the research of SMEs operating in the agri-rural sector in Kosovo (MTI, 2010).

SME Definition

The term "Small and Medium Enterprises" encompasses a broad spectrum of definitions. Different organizations and countries set their own guidelines for defining SMEs, often based on the number of employees, sales or assets. SME are independent entities, the firms which count a certain number of employees. This number varies from one country to another. In Kosovo the number of employees is the main criteria and single definition of SMEs is according to their size. This definition is defined by the Law No. 2005/02 – L5 and by the Law No. 03/L – 031 on the Support of Small and Medium Enterprises. The definition of SMEs used in our country is simpler in comparison to the definitions used in many other countries, particularly in the EU member countries, where except the number of employees the annual turnover also is taken into account (MTI, 2010).

Referring to the IFC studies (2011) and their definition of SMEs, it is clearly stated that the enterprises are usually defined as registered business with less than 250 employees, which plays an important role in employment and increase of GDP, in the direction of formalization of economy, but they often face huge difficulties concerning accessibility to financial services and development or enlargement of trade (IFC, 2011). Small enterprises are one of the most powerful economic forces of the developing countries; they include the largest share of employment and GDP. However, it is important to stress the fact that the small enterprises must not be seen as isolated entities within the general economy. In the real situation, they may be the main part of development of an industrial global competiveness, creating a large number of jobs needed in order to reduce the poverty (IFC, 2011).

In a proper business environment, SMEs may eventually develop into large firms, changing the game and passing from local level to global level. And even though the companies might remain small and medium sized, they still may create a considerable opportunity of income generation for the owners and their workers and new income generation through collection of taxes. All this is achieved through the increase of productivity in enterprises and selling

and/or supplying goods and services which are always valuable. It is important to emphasize that it doesn't matter how successful is an enterprise; it still cannot remain competitive, if it is alone. Based on this principal, the country's government and other releva nt institutions must work together to create favorable conditions for the active and productive development of SMEs. On the other hand, SMEs are a part of dynamic chain values and increase the opportunity for employment with what they also contribute to the increase of income, increase of living standards, and improvement of life in general (IFC, 2011).

Therefore, as in most other countries of the world, SMEs make a special contribution to the Kosovo economy . Their contribution is multi-dimensional, generating new jobs and thereby contributing positively to employment generation and poverty reduction. Furthermore, SMEs require relatively low investments compared to large enterprises and corporations therefore they are of special importance for the economy of the countries which suffer from a lack of sufficient financial resources.

The European Union definition of SMEs is useful to discuss here: The category of micro, small and medium-sized enterprises is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro. And in addition, within this general definition, small and medium enterprises are further defined as firms with 10 to 250 employees, and more than 10 million euro turnover or annual balance sheet total. This definition is more encompassing, and much larger, especially with regards to turnover, than some others. In most cases, and in most member countries of the European Union, the highest and more frequently threshold of the definition of SMEs according to the number of employees is 250 employees. Although some other countries decided the limit at 200 employees, whereas in the United States, SMEs are considered as firms which have less than 500 employees (OECD, 2005). When these data are compared, it is clearly noticed that SMEs in the USA have higher threshold then European countries.

Whereas small enterprises are generally those enterprises which account less than 50 employees, micro-enterprises are those enterprises employing less than 10 workers, and there are cases where the number of employees is 5 workers or less. However, in literature and in practice, there are also new criteria which define the size of SMEs, such as annual turnover/circulation (OECD, 2000). In the following table a statement of registered enterprises in Kosovo was given on the basis of number of employees as well as a statement of the EU enterprises according to the number of employees, annual turnover and the balance - sheet.

Table 1. Classification of SMEs in Kosovo

Classification	No. of Employees	Turnover	Percentage
Medium	50 up to 249	221	0.22
Small	10 up to 49	1,406	1.35
Micro	Less than 10	102,070	98.43
Total :		***103,697***	***100.00***

Source; ARBK January 2013

As mentioned above and presented in Table 1 it is clearly defined that the main criteria for the definition of SMEs in Kosovo handles only the number of employees, while in terms of annual turnover we do not have any clear criteria which will classify the enterprises.

Table 2. Classification of SME s in the EU member's countries

Classification	No. of Employees	Turnover	Balance sheet
Medium	50 up to 249	up to 50 million €	up to 43 million €
Small	10 up to 49	up to 10 million €	up to 10 million €
Micro	Less than 10	up to 2 million €	up to 2 million €

Source: OECD 2005

The criteria presented in table 1 and 2 indicate that there are differences in the classification of enterprises in the EU countries (except for the number of employees), the annual turnover in the enterprises is also used as a criteria, as well as the autonomous of establishment in enterprise with the capital not higher than 25% of a large enterprise.

Based on the argument that in our country the only criteria for the classification of the enterprises is the number of employees, then this research takes into consideration all enterpr ises which include the owner and at least one employed salary worker . This selection criteria is taken as a fact that data (ASK, 2011) presented in table 1 shows that more than 98 percent are small enterprises registered in Kosovo with less than ten employees.

Methodology

The research is focused on the analysis of the impact of SMEs in the economic development of a country and the problems relatedto economic development. The measures used in this research include measures related to the research of profitability indicators and return of investments in the company, as well as productivity multi-factors. Regarding the geographical coverage of the research, 92% of the territory of the Republic of Kosovo was covered, including 308 small, micro and medium-sized enterprises. The sampling was random with special focus in rural areas. Special attention during the research was paid to the enterprise activity, administrative as well as ethnic coverage.

In addition, a standardized questionnaire was drawn up to cover all income sources, in order to be more accurate and get detailed information and other features in the companies. The analyses of all factors and data was conducted with the SPSS Program (Statistical Package for Social Sciences) and the program on statistics, R. Results of the research show that the main reasons to start-up a business varies from life improvement, efficient use of capacities, increase of independence and free capital investment. The main difficulties the businesses face are related to unfair competition, finding consumers and loans, limited access to capital, and unfavorable fiscal policies.

The main activities in the sample are trade; milk processing, trade inputs and cereal processing. The higher income generation activities are businesses of communication, paper processing, cereal and meat processing.

Among the analytical research methods used in this study are workshops with focus groups, followed by PRA, RRA, interviews with key policy makers, etc.

Focus group discussions

In order to further identify problems, obstacles and opportunities which the enterprise faces, "world café" workshops were organized with representatives of association of farmers, producers and processors and municipal officers from directorates of economy. Workshops were organized separately.

PRA

The use of this research method has provided the information, identified problems and needs in the development of SMEs in rural areas of the country . This approach was developed in early 1990s with the aim to change research perspective and switch from the top-down approach to the bottom-up approach. Chambers (1992) defined PRA as a method and approach to learn about the living conditions of people in rural areas. He further stated that PRA creates a dynamic sequence of analysis, planning and action (Chambers, 1992) as he points out in his later studies (Chambers, 1994). PRA presents a combination of approaches and methods and enables the local people to exchange, increase their knowledge, to analyse their living conditions, to plan and act in accordance with their needs (Chambers, 1994).

RRA

The RRA is a qualitative method of study which appeared in the late 1970s as an approach in social sciences research (Cavestro, 2003). The basic idea of the RRA method is the fast collection and analyses of information to and from the members of community (Regina and Donovan, 2003) and its main purpose is the use of simple questionnaires in most countries, with signs/symbols easily evident. The use of this method is based on a quick approach and with an

effective cost. This method is used to collect only the basic information that is needed, and then the use of a "triage" approach to focus on the information is most important and valuable. This method may be considered very similar to the method called "World Cafe" where simply the same information is required by many persons, and then the similar principal of observation and the structure of the team are used to analyse the information .

Interview with main persons

A part of this study is also the series of interviews with key people in SMEs and related institutions, for the purpose of gathering the best information and the completion of the research cycle which is seen as necessary to design a questionnaire composed of 17 questions. The interviews were conducted with key persons in different institutions which are directly or indirectly involved in making policies,legislation, conditions and suitable facilities for SMEs. This questionnaire was administered in direct meetings and interviews with representatives of the line ministries; MAFRD, MF, MZHE, MeD, MAPL, then from OEK, AKA, AZHR etc.

Findings

The level of education of the founders of enterprises is assumed to be an important determinant of the growth and development of SMEs. Inadequate professional preparation may affect sustainable development, without this preparation, SMEs operate with a low productivity. From Table 3 we can see that over 70% of SMEs in Kosovo are established by owners with educational backgrounds of less than high school, while 12% of owners do have a high school education, and only 10% of them have higher educational attainment (they are with Academic (Faculty) degrees). Such a structure, dominated by secondary school owners, makes us realize that most of the founders of SMEs in Kosovo have no specific educational training to manage their enterprises and based more in the "seeing - making". Conversely, secondary education in most cases does not provide the necessary knowledge to start-up and management of enterprises and as a result of this level of education, low productivity enterprises are in the majority.

Table 3. The level of education in SMEs

Level of Education	No. Of SME	No. of employees	%
Without education	2	3	0
Primary school	52	240	7
Secondary school	288	2,370	70
Agricultural high school	13	220	6
Non Agricultural high school	57	207	6
University/agricultural faculty	99	353	10
	511	3,393	100%

Source: own compilation

Furthermore, education is one of the key elements in caring out the activities at the SMEs level. In this regard, the idea is that the more knowledge skills that the SMEs have, the higher is the probability of being more efficient.

Regarding the number of years of experience of people observed in SMEs, 47% of the SMEs members attained more than five years of experience (see table 4 below), while having 1-5 years of employment experience was found in 49% of members. The rate of less than one year of experience is very low, 4%.

Table 4. the level of experience

	SMEs reporting	Employees	Share of employees
Less than one year of experience	34	128	4%
From 1 – 3 years of experience	103	583	17%
From 3 – 5 years of experience	104	1,120	32%
More than 5 years of experience	207	1,627	47%
	448	3,458	100%

Source: own compilation

In addition to increasing the productivity , production and processing capa - city, special attention was given to the internal organization and marketing of products that the enterprises are selling. The results of the survey show that about 50% of the surveyed companies have developed new products or services which have contributed to significant growth in revenue. Also, 49% of enterprises surveyed have used new ways of selling products or services, and which have led directly to increased revenue in the enterprise. Also the organization and use of new methods in management and in the use of new means of production were present during the last 12 months in the enterprise. A detailed overview is presented in the chart below.

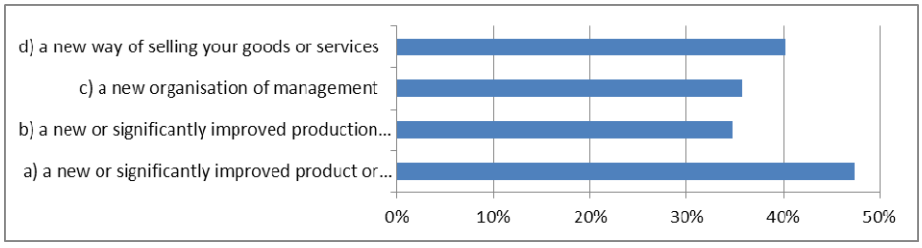

Figura 1. The new way of the developments of SMEs

Source: own compilation

Increased capacity is the desire of every business enterprise but not all of them have the same goals and concrete plans to increase capacity . Increasing the ca- pacity of the enterprise brings with it certain risks, so not all companies want growth. However, it is very important follow the trend of increasing capacity to

enterprises of all activities. In the following table we can see that from a total of 308 companies surveyed, 87% have realized investments in the last five years, and only 11% of them said that they had no investments during this period.

Table 5. fields of investments in SMEs

	Code	Count	Share
Invested	C2.1	269	0.87
did not invest	C2.2	35	0.11
a) Machinery %	C2.a	226	0.73
b) Buildings %	C2.b	179	0.58
c) Technical equipment's %	C2.c	177	0.57
d) New product %	C2.d	80	0.26
e) New brand %	C2.e	22	0.07
f) Orchards %	C2.f	24	0.08
g) Cows/livestock %	C2.g	25	0.08
h) Land %	C2.h	82	0.27
i) Other %	C2.i	38	0.12

Source: own compilation

Financial resources are very important to support the growth and development of MSMEs. Of these, about 90% have used their own funds to invest and somewhere around 50% of enterprises are utilizing commercial loans for investment. Another source of funding are also families and friends, and only a small fraction of them have been beneficiaries of public support, namely the Ministry of Agriculture grant and the European Commission have jointly offered as grants funding for agri processing.

Table 6. Financial resources

		Count	Share
a) Own founds %	C3.a	284	0.92
b) Privately borrowed founds %	C3.b	54	0.18
c) Commercial loan %	C3.d	145	0.47
d) Public/state support %	C3.e	35	0.11
e) other %	C3.f	12	0.04

Source: own compilation

Table 7. the average growth of SMEs in the past three years

		Count	Share
Yes	C5.1	266	0.86
No	C.5.2	41	0.13
In terms of employment regarding the number of full time or full-time equivalent employees	C5.a	178	0.58
And in terms of turnover?	C5.b	228	0.74
Grow substantially – over 20% per year	C5.3	126	0.41
Grow moderately – below 20% per year	C5.4	130	0.42
Stay the same size	C5.5	9	0.03
Become smaller	C5.6	3	0.01
Not applicable, the enterprise established recently	C5.7	1	0.00

Source: own compilation

Increased annual turnover of the company and increasing the number of employees is the goal of any enterprise which seeks to have steady development, by implementing projects that help expand the activities and income. Based on this principle, a similar situation is seen in the enterprises included in the survey, table 7. However, it is closely relatedto economic development activity. Certainly, by analyzing the circumstances of business development, a large part of the respondents, or 86%, stated that in the past three years, they have increased the number of employees, as well as the amount of annual turnover, i.e., about 60% of SMEs had increased the number of employees and 41% of SMEs have an annual turnover of over 42%. The following statement presents results regarding productivity indicators, and the data showsthat SMEs surveyed have had annual turnover increases of about 90%, and 95% have a profit!

Table 8. the trends

		Count	Share
Increased (4)	C6.4	212	0.69
Remained unchanged (3)	C6.3	76	0.25
Decreased (2)	C6.2	13	0.04
no answer (1)	C6.1	7	0.02
a) Turnover	C6.a	305	0.99
b) Labour cost (including social contributions)	C6.b	192	0.62
c) Other cost (materials, energy, other)	C6.c	187	0.61
d) Net interest expenses [= interest expenses minus interest income]	C6.d	165	0.54
e) Profit [= net income after taxes]	C6.e	293	0.95
f) Mark up [= selling price minus production cost per unit]	C6.f	223	0.72

Source: own compilation

Conclusions

Important goals that would be used for the benefit of SME are as follows: A significant number of SMEs should bewell organized and should have good experience in the local and foreign markets. There are also natural and human resources that may be used for SME development.

However, there are gaps which are hindering the use of resources mentioned above such as: poor organization of the use of natural resources, insufficient working experience in the industry, the lack of infrastructure from the industries which have been developed before the war , poor implementation of the current legislation, the widespread existence of the black market, the trade imbalance, and the lack of free competition.

Others difficulties in the functioning of SMEs are; the economic situation, unfavorable economic policies, lack of policies which favor exports and the lack of a sufficiently entrepreneurial culture.

In order to improve the situation and to increase the prevalence and access to these good opportunities, joint meetings among municipalities have to be arranged, including the presence of Ministry and SME representatives, where all sides can discuss the issues they face and can examine possible changes in unfavorable policies affecting local SMEs, and after these meetings, it could be possible to perform an assessment regarding the resources that municipalities need in order to stimulate the start-up of new industries.

Finally, the preparation of plans/policies for the use of natural resources is needed in municipalities possessing such natural resources, regarding the starting-up of SMEs which have potential and which are of an economic importance for those municipalities.

SMEs can also benefit from of opportunities to become familiar with new, modern and innovative production methods and with some industrial sectors, and this could be achieved through seminars and different courses for entrepreneurs.

Another important component in the research is the education background where results show that intel lectual businesses, inputs traiders and communication have the highest education level, whilst the lowest education level is found among businesses of wood processing, transport, construction, etc.

Regarding the number of employees, the results indicate that the processing industry and the production of eggs have more employees , in comparison to the producers of fruits and vegetables, fridges, repair of machinery, etc. Most respondents expressed that the increase of the general turnover and of the profit have been the most dynamic factors for strengthening their businesses.

Meanwhile, the cost of labor force and interest rates are seen as challenges to business. Most of respondents expressed that information and advice as well as more favorable loans would be the most important factors to encourage the start-up of new businesses.

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PERSPECTIVES OF COMMON AGRICULTURAL POLICY 2014-2020

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Chapter 10

National Rural Networks Lessons for policy formation and implementation within the CAP post 2013

Abstract: *I National Rural Networks (NRNs) have been introduced as a new policy intervention under the European Agricultural Fund for Rural Development (EAFRD) in the period 2007-2013. Major tasks ascribed to the NRNs are: transferring information on rural development measures to rural stakeholders, identifying good practices, and organising exchange of expertise and know-how. Classified as Technical Assistance, the NRNs are expected to increase the effectiveness of the EAFRD and to contribute to the improvement of policy delivery and governance. However, neither a common intervention logic nor an evaluation system has been established for the NRNs. This paper examines the NRNs' potential for added value creation and for achieving their objectives of improving policy delivery and governance. Special attention is devoted to the NRN in the post-socialist new member state Romania with little experiences in EU policies. The NRNs have so far raised hardly any scientific interest making empirical work essential for approaching our research objectives. Besides outlining the networks' theoretical potential from the literature, practical experiences with the NRNs were gained from surveys amongst network units across the EU and Romanian network members in 2010. Results allow for drawing an intervention*

logic underlying the instrumental idea of the NRNs, highlighting strengths and weaknesses in implementation, and providing lessons against which the legislative proposals for the Common Agricultural Policies post 2013 are discussed.

Keywords: *National Rural Networks, European Agricultural Fund for Rural Development, Governance, Network Theory, Policy Instruments, Romania*

Introduction

In the period 2007-2013, National Rural Networks (NRNs) have been introduced as a new form of intervention within the Common Agricultural Policy (CAP). Funded under the Technical Assistance window of the European Agricultural Fund for Rural Development (EAFRD) main purposes of the NRNs are 1) transferring information on rural development measures; 2) identifying good practices; and 3) organising exchange of experience and know-how (EC/2005/1698). The NRNs, which shall address various stakeholders involved in rural development, are interlinked to the European Network for Rural Development (ENRD). Following the strategic guidelines for rural development (EC/2006/144) NRNs are expected to contribute to the improvement of policy delivery and gover - nance. These expectations form a major difference to networking-interventions within European Union (EU) rural development policies, e.g. within LEADER[1] in the previous periods. However , contrary to other EAFRD interventions, no Link rationale has been formally established for the NRNs at European level. As the upcoming funding period (2014-2020) advances this paper aims at the development of an intervention logic for funded rural networks building upon relevant theories and lessons learnt with the NRNs so far.

A helpful initia1 point is, that from the perspective of political scientists networks play a pivotal role in the paradigm of new modes of governance. Networking is seen as instrumental to policy formation and implementation; particularly, if applied in the policy-formation process, it is likely to increase the quality and the acceptability of policies (de Bruïne and Clarotti 2001). Moreover, the idea of "networking" is that networks as organisational structures potentially generate instrumental effects and added value (Ethering, 2005; Jarillo 1988; Wagner et al., 2005; Weiligmann, 1999). Thus, because all EU interventions have to be implemented in an 'effective', 'efficient' and 'economic' way (EC/2002/1605), a further objective which can be assigned to the NRNs is to make best use of the benefits which the policy instrument's network design offers.

This paper also rests on empirical work: experienced gained with the NRN have been collected from network units across the EU in 2010. In addition, the

[1] LEADER stands for "Liaison entre actions de développement de l´économie rurale", which translates into English as "Links between the rural economy and development actions".

development of the NRN in the new post-socialist Member States, Romania, where is little experience with CAP intervention, networking and with participatory policy-making, potentially offers a quite interesting case revealing particular challenges and potentials of NRN implementation, is investigated in greater detail.

Last but not least, the evolution of the legislative proposal for setting up NRNs in the next funding is discussed against our empirical and analytical findings and the intervention logic proposed.

The missing intervention logic of the National Rural Networks

In the period 2007-2013, National Rural Networks (NRNs) have been introduced as a new form of intervention within the CAP's rural development pillar. These instruments are not only a new element within the CAP, but also new in comparison to the instrumental design of funded networking within LEADER in the previous periods. The common main purposes of the NRNs, which are to address various actors involved in the broad field of rural development, are according to the EAFRD regulation (EC/2005/1698, Art. 68): 1) transferring information on rural development measures; 2) identifying good practices; 3) organising exchange of experience and know-how, particularly among (potential) beneficiaries; 4) preparing training programmes for Local Action Groups (LAGs); and 5) facilitating inter-territorial and transnational partnerships.[2] In addition, the networks are mentioned in the strategic guidelines for rural development (EC/2006/144) as being expected to contribute to the improvement of policy delivery and governance. The NRNs are interlinked to and through the European Network for Rural Development.

Establishing NRNs is obligatory for Member States and had to be accomplished by the end of 2008 (EC/2008/168). For so doing, it can be drawn on resources from the EAFRD's Technical Assistance window.

The organisational structures of the NRNs, which are mostly associated with the Ministry of Agriculture, vary: the network units needed for running the NRNs may be established either within competent national authorities or by selection through tendering procedures. Second, while in most Member States, there is one NRN, in others there are also formally established regional networks (e.g. in the United Kingdom). Sometimes the National Network Units (NNUs), in charge with the networks (administrative) management, have decentralised structures, e.g. regional offices in Poland. The NRNs' decision-making body

[2] In other words, as noted on the website of the European Network for Rural Development (http://enrd.ec.europa.eu/, accessed 20.12.2010), the main role of the NRNs is "to support the implementation and evaluation of rural development policy. NRNs bring together a variety of rural stakeholders to promote communication and information exchange at the regional, national and European level". In this citation the spectrum of the NRNs' tasks has already been broadened and goes beyond their functions as defined in the EC regulations, which might indicate that the distribution of roles within the ENRD has not been finally clarified.

– a Coordination Committee or Steering Group – mostly consists of members representing rural stakeholders (e.g. representatives of ministries of related sectors, national farmers' associations, environmental and social organisations.

In contrast to most other EAFRD interventions, no overall objective, not to mention an intervention logic or a common evaluation system, have been formally established for the NRNs at European level; and only for a small number a more profound evaluation has to be conducted. Sole reference points for the founding link rationale are the operational objectives, better called activities (transfer of information on rural development measures, the identification of good practices, technical assistance for LAGs, etc.), that are outlined above, and the NRNs' expected contribution to improving governance and policy delivery. Yet, taking the limited reference points in the common regulatory framework, the beginning of an intervention logic can be suggested (Figure 1).

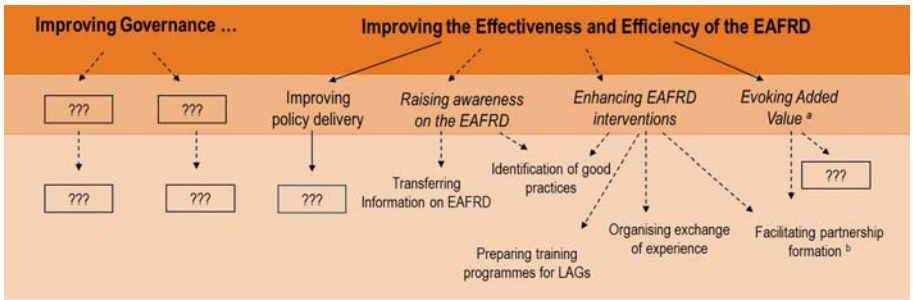

Figure 1. Proposed and yet uncompleted intervention logic for the National Rural Networks

Note: EAFRD = European Agricultural Fund for Rural Development LAG = Local Action Group

a Through sufficiently making use of the advantages the instrument's network design offers.

b This refers to the technical assistance, NRNs have to provide to LAGs with the intention of building up an interregional or transnational partnership.

Italic letters indicate that the respective NRN objective/ activity is not explicitly manifested in the EC regulations.

Source: Own design.

Indeed, the whole Technical Assistance component is affected by a lack of precise objectives. Nevertheless, several sources point to the following instrumental intention: Member States should be enabled to comply with the obligatory standards, which have been defined at the European level for achieving the overall goal of the EAFRD and for increasing the effectiveness and efficiency of other EAFRD interventions (EC/2005/1698; EC/2006/144; EC/2006/1974). This major objective can be definitively ascribed to the NRNs as well. Then, four sub-objectives, which to some degree interrelate, can be ascribed to the NRNs (Figure 1). First, Contributing to the improvement of policy delivery can be subordinated. The second and third sub-objectives, Raising awareness on the EAFRD and Enhancing the implemented EAFRD

interventions can be drawn from the operational objectives ascribed to the NRNs. The fourth sub-objective in Figure 1 manifests the aspiration of making best use of the NRNs themselves, and thus forms the rectification of their network design, namely Making sufficient use of the instrument's network design and evoking added value. With regard to this fourth sub-objective, one should bear in mind that in fact all EU (co-)financed interventions are to be implemented in an effective, efficient and economical way (EC/2002/1605). The objective of contributing to the improvement of governance, which forms one main difference to other Technical Assistance interventions, can hardly be directly linked to the other reference points provided in the regulatory framework. Still, as Figure 1 shows, further operationalization is needed, e.g. to set up measures/network activities addressing (sub-)objectives concerning governance, policy delivery and the creation of added value. Overall, the way the NRNs are manifested in the common regulatory framework leaves open questions regarding the policy instruments' potential and usage. This circumstance raises particular interest when having in mind that the programmingthe EAFRD for the next funding period is in progress.

Research Concept

The overarching ambition of this paper, namely to establish a sound basis for programming rural networks in upcoming funding period from lessons learnt with the NRNs so far can be further divided into the following set of research questions:

1) What is the NRNs' theoretical potential?
2) Are the instrumental objectives of improving governance and policy delivery through the NRNs achieved in practice?
3) Do the NRNs generate any added value?
4) How can the NRNs' instrumental design be improved and adapted to the legal framework in the upcoming funding period for increasing their effectiveness?

To address the outlined research questions a literature review on network theory, governance and policy instruments, were supplemented by empirical work, for collecting lessons learnt with the NRNs so far. The latter was essential as academic research on NRNs as well as on rural governance at the national level (Mantino, 2008; OECD, 2006) are rare, and also are evaluation reports on NRNs limited in content (see, Marquardt 2013) E-mail surveys were carried out among the NNUs and the members of the Romanian NRN in 2010[3]. For the Romanian NRN follow-up expert interviews were conducted in 2013. Furthermore, the evolution of the legislative proposals for the EAFRD in the period 2014-2020 was traced.

[3] National and regional network units listed on the "Contact list of National Rural Networks" on the ENRD website (www.enrd.eu, accessed 01.04.2010) were addressed in the first survey. For simplification, regional network units are also referred to as "NNUs". Out of 32 network units approached, 12 questionnaires were returned. Within the second survey, the questionnaire was sent out to 398 members of the Romanian NRN and 69 potential LAGs. Due to missing email-addresses and not working email-accounts, the questionnaire reached 381 actors and the rate of returns amounts to 16.3%. For a detailed documentation of the empirical work undertaken, see Marquardt (2013).

Considering that the NRNs were created as a policy instrument with the objectives of interlinking stakeholders, enhancing policy delivery and improving governance, in the following theories on two issues are briefly recapped: a) governance and the political sphere and related instruments; and b) social networks, as networks being or ganisational structure of actors and their potential for added value.

Governance in the political sphere

There is no universally accepted definition of governance (Blumenthal, 2005). Nevertheless, all definitions call attention to the institutional bases of the steering and coordination of collective action (Benz, 2004). In policy practice, since the mid-1980s the term governance has been given a normative notion touching on two dimensions: 1) improving governing through governance standards[4]; 2) decreasing state involvement in policy delivery in favour of private or civil actors (Benz, 2004). From the latter, a specific governing style named "governance" evolved and a search for new policy means took place for achieving better delivery of policies and creating preconditions for participatory policy-making. Policy instruments, which emerged in this context, are for instance consultative groups and public-private partnerships. Main reasons for the increased involvement of actors of the private and civil spheres in political decision-making are the expectations of technically more adequate and politically more realistic decisions and solutions of strong output legitimacy and acceptance (Papadopoulos, 2007). In the EU "governance" was brought up with the debate around democratic deficits and the development of the EU constitutions in 2000 (CEC, 2001). Apart from increasing legitimacy, improving governance has for the European Commission (EC) relevance for enhancing its image in the society and seeking confidence; it is as community priority manifested in the renewed Lisbon strategy and in the treaties.

Beyond the European contex t there is a slowly growing recognition that for administering integrated rural development policies effectively, horizontal structures integrating multiple sectors are essential at all administrative levels (OECD, 2006), as rural development demands interdisciplinarity and multisectoral interactions (cp. EC, 1996). In rural policy-making ideally, all levels are involved and interact as a 'multidimensional actor constellation' (cp. Mantino, 2008; Marsdon and Murdoch 1998) – metaphorically speaking, rural governance equals networking in a rural web.[5]

[4] Widely accepted principles of good governance are equality of partners, transparency, democratic decision-making, quality of communication and conflict management (CEC, 2001).

[5] The term "rural web" has also been used by Ventura et al. (2010), who do not explicitly refer to governance structures in terms of formal and informal institutions, but to various kinds of flows including, e.g. production chains for visualising the multifaceted character of rural development.

Church (2006) notes diversity, dynamics, democracy and decentralisation as key properties of (social) networks. Furthermore, networks are said to be open (Lee et al., 2005) and have flexible structures (Nooteboom ,2003). Generally, the structures of networks can bring advantages compared to other forms of organisation and certain network characteristics are likely to generate instrumental effects. A basic network effect is integrating information (of several sources) and making it available to a larger group of members (cp. Siebert, 2006). Information passed through social networks is more concentrated and more likely to be supplemented by interpretation than information in markets and hierarchies, respectively. Thus, the dynamics in interactions and exchange within a network equal more than the sum of the parts and potentially bring added value.

Although more or less contradictory to the principle of flexibility, many networks (like the NRNs) are to some degree institutionalised. Nevertheless, network members generally maintain their autonomy as participants (Earl, 2004; Segert and Zierke, 2004). However, as social networks are kept alive by the contribution of their members, the principle of voluntarism and non-bondage may result in instability and inefficiency of the network. Stability in a network might be assured through, e.g. the fact that outgoing network members loose access to resources (Segert and Zierke, 2004) and/or erratic behaviour is sanctioned (Weiligmann, 1999). Further, the creation of social capital may essentially contribute to sustaining a network. In turn, social capital might be created through the interrelation of repeated social interactions. To the benefits potentially resulting from social capital creation belong raised efficiency, facilitated cooperation and sharing, or increased creativity. Seeing social capital as resources-mobilizing factor, it requires investments in social relations (Lin, 2001); then again, the willingness to invest into social relations stems from the belief in reciprocity (Weiligmann, 1999), in other words rendering effort in advance depends on trust in persons.

Lessons from National Rural Networks

In this section, first experiences made by the network units across the EU are presented, before it special attention is given to the development of the NRN in Romania.

Experiences with the National Rural Networks across the EU[6]

The EU-wide 2010 survey among the NNUs revealed that the network units are convinced that the NRNs fulfil their technical assistance and information function and contribute to enhance policy delivery. Figure 2 provides an overview of network activities assessed by the network units as most fruitful.

[6] Note the results of the survey are discussed in detail in Marquardt (2011).

Reconsidering the draft intervention logic (Figure 1) it is noteworthy that none of the surveyed NRNs had formally set added value creation, which (social) networks theoretically offer, as objective and therefore, networks activities are not intentionally designed accordingly.

Figure 2. Most fruitful activities undertaken by network units (self-assessment)
Note: 39 entries given by 11 network units (ticking several answers was possible).
Source: Own data 2010.

Nevertheless, Figure 2 shows that particularly those activities were evaluated by the network units as fruitful, by which actors come directly personally together and it is focussed on certain topics, e.g. seminars. Though, going one step beyond and stimulating network dynamics in form of interactions, which potentially result in added value, turned out to be difficult. For instance, network units face problems in bringing different stakeholder groups together (potentially using the added value effect of diversity and complementarity), in initiating multiplier effects, as well as in stimulating and maintaining cooperation between stakeholders. Furthermore, the creation of added value is not exploited sufficiently, because the contribution of network members to networking activities is limited as they can rely on the network units.[7]

Despite in comparison to added value creation the objective of improving governance was explicitly assigned to the NRN in EU legislation, this issue is widely neglected, and many NRN do not have that aim formally on their

[7] Indeed, networks live on the contributions of their members, who invest in the network believing in reciprocity be it contributions in form of membership fees or information. Thus, an important prerequisite for the Romanian NRN to become reality is the establishment of trust in the network, resulting in social capital. Findings from Marquardt (2011), however, suggest that unconditioned funding from the EU and the Member States, i.e. from network external sources, actually decreases the NRNs' effectiveness of generating added value, because the application of the principle of reciprocity is not necessary for keeping the network alive. Though, it would not be possible to build up only on members' contributions, and thus to risk the dissolution of the network, because the NRNs should (independent from network activities) also provide technical assistance to (potential) beneficiaries (cp. Marquardt et al., 2011).

agenda. Moreover, many NNUs had no clear understanding of the objective of improving governance. Yet, half of the surveyed network units were convinced that the NRNs somehow contribute to improving governance and some of the NNUs confirmed that the NRNs have some impact on policy formation. A possible involvement of NRNs in policy-making and related challenges are reflected in the following stamen made by a NNU:

"Our independency from the Ministry of Agriculture has given us considerable freedom to address issues, bottlenecks and improvements at different levels of government. Although our criticism is not always welcome, it has led to an improved implementation of the RDP (Rural Development Programme)".

It can be assumed that the NRNs would bring greater benefit in improving governance if the EC would have specified this purpose. Even if not titled as improving governance – as it might be common practice in some countries experiences from some NRNs suggest that there are key actions in network participation which then again led to enhanced policy implementation.

The two sides of the Romanian NRN[8]

Although Romania officially set up its NRN in September 2008 due to public procurement issues the implementation of its network unit was delayed until December 2011. Nevertheless, despite their disenchantment already within the 2010 network members indicated high expectations on the NRN (Table 1).

First and foremost, most participants perceive the network as instrumental for accessing information (particularly about funds), establishing contacts/collaboration, and knowledge exchange. Second, the NRN is expected to lead to an increase in the amount of absorbed funds and contribute to the improvement in the implementation of the National Rural Development Programme (RDP). Through improving communication and transparency [9], and excluding any political influence, it is expected that the network will "make the reality in rural areas visible", and thus to provide a sound basis for policy-making. Furthermore, membership should provide regional and local people with the opportunity "to make their voices heard" and to become actively involved in the decision-making process. And more than three quarters of the surveyed Romanian actors were convinced that governance (with regard to decision-making processes) will improve through the NRN activities. While for citizens in Western Euro-

[8] The research on the Romanian NRN offers much more material for discussion on policy instruments and governance with which it is dealt with in Marquardt (2013).

[9] Increased transparency and social control, resulting from network activities due to an increasing number of social relations and flows of information, will enhance the RDP implementation process. For instance, transparency is like ly to increase, as desired by survey participants, because networking will facilitate comparing the assessments and scoring of rural development projects in different Romanian regions for (potential) beneficiaries. Thereby the NRN could effectively contribute to enhancing the procedures within the Romanian public administration, where there is little room for transparency and accountability (Mihalache, 2009) and where is a deficit in control of corruption (UNDP, 2011).

pean countries this NRN objective might be less relevant, for many Romanian surveyed NRN members, for whom following principles of good governance is no matter of course, the governance issue is very important.

Some survey participants emphasised that the improvement of governance will also depend on the network members and their courage, and particularly on the participation of key stakeholders in NRN activities. These opinions are reflected in a thought by Vihinen and Kull (2010, p. 193): an "important precondition for rural webs to unfold and function is whether or not civil society is active in and able to take part in decision-making processes".

There are three areas where the Romanian rural actors might practice new modes of governance: 1) decisions concerning the NRN itself, e.g., distribution of network resources and ideally the revision of the network's specific objectives; 2) discussions and decisions on improving the RDP implementation process; and 3) decisions in the policy-formation process. The challenge for Romanian actors will be to conduct discussions with multiple stakeholders applying principles of good governance. Survey participants admitted that assistance by the network unit or other external actors might be needed to impact on decision-making processes; in particular with regard to their depoliticising. Here, an independent national network unit might have a key function as mediator.

Table 1. Expectations of the Romanian National Rural Network

Expectations	No. of responses
Effective functioning and dynamic network (with a realistic action plan) & commitment and responsibility from its members	**20**
Cohesion among all actors involved in rural development	**12**
Increased transparency (e.g. in the allocation of funds) & exclusion of any political influence	**12**
Improvement of national RDP implementation	**12**
Discussion on/review of rural development regulations	**7**
Advice/Support/Assistance (in applying for funds)	**28**
Better access to information	**34**
of which focussed on exchange of experiences & good practices	*15*
Improved communication	**12**
Public debates & public consultations	**11**
Increasing and facilitating partnerships (not only between LAGs)	**9**
Others (e.g. establishing regional network structures; increased absorption of funds)	**21**

Note: n = 78 RDP = Rural Development Programme
Source: Own data 2010.

Overall, these results suggest special potential of the NRN in that post-socialist new Member State as enabling instrument, as actors, both administration and (potential) beneficiaries lack experiences in EAFRD implementation, flow of information on rural development issues are rare, and participatory democracy is no common practice.

Moreover, the willingness of rural actors to actively contribute to the network appeared to be quite high in 2010, which might be reasoned in the greater need for activities which are to be offered by the NRN as e.g. the presence of advisory services and the presence of organization is not very strong in that country, in the fact that apart some actors primarily see their personal benefit of the membership, others act beyond self-interest anticipating rather common objectives for the rural areas; and in the main motivation for joining a network the belief that membership allows achieving issues that could not be tackled by an individual actor or allows achieving them in a better, more efficient way (Jarillo, 1988; Ray, 2001), which closely follows the network-theoretical principles. The latter suggest that there has to be a strong belief in reciprocity, in that sense that network members are convinced that there contribution to the network will be responded in one way or another (see Section 5.1).

Collection first lessons learnt after the Romanian NRN was in place for one and half years in 2013 revealed that the potential drawn from the members early expectation had start to become feasible: from the perspective of members of the network unit after the period of deadlock "Making some effort, a diverse range of rural actors could be mobilized; larger players participated rather passively in network activities for not missing any opportunity". LAGs felt that in contrast to the (independent) LAG network, all LAGs had a fair chance to receive funding for participating in NRN activities. And finally members of the Managing Authority, which is settled in the Ministry of Agriculture, stated that "the network would have been a good tool for the elaboration of the next RDP (…) Despite the administrative problems faced, outsourcing the network might be a suitable solution for the next funding period as well".

One further lesson, which can be learnt from the evolution of the Romanian NRN, is the consideration of the effect of openness characterising a network: despite a composition of members in 2008 originally representative for Romania's rural areas, when a part of the membership was invited to join the network for achieving that representativeness, the membership tended to develop in an imbalanced way with, for instance, commercial farmers being over-represented. This shows that membership and contribution can hardly be steered, which makes the NRNs an incalculable policy instrument. Thus, not only the question of who is involved in network activities and decision-making processes, but also the question of which affairs the NRN will take up, is decisive.

To sum up, a NRN as policy instrument has high potential to make an impact in Romania on the one hand. On the other hand, that potential could not be used in that country, because 1) the obligatory deadline (2008) for setting up the NRN was missed and NRN activities started only by the end of 2011; and 2) actors at European level took a rather passive role. That the NRN was not functioning in the essential early phase of EAFRD implementation implies a severe limitation of the EAFRD's overall effectiveness as that kind of technical assistance was not available.

The presentations so far clearly point out that the instrumental design of the NRNs has not been matured, and the objectives ascribed to the networks have not been defined precisely, a shortcoming which the European Court of Auditors has also criticised for other EAFRD measures (ECA, 2013), and have not sufficiently operationalized, neither at European nor at national level. On the other hand, empirical clearly suggests that there are key actions in the running of NRNs allowing achieving the networks' objectives. Against the background of the upcoming funding period, in the following an intervention logic for the NRNs is drawn and discussed how lessons learnt with the NRNs are reflected in the legislative proposal for the EAFRD 2014-2020.

A Proposal for an Intervention logic for the NRNs

Drawing on the findings presented above and building upon the experiences made with NRNs across the EU and theories on networks, governance and policy instruments, in the following an intervention logic for the NRNs is developed, taking Figure 1, in which objectives and tasks ascribed to the NRNs within the legal framework were reflected, as point of departure. The theoretical and empirical discourses now allow closing major gaps, which are the operationalization of the objectives of improving governance and policy delivery as well as the logically drawn objective of evoking added value, which is given by implication because of the network design of the policy instrument.

For achieving the objective of improving governance, three areas have been identified, where NRN activities could directly contribute to improving governance: first, a rather network-specific one concerning governance within debates on the NRN management. Furthermore, discussions between network members, programme agencies, (potential) beneficiaries and other stakeholders on the implementation process; and also rural development policy formation could be subject of NRN activities (Figure 3), then explicitly requiring involving policy-makers. Operationalizing the objective of improving governance in that way it becomes obvious that both actions, a) Improving governance in the policy implementation; and b) Improving governance in policy formation are directly related to the objective of improving policy delivery (Figure 3). Consequently, improving governance can be seen as end in itself or as sub-objective to the main objective of any Technical Assistance measure including the NRN of Improving the effectiveness and efficiency of the EAFRD. The empirical findings underscore that the tasks formally ascribed to the NRNs such as circulation of information are likely to have great impact on enhancing policy delivery and the EAFRD's effectiveness and efficiency, which might be fruitfully complemented by NRN-specific activities.

The question, in how far discussion on policy formation and implementation are subject to network activit ies, might be a critical one, and the decision is likely to be made not solely made by the network units but the ministry in

charges. For instance, one reason for the finding that NRN involvement takes place in comparison to policy implementation to a less extent, in RDP-related policy-formation processes, might be that participatory policy-making, implies (like decentralisation) sharing of power. In this context, improving governance is therefore above all a question of political will (see also (CEC, 2001), as it will be further discussed in the next sub-section.

Figure 3. Proposed intervention logic for the National Rural Networks

Note: EAFRD = European Agricultural Fund for Rural Development LAG = Local Action Group

a Through sufficiently making use of the advantages the instrument's network design offers.

b This refers to the technical assistance, NRNs have to provide to LAGs with the intention of building up an interregional or transnational partnership.

c An example for NRN-specific activity is going beyond the direct scope of the EAFRD in seminars etc.

Italic letters indicate that the respective NRN objective/ activity is not explicitly manifested in the EC regulations.

Source: Own design.

As it concerns the achievement of added value, especially the aspect of complementarity, which can be operationalized through, for instance, interdisciplinary network activities, has been identified as crucial. Furthermore, achieving reciprocity, in that sense that network members also contribute to the NRN appears meaningful to be set as sub-objective. This requires supplementary network activities to be set up. Generally, essential for winning network members and attracting them to contribute, and thus for making the network viable, clearly defined objectives and incentives are needed. In fact, the main objectives of the NRNs, which are externally sponsored, were imposed by a top-down decision made at the European level instead of being endogenously grown.[10] Thus, key for successfully running an NRN is the identification of its

[10] Considering that in a network, where "power is not manifestly centralized" (Davies 2005, p. 146), it is more appropriate to negotiate and agree on objectives, it should be expected that stakeholders from all levels are involved in the definition of goals. Then again, the nature of the interactions between the network unit and the members are decisive. Ideally, after having established trustworthy relations between network unit and (potential) members, e.g. by offering network activities, and member feel their benefits from the network and are confident that the principle of reciprocity applies, they are attracted to contribute to the network and added value is created, whereupon, members' trust in the network can be seen as the pre-requisite for the creation of the minimum social capital generating such added value.

own national goals, which will reflect and capture the interests of its (potential) members and to go, if necessary, beyond the externally defined objectives. This applies for instance to the desire of not only to focus on EAFRD-related issues. One main objective of many members of the Romanian NRN is the development of Romania's rural areas and not to gain EAFRD funding per se. Experiences from other Member States (e.g. Germany, United Kingdom) show that it is important for network members to go beyond the focus of the EAFRD and also to discuss, for instance, alternative funding opportunities.

Is it strived for fully using the NRNs' potential in future?

Box 1 presents the evolution of the legislative proposals for the design of NRNs in the funding period 2014-2020. In fact, considering the NRNs' potential for enhancing policy-making identified in the previous sections, the NRNs themselves appear a suitable vehicle for the CAP formation process by reflecting the interests of multiple stakeholders and offering space for public debate.

Article 55

National rural network

"Networking by the national rural networks shall aim at to

(a) Increase the involvement of stakeholders in the implementation of rural development;

(b) Improve the quality of **implementation of** rural development programmes,

(c) Inform the broader public and potential beneficiaries on rural development policy **and funding opportunities**;

(d) Foster innovation in agriculture**, food production, forestry and rural areas**.

(…) EAFRD support under Article 51(3) shall be used

(a) for the structure needed to run the network;

(b) for the preparation and implementation of an action plan containing at least the following

~~(i) network management;~~

~~(ii) involvement of stakeholders in support of programme design;~~

(iii) share and disseminate monitoring and evaluation findings;

(iv) provision of ~~training~~ **networking activities for advisors and innovation support**

(v) collection of examples of projects covering all priorities of rural development programmes;

~~*(vi)* ongoing studies and analysis;~~

(vii) **provision of training and** networking activities for local action groups and in particular technical assistance for inter-territorial and transnational cooperation, (…)

Box 1. The evolution of legislative proposals on the National Rural Networks for the funding period 2014-2020 (CEU 2013; emphasises in the original)

However, looking at the text of the legislative proposal and the indicated modifications it becomes obvious that on the one hand, the authorities at European level have the objectives of the NRNs more clearly defined, especially that the networks are expected to contribute to the quality of policy implementation. On the hand, the deletion of the phrase "support for (…) involvement of stakeholders in support of programme design" makes it evident that improving governance in the policy-formation process appears to be no scope of the NRNs in the funding period 2014-2020, underlines that no EAFRD funds are to be spent for that purpose, respectively. Definitively, by so doing, risks of governance failure and derailing of policy formation processes due to the network effect of openness potentially resulting in an imbalanced stakeholder composition involved in policy formation, can be tried to be avoided. Yet, this also implies, that the chance of formally introducing an element of parti-

cipatory democracy into the common EAFRD framework is not used. Other institutions with relevance for the EAFRD, noteworthy the pre-selected social and economic partners to be consulted within the policy formation process, do not follow the principle participatory democracy.

Potentially, the NRN can feature out a much stronger tool in terms of enhancing participation than, for instance, Social Dialogues and EAFRD Monitoring Committees formed by social and economic partners. While in the two latter institutions, which function as a result of a representative democracy, only a limited number of actors can participate, due to the openness of networks, the NRNs have the notion of participatory democracy. Participatory democracy is superior to representative arrangements in dealing with system complexity as it regards, for instance, policy choice, strategy formulation and problem solving in general, because it increases system diversity and system interaction (Wagenaar, 2007). This does, however, not imply that finally the question of legitimacy is soundly clarified, as e.g. the outlined problem of non-representativeness might occur and network members are not elected by society at large. Furthermore, ascribing the networks a pivotal role in the decision-making on major policies can be critical as the network might be coined by influential actors resulting in a lack of (participatory) democracy and the misuse of decision power.

Indeed, in some Member States, there are rural parliaments in place; but there is no obligation to consider their voice in EAFRD related policy-making. For Member States, where good governance is no common practice, like in Romania, it would have been desirable if the phrase "Improve the quality of implementation of rural development programmes" (Box 1), would be somehow linked to participation or to the objective of improving governance, whereat the latter appears to play no obvious role in the EAFRD 2014-2020 period. Being externally required, the introduction of new modes of governance through participation is likely to make an impact in those Member States, even if the NRN is not considered in policy-formation processes or/ and only on a consultative basis in the policy-implementation process, and could also lead to informed policy-making as NRNs are likely to reflect the needs of rural areas, and to properly judge the effects of implemented policies. It might be hoped, that Member States use the chance of using the NRN as policy instrument for simultaneously increasing the effectiveness of rural development funds and for the improvement of governance.

It is not astonishing that the in the legislative proposal no objective of "added value creation" has been registered as in this regard the risk of policy failure would be high. It is understandable that vague terms are avoided in central regulations, but there are alternative means[11] to forming a common understan-

[11] Such common agreements on the definition of objectives and the interpretation of terms could be arranged in a manner in accordance with the procedure referred to in Article 90 of Regulation (EC) 1698/2005. By doing this, all Member States would then have to try to achieve the set objectives and develop a strategy

ding of what should be achie ved, under, e.g. added-value creation. Alternatively, as it has been shown in this paper, there are network activities which contribute to added value creation, e.g. focusing on interdisciplinarity. Such action could have been placed on the list of network activities, obligatory to be scheduled by Member States, for directly stimulating added-value creation.

Conclusions

The setting-up of National Rural Networks as new policy instrument as a mandatory requirement in the period 2007-2013 brings about mixed results allowing lessons to be learnt for further developing the NRN's instrumental design. Without doubt the NRNs effectively contribute to enhancing policy implementation through the provision of information and technical assistance. Particularly for Member States, which are experienced in EAFRD implementation NRNs might also function as enabling instruments supporting the administration to enhancing EAFRD policy delivery processes. Nevertheless two major drawbacks need to be tackled: 1) Despite widely acknowledged as being a valuable technical assistance, systematic evidence for the networks' impact is still missing; and 2) much of the NRNs' theoretical potential remains unused, as a) as objectives are not actively pursued; b) the issues of governance and added-value creation are neglected; and as c) the policy instrument suffers from a lack of enforceability and enforcement.

Indeed, limitations in added-value creation were found being a result of the non-applicability of the principle of reciprocity due to the presence of funding, which assures that a "network" or at least a network units is always in place, but to the same time is likely to induce network members' passivity, as their contributions are not requited for keeping the network alive, which suggests to well-consider resource distribution in future. Moreover, the creation of added value by using the potential ef fect of social networks has turned out challenging for NNUs. Though, this paper revealed that added value creation can be achieved if it is set as a conscious aim and if key actions such interdisciplinary activities and the development of endogenously grown objectives are set onto the networks' agenda. Generally, if policy objectives like added-value creation or improving governance are really aspired, this should be underlined by appropriate actions. In other words, by refining common objectives and/or extending the list of mandatory NRN activities, the effectiveness of the NRNs could have been increased. This paper has shown that despite the usage of vague terms like governance avoidance of policy failure is possible, either by associating legislation by complementary documents or by drawing clear interventions logics. Then again, an active role of the Commission is important for stringently enforcing EU legislation. This task starts with the approval of the RDPs, but also entails enforcement of implementation, in cases like Romania, where non-

to do so (instead of achieving certain objectives accidentally).

implementation obviously has led to decreased EAFRD ef fectiveness or if Member States duck out of the objective of improving governance, which can be directly related to ambitions in increasing policy effectiveness.

In fact, through their participative nature the NRNs offer the potential of enhancing policy-making in both, the policy-formation and – implementation process. Yet, following the analysis of the legislative proposals for the period 2014-2020, the purposes of the NRNs have indeed been outlined more explicit than in the previous one, which is likely to enhance their ef fectiveness. However, apparently, the NRNs should definitively not play any role in policy-formation processes in the next funding period, which can be judged as a lost opportunity for strengthening participatory democracy and informed policy-making on the one hand, but also as a safe-guard for avoiding gover - nance failure due to a lack of legitimacy possibly resulting from incalculable network evolution.

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Chapter 11

Innovation Opportunities in Hungarian Rural Development

Abstract: *Acquiring new knowledge and competences is crucial in the success of individuals, enterprises, regions and countries, since knowledge may become obsolete very quickly. Besides technological development, innovation can be characterised by well organised, risk reducing systems and networks. Innovation in Hungarian rural development with the establishment of a knowledge-based, competitive and successful rural economy is crucial. In Hungarian agriculture and rural development the market based innovation system building on endogenous resources is not operating. The innovation chain is narrow and underdeveloped, the majority of the innovations implemented in rural areas are small-scale and – without knowledge, equity and business relationships – are not viable. Agricultural innovation development is the primary area of intervention to boost the competitiveness and value added of farms and food processing enterprises, the utilisation of renewable resources and ICT development. At the same time in rural development the establishment of partnerships aiming at innovation dissemination can create the value added.*

Keywords: *innovation, rural development, networking, partnership*

Introduction

Innovation is a strategic field in the economic development of Hungary. In rural development the establishment of an innovation- and knowledge-based, competitive and successful rural economy is crucial. In order to improve the living conditions in rural areas, both exploitationof agricultural potentials and diversification of rural activities are needed. The innovation measures of the next rural development programme (2014-2020) are of the utmost importance for developing Hungarian rural areas and making them more viableThe paper identifying and analysing the innovation opportunities and potentials in Hungarian agriculture and rural development.

The establishment of the innovation system requires the coordinated and harmonised operation of the business based, technology oriented agricultural innovation model and the multifunctional rural development model built upon bottom-up initiatives and local partnerships. The foundations of a complex innovation system are provided by a transfer of knowledge that meets the needs of the innovation chain actors and the creationof an innovation strategy that has wide social acceptance, manages risks deriving from the introduction of novelties and considers the creation of social benefits (World Bank, 2006).

Discussions and results

Role of innovation

Theoretically, innovation is an important factor of economic development, and in some cases even of economic survival (Jarjabka and Lórándt, 2010). Acquiring new knowledge and competences is crucial in the success of individuals, enterprises, regions and countries, since knowledge may become obsolete very quickly. Besides technological development, innovation can be characterised by well organised, risk reducing systems and networks. Beyond the direct economic benefits of innovation, long term effects resulting in societal change and transformation are especially important. Owing to the strong competition and the low willingness to cooperate, innovation systems in Hungarian agriculture are undeveloped, little priority is attached to the research and training needs of farmers (Fieldsend and Székely, 2013).

International experience shows that the demonstration of good innovation practices constitutes one of the main tools of raising awareness and enhancing dissemination (World Bank, 2012). Inclusivity might be intensified by increasing the number of participants in the innovation chain, new groups of society might be involved in developments, and unused capacities might be identified. International organisations that are well known in shaping innovation policy also focus their interest on introducing and evaluating applicable solutions which can be recommended as good innovation practice for the rural population. These organisations see significant potential in linking research

and practical application, enhancing innovation capacity and cooperation, applying communication systems that provide better information flow and creating an innovation-friendly regulatory environment.

Innovation has not appeared in EU policies as a direct criterion so far, but from 2014 the EU plans to put innovation at the heart of its policies. The horizontal priorities set for the next programming period will exert pressure on enterprises to innovate. Innovation performance in agriculture and rural development at the EU level is boosted by the EARDF which makes innovation and knowledge transfer its first priority and considers it to be a horizontal priority as well. Developmentaims at expanding the innovation chain, deepening the relationship and cooperation between its actors, improving the quality of education, and promoting innovation and experimental development. The aid intensity of innovation projects funded from the EARDF can even reach 100 per cent regardless of the development level of the region. According to the plans funding for the first and second pillars will be complemented by further EUR 5.1 billion for research and innovation.

The European Union also will fulfil a catalysing role in the innovation processes in the near future. It has a multilevel intervention system ranging from strategy formulation, supporting innovation investment and operating community level initiatives to acknowledging projects with outstanding innovation performance [European Commission 2010]. EU agriculture and rural development policy stimulating innovation also requires the expansion of innovation capacities, such as the modernisation of the Agricultural Knowledge and Information System (AKIS) originally developed to improve the acquisition of information by farmers. Greater inclusion of farmers (by meeting their practical needs) and improved processes of innovation and dissemination activities of AKIS are necessary [ENRD 2013]. Strengthening of the horizontal links between agricultural and rural innovation will be supported by the establishment of the European Innovation Partnership.

Situation in Hungary

The overall innovation performance of Hungary is modest (Polereczki, 2012). While the proportion of corporate innovation expenditure (apart from R&D) decreased significantly (by 14 per cent), there were dynamic increases both in the sales of new products and services (6.8 per cent) and in the number of community trade marks (12.2 per cent). Besides its fragmentation, innovation institutions in Hungary can be characterised by a dominance of the public sector. At the national level innovation processes are coordinated by the ministries and their background institutions. At the regional level regional innovation agencies financed partly by the government and partly by their own business services play the coordinatingrole. Agricultural innovation is coordinated by the Ministry of Rural Development. The institutional background of

R&D consists of government sponsored and commercial research institutions and university and college research centres. Regarding further participants of the innovation chain, the AKIS system, including training institutions, the network of village agronomi sts, the agricultural advisory network, and the Farm Information Service, undertakes knowledge transfer and implements R&D results.

In spite of the organised institutional system Hungary significantly lags behind the EU in R&D, in entrepreneurial innovation and application, in the innovation performance of firms, and in relationship building between the innovation actors. While in the EU-27 R&D expenditure accounts for 1.9 per cent of the GDP, in Hungary this proportion is 1.2 per cent (although increasing), and nearly half of it is concentrated in the Central Hungary (NUTS2) Region. In terms of innovation the only relative advantage is the quality of human resource avail able while theory-oriented research, occasional cooperation among the participants of the innovation chain, the lack of relationships between the enterprises and an unstable financial background are among the weaknesses.

Besides innovative projects that boost the competitiveness and value added of farms and food processing enterprises, the utilisation of renewable resources and ICT development create development innovation opportunities in agricultural production. In rural development the partnerships aiming at innovation dissemination play a key role. As with the EU, to return to economic growth Hungary requires a consistently implemented innovation policy. While the activities of agro-input producer, distributor and integrator companies remain dominant concerning the most important innovation related investments, in Hungarian agriculture and rural development there is a significant innovation development potential in R&D, corporate innovation, education and training as well as in cooperation.

Innovation should be emphasized in education, training and extension. In order to create professionals open to innovation it is necessary to have up-to-date curricula, teachers with links to Hungarian and international research institutes and enterprises, technologically well-equipped training sites as well as demonstrations by professional experts. Synthesis and nurturing of good practices together with rural development partnerships contribute to the promotion of innovation. Innovators can also benefit since their methods and technologies can spread in an unprecedented scale.

Performance of innovative farms

OECD study (2013) states that innovation activity enhances the performance of agriculture could be improved with younger and educated far - mers entering the sector, development of the education and training system, and the allocation of support for investment with preference to innovati -

on and good practice dissemination. In addition to increasing the productivity of the advanced farmers the least profitable farms need to close up. Younger and educated farmers are more innovative, their economic performance is higher, and their resource utilization is more efficient. The economies of scale also apply , which could be associated to better management skills. The share of young and educated farmers in Hungary is low , 3.3%. Their potential for innovation is proven by their higher performance. On average farm leaders under 40 years with higher education use a quarter more cultivated land, keep 20% more animals, and produce nearly 50 percent more gross value added with 40% more labor input, as farmers older then 40 years without higher education in agriculture (Table 1). The benefits are higher at the larger corporate farms.

Table 1. Main characteristics of farms by age and education of farm leader

Farms	Economic Size group	Average							
		Land (UAA)		Livestock		Labour		GWA/AWU	
	SO*	hectare		LU		AWU		(thousand HUF)	
		YE**	O***	YE	O	YE	O	YE	O
Private farms	2-5	3.9	10.9	0.1	2.5	0.7	0.6	6133	3741
	5-8	4.0	17.9	3.3	4.3	1.1	0.7	1529	3709
	8<	65.4	51.4	8.0	12.1	2.1	1.5	9429	6912
	Total	18.0	25.5	2.2	6.0	1.1	0.9	7125	5367
Economic organization	<8	-	16.1	-	9.5	-	0.8	-	4394
	8<	341.0	141.1	115.7	34.7	8.2	4.5	10511	7085
	Total	341.0	111.9	115.7	28.8	8.2	3.7	10511	6942
Total farms		34,8	27.9	8.1	6.6	1.4	1.0	8135	5521

***Standard Output category (1 STE: under 2000 EUR, 2 STE: 2000-4000 EUR, etc);**
**** Young and educated farm leaders; *** Other farm leaders**

Source: FADN, 2011

Internationally agreed factors which influence effectiveness were examined for the most successful farms in Hungary (Biró et al., 2013). The identified factors [Intensive farming (30.4%), Economies of scale (9.4%), Financial background (8.3%), Diversification (7.4%), Geographical conditions (6.9%), Innovativeness (6.5%)] explained 68.7% of the total variance. Generalizing the results of the best performing, innovative farms, more efficient resource utilization could be detected regarding labor, land and investments (Table 2).

Favorable market position of crop production has a positive effect on the innovation performance of mixed farms. At the same time (as an adjustment to unfavorable market environment) those livestock farms which lack the land for feed production save their costs and cut back on their investments (similarly to the other farms).

Table 2. Main features of innovative farms (%)*

Denomination	Farm type**				
	arable	horticulture	milking stock holder	ruminant stock holder	mixed
Labour use	123.4	114.7	105.8	104.4	70.3
Utilised agricultural area	139.8	191.2	-	-	97.7
Animal	-	-	86.8	65.1	135.9
Gross investment	118.3	136.8	72.3	89.9	151.0
Farmer age***	-0.5	-4.3	-5.0	14.0	-6.3
Farmer education****	0.5	-0.7	0.3	-1.4	-0.3

Note: * total output based resource utilization compared to economic performance of non-innovative farms; ** innovative granivores holder type farm in the FADN sample could not be found ; * Average age difference (years) compared to non-innovative farm leader; **** Level of education (up to 1-5 point system) a difference between the leaders of the non-innovative plants.**

Source: FADN, 2012

Managers of innovative farms are usually younger than the leaders of the other farms though only in the case of arable and dairy farms do they possess higher qualifications as well. The overall Hungarian innovation activity is moderate but has a positive influence on farming efficiency, which can be further improved by diverting investments toward innovation through the support system.

Actors of the innovation chain

In Hungary the market based innovation system in agriculture and rural development is not operating. The innovation chain is narrow and underdeveloped, and the benefits of innovation are not recognised by the farmers themselves. To determine the potential development tools for innovation in agriculture and rural development, innovation chain actors (15 pieces) were interviewed (Biro et al., 2013). Summarizing the expert interviews, it can be stated that for successful adaptation to the changing economic conditions the stimulation of public R&D activity considered the first step. Organizations taking part in knowledge transfer of innovations is not properly managing their activity, the majority of farmers are often not aware even of their existence.

In the R&D funding a distinction should be made between scientific breakthroughs and on the minor adaptive innovations. Private investors, banks only invest in matured innovations with prominent growth perspectives, avoiding the high-risk based experimental type research activities. In the agricultural sector virtually no exploration of ideas, innovation management brokers exists, business risks of innovations at an early development stage not managed by seed capital funds or business angels. EU funds although have created opportunities for improvement, but the projects are still insufficient and poorly structured. The competitive advantage encourages innovations. Key actors in the agricultural innovation are the businesses, which is predominantly based on new product or technology . Strong relationship exist in terms of

innovation and the provision of concentrated sales of products. Agricultural businesses connections with international trade have preference toapply high-level technologies.

More effective dissemination of innovation is also neede d since in spite of the favourable performance of agriculture, its productivity is only half of the average of the 'old' Member States. In Hungary agriculture has a 1% share in R&D expenditure and its innovation performance is low. Knowledge transfer institutions without local links play a minor role in innovation knowledge transfer. Within the agricultural sector agro-input producers and distributors with foreign parent companies and which market their own products benefit almost exclusively from innovation dissemination.

Conclusions

In agriculture and rural development enhancing R&D provides a basis for a successful adjustment to the rapidly changing economic conditions. Increasing the performance of innovators may stimulate growth even under more difficult economic circumstances. Strengthening the innovation approach and knowledge in education and training will bear its fruit since entrepreneurship and job creation are interdependent with knowledge and innovation and they stimulate each other. Extending knowledge transfer by developing the dissemination process can further innovation.

Regarding the enhancement of innovation in agriculture and rural develop - ment the government has a primary role to intervene in those strategic and public areas where innovation does not proceed by itself at a satisfactory rate. R&D institutions should be encouraged to narrow the gap between science and practice, by the practical application of their research results. They should build a relationship and establish mutual trust with the farmers. In order to provide results that demonstrate the economic, environmental and social benefits of the practical application of innovation, research should be conducted within research networks.

Innovation should be emphasised in education, training and extension. In order to create professionals open to innovation it is necessary to have up-to-date curricula, teachers with links to Hungarian and international research institutes and enterprises, technologically well-equipped training sites as well as demonstrati ons by professional experts. Synthesis and nurturing of good practices together with rural development partnerships contribute to the promotion of innovation. Innovators can also benefit since their methods and technologies can spread in an unprecedented scale.

Agricultural knowledge transfer can be stimulated through the AKIS and through producer co-operations by disseminating the novelties among the members. The innovative activities of industrial clusters cover the process

from sharing information to generating a joint new innovation. Besides good governance, innovation capacity of agricultural and rural areas can be increased by accession to social networks; in this way innovation can become part of society's culture.

In rural development the establishment of partnerships aiming at innovation dissemination can create the value added. Innovation in Hungarian agriculture and rural development needs systematisation and expansion of the innovation chain, while dissemination of innovation requires the promotion of innovation results and awareness-raising. Assessment and evaluation of the practice of innovation can be the future research direction

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Chapter 12

Tourism, cluster initiatives, and rural development in Slovakia

Abstract: *There are numerous studies which point to the possibilities for rural revitalization and improvement of the living standards of the rural population through development of tourism. Cluster concept and regional cluster initiatives in tourism are generally presented as tool for fulfilment of ideas about the successful regional and rural development. This study presents the genesis, functioning and impact of two tourism cluster initiatives from mountainous rural areas of Slovakia (Orava region and Turiec region) on selected regional indicators (net migration of population, number of tourists, overnight stays and unemployed persons) with the aim to confirm or put into the question the validity of positively perceived direct relation between the simple existence of tourism cluster and racional (successful and/or sustainable) spatial development. The results (comparison of applied regional indicators before and after establishment of tourism clusters) show that establisment and existence of tourism clusters in Orava and Turiec regions are not automatically accompanied by the dramatic changes of regional and rural economic prosperity and/or sustainability in the first years of their activities.*

Keywords: *rural and regional development, tourism clusters, assessment of cluster initiatives in tourism, Slovakia*

Introduction

The expectations associated with development of tourism in Slovakia, a small country with attractive landscape, cultural and historic landmarks, are currently connected with its contribution to the economic development of the state and the individual regions. Tourism, according to official statistics one of the most dynamically developing sectors in the world, is viewed and declared as the perspective industry of the Slovak economy (in spite of the low proportion of tourism in the GDP - less than 3%), and especially the rural economy. The governmental programmes with economic development of rural area as one of their priorities emphasise diversification of economic activities including creation of new work opportunities in the sphere of tourism. Tourism and every effort for its economic competitiveness is generally perceived as some kind of universal solution to all problems of rural area. This is the reason why the approach based on concept of tourism clusters, concept based on cooperation between public local authorities and private entrepreneurs, is now so popular in plans for the development of tourism and regions/localities (e.g. Nordin, 2003; Jackson and Murphy, 2006; Schejbal, 2012). The aim of the tourism cluster is to make use of endogenous territorial potential based not only on the natural potential (locality's character and relative geographic position) but also on the capabilities of local population (human and social capital), and presence and quality of locally based supporting industries related to tourism (accommodation and catering facilities, transport service, etc.). However, the minimally short-term experience showed that reality is often very dif ferent from idealistic imaginations. In order to improve the existing situation it is inevitable to understand rural area as the space that is distinctly differentiated from the point of view of tourism potential.

Discussions and results

Cluster and clustering in tourism

The term "cluster" was introduced by the American economist M. Porter who described it not only as an analytical concept but also as a political tool for achieving the competitiveness of various economical branches (particularly in manufacturing) and spatial units. Porter defines clusters as „geographic concentrations of interconnected companies, specialized suppliers, service providers, firms in related industries, and associated institutions (universities, standards agencies, and trade associations) in particular fields that compete but also cooperate" (Porter, 1998). Contracting supply-demand relationships, joint technologies, common purchasers or distribution channels or even the common labour market are the factors that unite cluster into one unit. But it can be also various training or research initiatives, joint marketing and lobbying (Nordin, 2003).

Porter saw the cluster (and clustering) as a geographically localized grouping of interlinked businesses and as one of the possibilities how to increase their

competitiveness, to improve the productivity and through them to increase the economic well-being of population living in the concerned territories.Although Porter's work is mainly focused on the manufactur ing industry, it has also been extended and applied to service industries, such as tourism.

Porter (1990) in his first work devoted to the national competitive advantages and international competitiveness develops the idea that the success of exporting companies in a country (competitiveness of firms is associated with their success in the field of export) depends on the "competition diamond" Smeral (1998) used Porter´s diamond as a model, facilitating description of the competitive advantages of a tourism destination. He asserts that the competitive position of a tourist destination could be explained through four sets of factors: "the factor conditions, the quality and structure of suppliers forming the destination, as well as the operating network alliances and the related experiences, the market and organizational structures, the distribution channels, the strategies and targets; as well as the demand conditions" (Smeral, 1998). He also mentions two additional variables (chance and government), which can influence the economic performance of a destination (Fig.1).

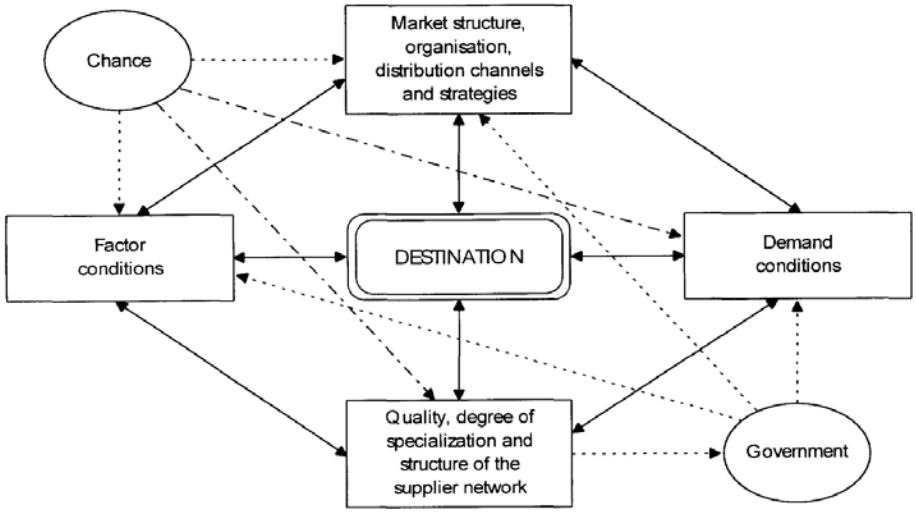

Figure 1. Competitive advantages of tourism destinations (Smeral 1998)

Tourism cluster is represented by the groups of organizations trying cluster together to form a destination context (Novelli, Schmitz, Spencer, 2006). Existence of various networks and active participation of the individual players (municipalities, firms, etc.) are very important for the successfully functioning of cluster . Typical for the (not only) tourism, cluster is the co-location of complementary firms, which may not necessarily be involved in the same sector, but may benefit by pre-existing network membership and alliances´ dynamics. Networks of created and functional clusters provide approach to knowledge, resources, markets, or technologies for individual firms.

They also make it possible for actors to participate in the co-development of tourism products or services and spillover of theoretical and practical knowledge: one member of the network (cluster) is af fected by the experience of another.

Aim of the study and presentation of Orava and Turiec – rural regions, rural tourism clusters

The original intention of the regional self-government unit (under the declared pressure on competitiveness, prosperity and sustainable development of member countries and their regions by the EU) was to establish one functional tourism cluster (as Destination Management Organization) in the territory of the whole Administrative Region of Žilina, one of the 8 administrative regions of Slovakia. This plan was not only contradicted the document of "Regionalisation of Tourism in the Slovak Republic" where the territory of administrative region of Žilina consisting of five smaller natural regions (Liptov, Orava, Turiec, Kysuce and Horné Považie), but also by the locals, public, and private actors of tourism as they were only willing to cooperate on the level of natural, in fact, old historic regions. These smaller regions tried to establish the tourism clusters in the first years of the 21st century. Genesis, description and functional "philosophy" of the first tourism cluster in Slovakia (Liptov) has been described in my previous study (Székely, 2010).

The aim of this study is to compare the development of another two individual regions in Slovakia – Orava and Turiec (Fig.2) - after formation of rural clusters of tourism. The possible effect of new institutional forms ("clusters", or Destination Management Organizations) of rural tourism on socio-economic development of regions will be shown using analysed statistical data. Four indicators of regional development were chosen (number of visitors in accommodation facilities, number of tourist nights in accommodation facilities, number of unemployed persons, and net migration of population), and compared with the period before the formal existence of clusters with that after their formation. The question was how the foundation of tourism clusters and beginning of their activities has influenced the situation (detected by the changed values of indicators) in the region in the first years of their existence. The hypothesis was that clusters would be able at least to maintain and or even improve values of chosen indicators. Improvement was interpreted as increased number of tourists, more nights spent, decreased number of unemployed and improved net population migration in form of reduced regional out-migration or increase of regional in-migration.

The regions of both rural tourism clusters Orava and Turiec have not only the common border, but also similar geographical environment (mountainous territory with valleys where economic activities are concentrated, occurrence of hot mineral springs), character and economic orientation. They offer similar tourism products, the character of their public and private actors is practically

the same and the aim of their marketing activities is also the same target group of potential tourists – young, active visitor whose priority is sports activities. Of course, the marketing presentation of clusters must also try to attract other tourist groups (families with children, seniors).

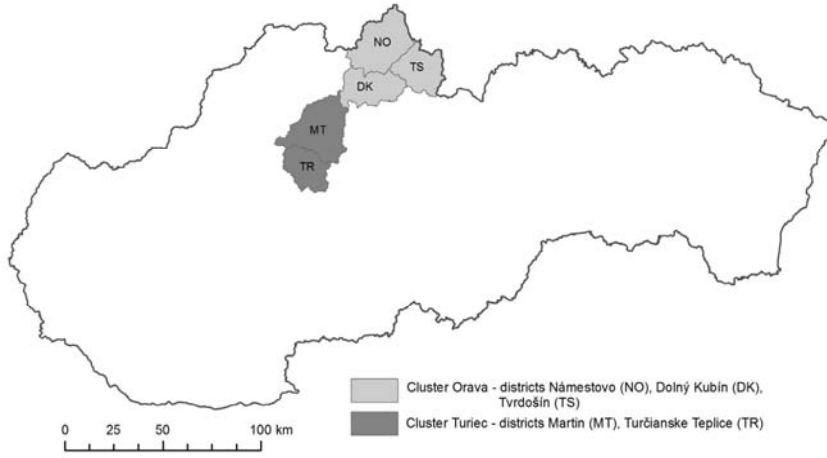

Figure 2. Geographical position of Orava region (tourism cluster) and Turiec region (tourism cluster) in Slovakia

Table 1 brings basic regional characteristics of territories, which represent the individual clusters and where they operate. The aim of this table is to point to the substantial difference between individual territories, as well as the level and "power" of their rural character.

Table 1. Basic regional characteristics of territories represented by the clusters

Regional characteristics	Regions of rural tourism clusters	
	Orava	Turiec
Total area (in km^2)	1661.25	1128.49
Number of population (2011)	134 889	113 489
Density of population (2011)	81.2	100.6
Share of rural population (2011)	67.1	36.9

Source: Central Statistic Office of the Slovak Republic (Štatistický úrad SR) + own calculations

The OECD has developed a classification of rural areas based on the percentage of the population of a country living in rural municipalities (typical descriptive definition). Three broad classes of rural areas or regions have been distinguished: predominantly rural (over 50 % of the population living in rural municipalities), significantly rural or intermediate areas (15% - 50 % of the population living in rural municipalities) and predominantly urban (less than 15% of the population living in rural municipalities).

Orava with 4 small towns and with 67.0 % share of rural population is "predominantly rural" region. However, its individual administrative parts are very different: district Námestovo with the smallest district town Námestovo and with 86.7% share of rural population bears all traits of a "predominantly rural" area. Shares of rural and urban population in other two districts are approximately balanced while rural population dominates in both of them - 50.3% in district Dolný Kubín, and 53.0% in district Tvrdošín.

The territory of Turiec, describable as a "significantly rural or intermediate area" (36.9% of rural population), is also characterized by the inner heterogeneity in distribution of urban and rural population. While in the northern part (district of Martin) only 33.1% people live in rural municipalities and the territory is a "significantly rural or intermediate area", in the south part with a small district town Turčianske Teplice even 59.1% inhabitants live in rural area and the territory is a "predominantly rural area".

Assessment of activities of tourism clusters through the dynamic changes of regional indicators

Cluster Orava

Cluster Orava was founded in the territory, which is considered a long-term source of labour in Slovakia. The region with one of the top natality rates, but also with one of the top emigration rates, because investors are not interested to locate or relocate their companies in this region, suffers from lack of available jobs. This peripheral, mountainous and cool region of Slovakia with its traditional culture has invested great expectations but fewer funds in the development of tourism. In opinion of the regional visionaries the tourism is expected to become the "engine" of the economic growth, a branch the region "should live off". Plans of founders of the cluster Orava were very ambitious. They planned to include Orava among the three most visited regions of Slovakia before 2015. But the statistics (Fig.4) prove that the first years of existence of the cluster did not bring any great change in region's visiting rate.

The year 2012 is worse in overall number of accommodated visitors than 2001. In more than ten years the region was not capable of attracting more tourists. With the exception of 2008, the overall number of visitors did not surpass 80 thousand accommodated persons and the proportion of 2.50 % in the overall number of overnight guests in Slovakia from 2001 was never repeated. When the cluster was founded (2009), this proportion was 2.04 % while the activities of cluster contributed only with two hundredths (2.06) to this proportion in 2012 with an increase of tourists by almost 8 thousand. It means that visits to other regions of Slovakia were more interesting. Orava´s plan to become one of the most visited regions of Slovakia failed.

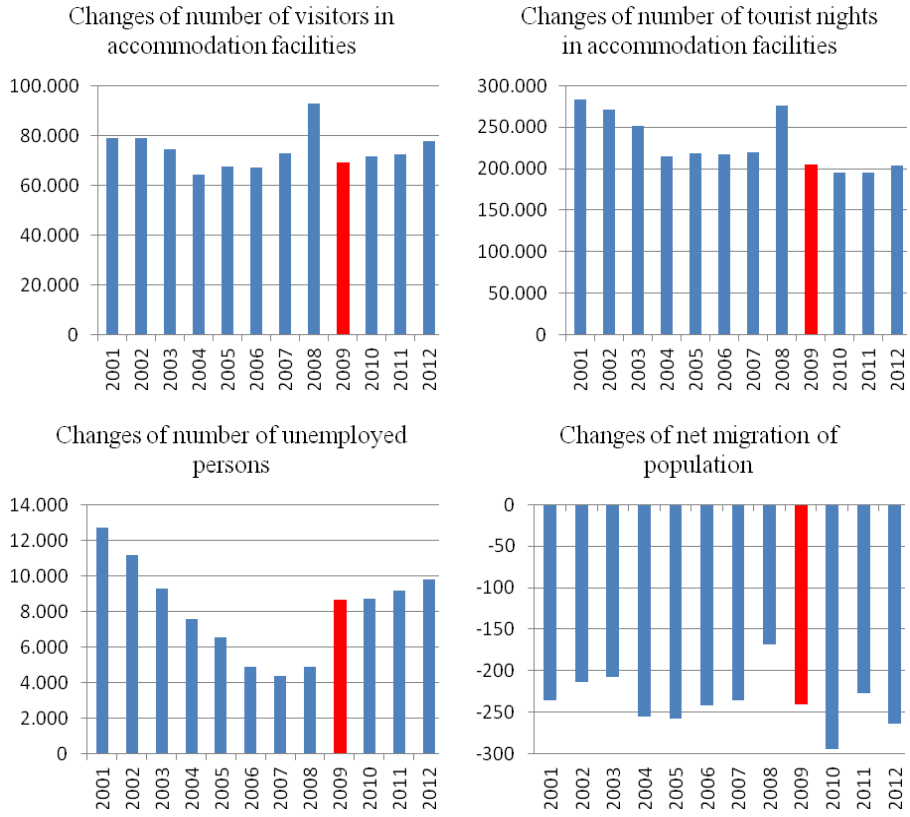

Figure 3. Cluster Orava and dynamics of regional characteristics

An even greater slump is obvious from the data about number of tourist nights in accommodation facilities. While 2001 there were more than 283 thousand tourist nights, in 2009 it was somewhat more than 204 thousand and it did not change even under the activity of cluster Orava. On the national level, the significance of Orava dropped from the proportion of 2.50% in total number of tourist nights in 2001 to 1.97 % in the year when the cluster was founded (2009) and to1.87% after three years of its activity (2012). It seems that Orava´s position among visited regions rather lost than gained by e.g. the promotional activities of the cluster. Continuous shrinkage of the mean length of stay, which dropped from 3.59 days in 2001 to even 2.62 days in 2012, has definitely contributed to this situation. This value is very low and its increase is the biggest challenge for all participating members of the cluster. But the problem is the distinct competition of the neighbouring region Liptov, which tourism segment offer is almost same as in the case of cluster Orava - attrac - tions for winter sports and swimming in thermal waters.

The ski resort Roháče-Spálená and other ski resorts in Orava (Ski park Kubínska hoľa, Orava snow – Oravská Lesná and other) are not included into the ca-

tegory of the top ski resorts of Slovakia. Categorization of ski centres, which is the product of multi criterion assessment of a Commission attempting at a comprehensive view of individual centres is not only the question of prestige contributing to a positive image of the concerned resort but also a direct promotion with impact on the overall visiting rate. It is very important in competition of resorts for clients and their direct or indirect financial benefits for the development of localities and regions via various leisure activities and taxes. It is not only the specificities of natural assets (length and grade of downhill tracks) which decide in the sharp competition, but also the existing technology (number of chair lifts and funiculars) along with the comprehensiveness and innovation of the management of the resort (existence of accessory services, organization of visitors, etc.). Comparison of the worse equipped and lower category ski resorts of Orava with the neighbouring Liptov and its top resorts (Székely, 2010) is adverse for Orava, which, for the time being, loses in competition for clients and financial profit. The water parks of both Orava and Liptov compete for share of the clients on the market in the same way with the same result.

Labour market in Orava showed an extraordinary drop of job seekers in the years between 2001 and 2007. This region with high natural increment of population succeeded in reduction of unemployment by more than 8 thousand in six years while some of former job seekers often found employment outside the region. However, after 2007 the number of unemployed increased while since the foundation of the Orava cluster the trend slowed down and in 2012 it reached 77% of the 2001 value. In spite of this value, activities of the cluster obviously cannot generate such number or type of jobs that should be able to saturate needs of locals. The cause is, apart from other, in the fact that wages of people employed in tourism and in supporting services that employ mostly women are among the lowest. Generation of suitable well-paid attractive jobs for the male population in the region of Orava is a problem solved by many via out-migration to economically more advanced regions and better remunerated economic branches (e.g. construction).

Orava was always perceived as a poor and peripheral region with scarce suitable work opportunities, which is, due to high natality rates and situation in labour marked, a source of available labour for other territories. Data concerning the mechanical population movement definitely confirm that Orava is not attractive for permanent residence. In the years 2001-2012 Orava also lost 3 thousand inhabitants in the consequence of the ever higher out-migration than in-migration. Foundation of the tourism cluster and the first years of its activities had no effect on perception of Orava as the place, which should be more suitable for living compared to neighbouring regions. The negative situation stabilized, no big changes took place and the dream about tourism as the "engine" of social and economic development has not fulfilled expectations yet.

Foundation of clusters is based on cooperation of the local self-governments (urban and rural municipalities) and entrepreneurs where a high level of mutual trust is presumed. Negotiations aimed at generally approved consensus for all participated actors are sometimes very complicated. Falťan (2005), who mentions only inter-municipal cooperation, asserts that the beginning of such cooperation is not simple at all: "Inherently there must be willingness and readiness to cooperate, but …, also the aptitude and power to overcome distrust to potential partners. It requires the capacity to cooperate, seek compromises, respect the partners and overcoming of historical stereotypes and loads often carried over to presence" (Falťan, 2005, pp.285-286).

The foundation process of cluster Turiec confirms his words. After the initial negotiations between the potential members of cluster in the territory of Turiec in 2009, problems concerning the decision-making mechanism (and the power of individual voices) emerged as it preferred the big "actors" in terms of population size i.e. big urban self-governments (for illustration = 8.5:1.0 was the ratio of inhabitants of Martin - 57.4 thousand- to population of Trenčianske Teplice - 6.7 thousand - in time of the last 2011 Census). It was the reason why deputies of the district town Turčianske Teplice in the south of the region of Turiec initially did not agree (in spite of positive attitude of the mayor) to join the clusterand required change of its statutes arguing that a great number of guests coming to the town are those who seek balneotherapyand asked for a greater weight of Turčianske Teplice's vote in decision-making process. They tried to avoid situation when the interests of weaker members including Turčianske Teplice would be marginalized. Before the negotiations the biggest private company in tourism in the southern district of Turiec, the spa Slovenské liečebné kúpele Turčianske Teplice, was also disinterested in joining the cluster and the lobbing of its representative pointing at inconveniences of the existing mechanism of decision-making was probably the reason why the municipal deputies did not approve the membership in the cluster.

A closer analysis of the statistics about number of visitors (accommodation tourism) not only for the whole territory of Turiec but also for their northern and southern parts separately justifies arguments of the concerned entities in the district of Turčianske Teplice. While in 2001-2012 the number of accommodated guests in Turiec dropped by more than 10 %, in its northern part (district Martin) it dropped by almost 23 % and in the south (district Turčianske Teplice) it increased by more than 20 %. While in time of the 2011 Census there were 46 overnight tourists per 100 inhabitants of district Martin, it was as many as 186 tourists in district Turčianske Teplice. This intraregional differentiation is even more obvious when the total overnights per 100 inhabitants of the two districts are compared: in Martin it was 107 overnights, in Turčianske Teplice it was 1411 overnights (2011). The ratio between districts of Turiec was 1:13. The quoted numbers talking about great disparities were caused by disparities in the character of tourism in individual parts of Turiec.

While stress on skiing and winter sports dominated in Martin and a great part of their clientele are locals and short-term visitors with no need to overnight, district Turčianske Teplice profits on spa tourism all over the year and also attracts people from other regions and from abroad and their accommodation is indispensable.

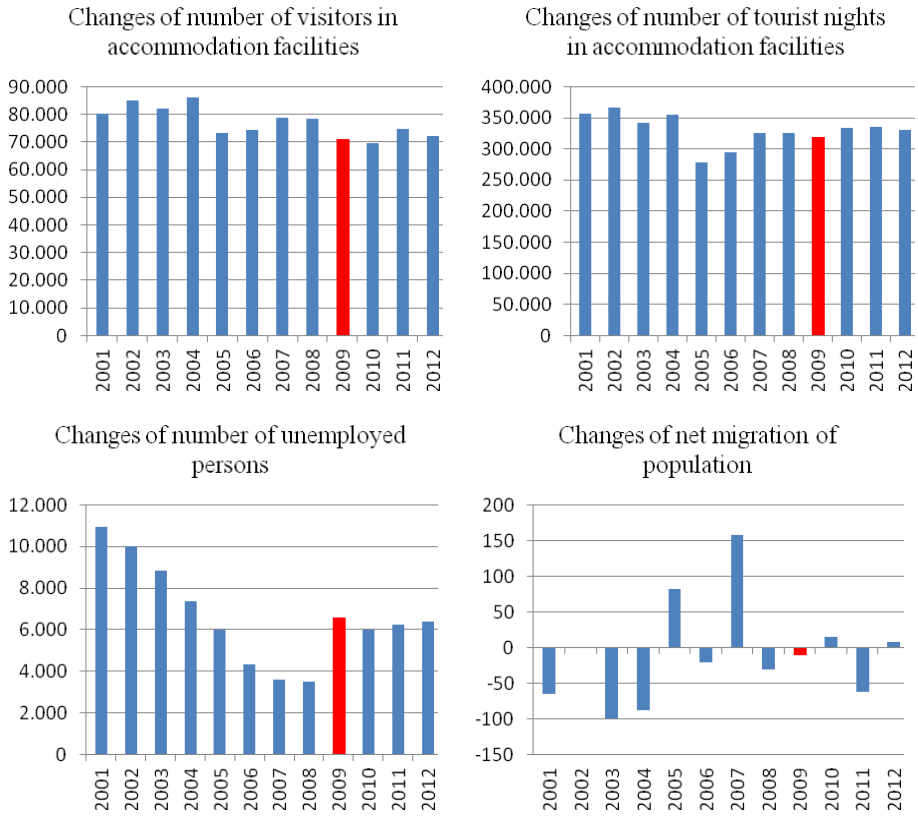

Figure 5. Cluster Turiec and dynamics of regional characteristics

Since the beginnings of existence of the cluster (2009) the number of overnight tourists in Turiec increased only by 1.5%, and the increase was differentiated (Fig.5). For the advocates of the cluster from district Martin the number of tourists increased only by 0.4 % while its opponents in Turčianske Teplice obtained the increase 3.3%. It means that activities of the cluster did not bring any distinct increase of overnight tourists. Simultaneously the indicator of total number of tourist nights in accommodation facilities in Turiec increased only slightly i.e. by 0.6%, while the difference between the northern and southern Turiec is even more marked. While in district Martin the entrepreneurs in tourism had to come to terms with overall decrease of tourist nights by 6.2%, in district Turčianske Teplice businessmen and local self-governments profited from their increase

of 8.4%. The number could have been higher if the means length of stay did not drop (in 2001-2012 it dropped from 9.2 to 8.1 days). Accommodation establishments in the northern part of Turiec "enjoy" a considerably higher frequency of tourists (and the associated operation cost) because the mean number of tourist nights per 1 tourist reached here in 2001 2.5 days and dropped to eventual 2.3 days in 2012 (Turiec as unified region stagnates; the increase from 4.5 to 4.6 days is minimal). Although seemingly the foundation of cluster Turiec and the accompanying promotion did not bring any visible strengthening of tourism and its function in re - gional economy, confirmation of this assertion would require additional analysis and critical assessment.

The year when cluster Turiec was founded (2009) was also important regarding the situation on the regional labour market affected by the global economic crisis. While the number of unemployed was continuously dropping during the last 8 years and the number of registered jobseekers dropped by almost 7.5 thousand persons, in 2009 it abruptly increased by more than 3 thousand. The following development suggests that after the initial drop of number of unemployees, which can be hypothetically associated with the development of tourism, it slowly and progressively increased again. Apparently, the initial activities of the cluster and its representatives were not able to generate greater number of jobs in the region and the development of tourism, in spite of its potential, is not an adequate compensation for the regional recession of the primary and secondary economic sectors.

Attractiveness of Turiec as a place of residence was seriously impaired by the conversion of the origina l engineering industry which was the important generator of jobs in the region (Kiss, 2000). It also is the reason why the interregional mechanical population movement is relatively balanced. Increases of migrants alternate with losses. In the territory of Turiec where intraregional short-distance change of the place of residence dominates, no long-term, unified trend in interregional mechanical population movement is observable. No visible changes attributable to operation of the tourism cluster took place either. The existing interregional differentiation of population migration is first of all the result of the imbalanced movement between the two parts of Turiec. Smaller and less populated south (district Turčianske Teplice) obtained population increments annually in 2001-2012 due to in-migration prevailing over out-migration. Its source area was the bigger and economically more advanced north Turiec (district Martin). Departures of population to the south, in spite of not being dramatic, were the cause of almost every year negative balance of the mechanical movement of population from the district Martin struck by the conversion of the engineering (defence) industry (Jurčová, 2010). The final result is that the activities in tourism which were connected with promotion of ski resorts in cluster Turiec had no visible impact on increase of attractiveness of Turiec as a place of residence.

Conclusion

The current tourism industry in Slovakia acquired the form of mass tourism with Fordist production and consumption. This form of tourism is characterized by Torres (2002). All private partners of rural tourism clusters with their entrepreneurial activities (spa, ski resorts and water parks with their products) can be characterized as a representatives of predominately Fordist mass tourism with the cardinal aim – to increase the number of tourists consuming highly standardized, packaged and inflexible tourism products. Increase of number of tourists automatically means the increase of their financial profit. The very close cooperation with public local governments with preferred ideology of extensive socio-eco nomic development and with the same interest in generation of profit contributes to the effort to produce image of rural area as not only as a commodity but also as destination of mass tourism There is a potential danger that the uncontrolled development of mass tourism may degrade the natural and landscape potential of the regions with simultaneous reduction of its tourist attraction. The partial initial negative impulse could be then accompanied by very negative impact on the compl ex socio-economic development of the region. On the other side, activities of tourism clusters directed to mass tourism did not dramatically increase attractiveness of rural regions where they exist.

The development showed that the newly created tourism clusters had to face problems caused by the global economic and financial crises which caused change in behaviour of tourists. Potential clients in an effort to economise do not fully use the prepared lodgings or they completely resign to transitory stay in tourist region (Eugenio-Martin and Campos-Soria, 2014). Introduction of Euro in Slovakia with the subsequent establishment of exchange rates for the neighbouring countries also played an important role. On January, 1st, 2009 Slovakia became an expensive country for foreign guests. Efficiency of the common marketing strategy, appropriate timing and first of all focus on a suitable target group determined not only by activeperception of tourist regions but also by financial possibilities and transport accessibility (Więckowski et al, 2012) remained open question. Experience also shows that building of successful regions via cluster initiatives requires some necessary prerequisites that secure certain prosperity in a particular developmental stage. A turn in comparative and competitive advantages may also cause that successful regions become less successful or even failures.

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Chapter 13

Small Farms Restructuring in Bulgaria

Abstract: *There are numerous studies which point to the possibilities for rural revitalization and improvement of the living standards of the rural population through development of tourism. Cluster concept and regional cluster initiatives in tourism are generally presented as tool for fulfilment of ideas about the successful regional and rural development. This study presents the genesis, functioning and impact of two tourism cluster initiatives from mountainous rural areas of Slovakia (Orava region and Turiec region) on selected regional indicators (net migration of population, number of tourists, overnight stays and unemployed persons) with the aim to confirm or put into the question the validity of positively perceived direct relation between the simple existence of tourism cluster and racional (successful and/or sustainable) spatial development. The results (comparison of applied regional indicators before and after establishment of tourism clusters) show that establisment and existence of tourism clusters in Orava and Turiec regions are not automatically accompanied by the dramatic changes of regional and rural economic prosperity and/or sustainability in the first years of their activities.*

Keywords: *rural and regional development, tourism clusters, assessment of cluster initiatives in tourism, Slovakia*

Introduction

One of the most significant rural development program (RDP) focuses for the previous program period is the competitiveness increase, in the agricultural production area and for other non-agricultural activities, related to the sector. Indispensable condition for this purpose achieving is the farms modernization and restructuring. Decisive role, in a big degree, have the measures oriented to the investment in fixed assets and production factors in the agricultural, forestry and food-processing sectors; to the acceleration of investment activity in agricultural holdings for their compliance with Community standards; to the restructuring of agricultural structures through building of viable market-oriented business by farmers, working predominantly in small farms. In the new program period 2014-2020 has been previewed a special subprograme, linked to the financial support of small farms, aiming their production and economic stabilization. These farms are in the spotlight, due to their role and multiplicity in the total farms' structure and the present article responds to this need. In the last years, after 2005, some changes have occurred in the production structure of almost all farm types. These changes concern also the small farms, being the possible precondition for their economic viability. In the present article have been analyzed the occurred changes of the production structure of small farms (SF) in the period 2005-2010.

In the last decade the ambience surrounding agricultural producers, managing their farms, has been in constant and fast change, often without any warning. The dramatic prices' fluctuations are in result of the more strong requirements for the quality, the new environment regulations, the discussions about the genetically modified crops, the extreme climatic conditions and the increasing demand of energy. Secondly , the Common agricultural policy (CAP) changes and the results of the financial crisis create insecurity regarding the future threats and opportunit ies. In these highly variable conditions the traditional linear approach for effective agricultural production management is not already enough. The farmers should be in a position to manage with the unexpected events and to adapt to the new situations.

In the practice there are several strategies creating and consolidating the management capacity of the farm. On the first place are the transfer of knowledge and innovations and the accumulation of skills through the experimentation and monitoring of this transfer results. On the second place is the diversification of activities and the flexible farms organization, aiming to increase the opportunities for new activities of the farmer and its family and the diversification by non-agricultural activities to diminish the results of different risks and creation of buffers. On third place is the implementation of flexible management (Darnhofer et al., 2010). This structures application increases the farmers' opportunities to maneuver and allow the identification of different options. These options depend not only on the farm itself, but on the farmer's capacity to mobilize external resources and to be involved in collective actions.

In the context of these circum stances the change should be examined not as violation, but as a start of resources' organization and of agricultural activities' improvement. The implementation of these strategies has its price, so the farmers must choose between effectiveness and adaptability. Nevertheless, if farmers manage to get control on these challenges, this would guarantee their farms sustainability.

However, the flexibility and the adaptability of agricultural systems have been rarely object of researches in the area of agricultural practices improvement or creation of technical innovations. Most of the analyses are focused on produc - tivity increase, products quality improvement, production processes optimization, decrease of the impact on the environment and costs diminution or profits increase. (Bennis et al., 2008; Slaughter et al., 2008). Government's policies are also directed to stabilization of products and markets and importation control. Despite the changes, they were implemented gradually and predictably . This way the dynamics of agricultural system and its context should receive more attention, compared to the past. To understand better this dynamics, we have to pay more attention to the fact that changes could be dramatic and sudden. The relations between agricultural systems' components are important and also they are adaptable, i.e. they are in constant collaboration with the environment.

In the management theory the conception for the flexibility is seen as a tool to cope with insecurity, which has also relation with the adaptive capacity of the farm. There is a difference between the operative and the strategic flexibility. The operative is related to the system's ability to implement changes in short-term plan, when farmers are in front of surprises. The strategic flexibility has relation with the long-term choice opportunities and has the potential to change the structure, resources and the farm's competence to react according the environment changes.

The rural households, for example, are not able to change flexibly their work schedule, daily or weekly, and to answer properly to the changing meteorological models (operative flexibility). They should be also able to have another job online or out of the farm (strategic flexibility).

In fact, the flexibility does not concern only the internal farm processes, but also the ability to attract exterior resources, i.e. the farmer 's skill to mobilize external resources through collective actions. Chia (2008) calls this ability "relation flexibility", i.e. the farm's ability to mobilize external resources trough collective actions. This could be in the form of processing or marketing cooperatives, purchasing machines from several agriculturalproducers or creation of association for building of common bio-gas installation.In smaller scale the mutual aid and exchange are also included.

It is clear that the flexibility is partly related to the variety, i.e. constant development and management of port-folio of alternative abilities, opportunities

and relations. The management of complex systems like agriculture ones and the insecure future development presupposes risks spreading and buffers creation. The evolution potential of a farm is related to its ability to initialize new activities, on the base of the diversification forms of existing activities and the availability of alternative options and innovation activities.

Farmers always have had to handle some level of changes and unpredictability, so to be flexible and to adapt to the new circumstances. Structural adjustment is the response of these economic agents to a shift in compara - tive advantage. It is the larger and longer lasting changes in resource allocation made in response to changing economic conditions and are recognised as an essential concomitant of economic growth and rising living standards. As economic circumstances and available technology are constantly changing, structura l change is also a dynamic process. Structural adjustment in the various sectors of the economy mostly takes place gradually over extended periods of time, hence the bulk of the structural changes occur smoothly without causing major disruptions in terms of adjustment costs. Changes can nevertheless sometimes be abrupt and severe, resulting in significant costs for disadvantaged industries and for farm households in these industries. Finally, structural adjustment can have implications for rural economies and regional communities because the agricultural sector's demand for labor , goods and services, including downstream processing, changes.

Database and method

For the research purpose have been used data from EUROSTAT and the following five absolute and relative indicators:

1. Total number of farms from the respective type of production direction;
2. UAA size in farms, per farms type;
3. Number of conventional livestock units in farms, per production type;
4. UAA size and number of conventional livestock units in one farm from the respective production type;
5. Relative farm share, per production type in the farms structure.

The analysis of enumerated indicators is realized separately for the following two groups of SF: 1) Farms with economic size up to 2000 Euros of standard production sizes (SPS) 2) Farms with economic size from 2000 up to 3999 Euros of SPS. The farm typology per production direction is borrowed by the farms' typology, used for the Census of farms by MAF in 2010.

Restructuring of farms with economic size up to 2000 Euros

For the period 2005-2010 the total number of these farms has decreased from 353 180 to 253 770 or by 28,1 %. Their number in 2010 is 68,5% of all farms versus 66,1% in 2005; they manage 3,1% of all UAA, against 6,3% in 2005 and breed 18,3% of all livestock units in farms, against 22,7% in 2005. The

change of farms number, per production types, could be followed in Figure 1. For better clarity, the farms have been divided in two sub-groups: the first unifies farms having predominantly crop-growing character, the second – farms with predominant specialization in livestock breeding.

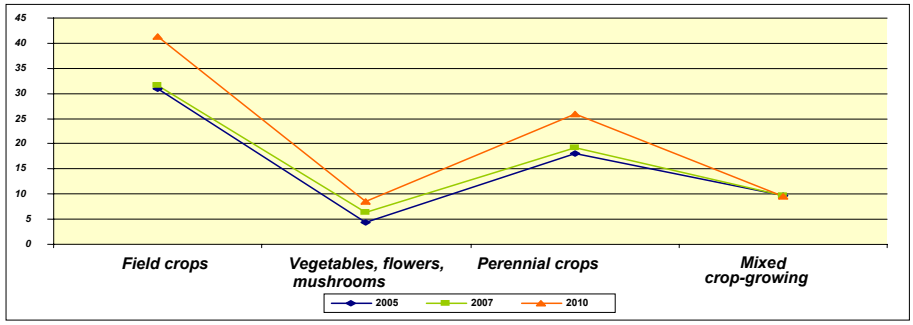

Figure 1. Dynamics in the change in number of total crop-growing farms (thousands), 2005-2010

Source: Own calculations with information from EUROSTAT

Increase of the number of crop-growing farms of all directions has been observed. The increase in absolute values is the biggest for farms, specialized in the growing of field crops (from 30930 in 2005 to 41290 in 2010) and these growing perennial crops (from 18100 in the basic year to 25890 in the reported year). The farms number, specialized in the growing of vegetables, flowers and mushrooms has increased by 4170 in 2010 versus 2005.

In correlation to the noticed trends of the total farms number changes, the trends of UAA changes are seen in Figure 2.

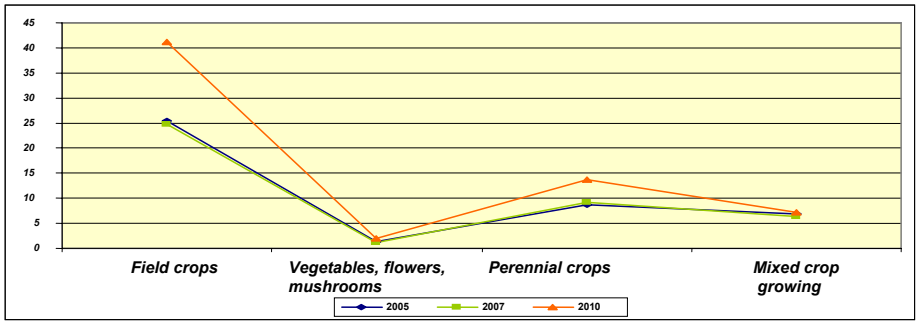

Figure 2. Dynamics of total UAA size changes, per types of crop-growing farms, thousands ha, for the period 2005-2010

Source: Own calculations with information from EUROSTAT

If the two graphs are compared, it is seen that, despite the common trends of total farms number and UAA size changes, the last ones do not occur with

similar pace. For instance, if the field crops farms number has increased of 33,5% in 2010 against 2005, for the same period the UAA size increase is almost 62%, i.e. the UAA increase pace is almost twice bigger than the increase pace of the field crops farms. This leads to bigger UAA size, for 1 farm, in average, of 1 ha in 2010, i.e. a relative consolidation is present. For the farms, growing vegetables, flowers and mushrooms, we observe the inverse situation: almost twice bigger number of these farms (95%), while the average UAA size increase of 1 farm is 53%. The result is low diminution of the average size of UAA in one farm - from 0,3 ha to 0,24 ha. More insignificant is the difference between the pace of two increases for the perennial crops farms, of 43% for the farms number and of 60% for the UAA. Slight increase of UAA size of one farm is present (from 0,48 ha to 0,53 ha).

In difference of crop-crowing farms, for the livestock farms the trend is inverse, their number decreases, as the most expressed diminution is for the farms, breeding pigs, poultry and rabbits – from 56 thousands to 21 thousands, i.e. more than twice (Figure 3). The number of bovine farms and of these, breeding sheep and goats is in a factual decrease, despite the slower pace – respectively by 17,4% and 9,2%. The decrease is big for the mixed livestock farms (by 55,8%) and for the mixed crop-growing and livestock-breeding type (by 34,1%).

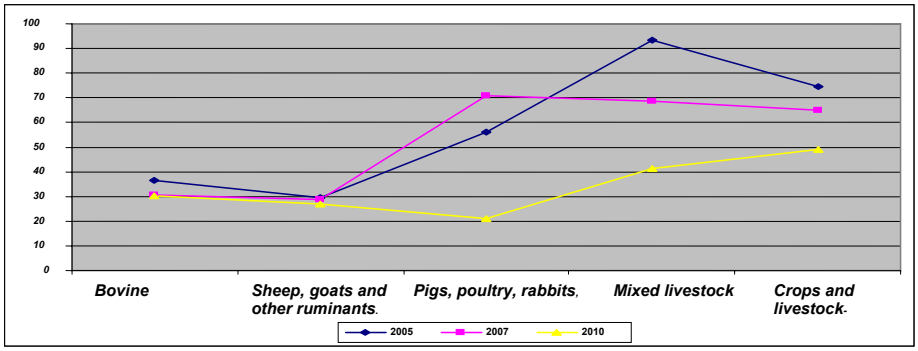

Figure 3. Dynamics of change of the total number of livestock farms (thousands) for the period 2005-2010

Source: Own calculations with information from EUROSTAT

The drastic diminution of livestock number is accompanied by big decrease of animals number (Figure 4).

As we can see, the animal number's decrease is almost the same (approximately half) in the mixed livestock farms (by 50,8%) and these, specialized in the breeding of pigs, poultry and rabbits (by 47,7%). Crops-livestock and bovine farms follow, with a decrease of animal number respectively by 24% and 9,8%. In farms specialized in breeding of sheep, goats and other ruminants the animals number remain almost invariable.

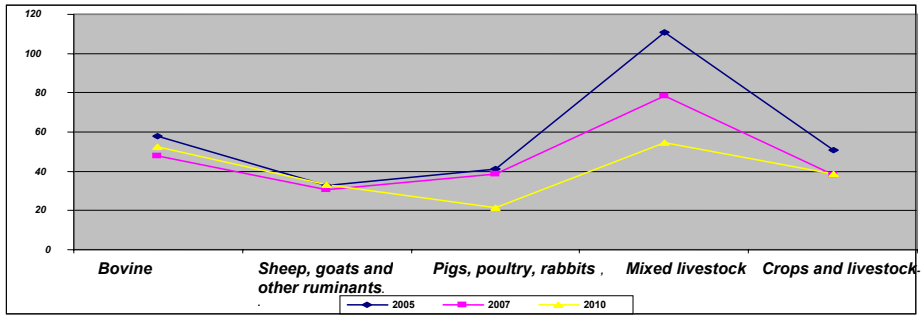

Figure 4. Dynamics of change of the total number of livestock units, per types of livestock farms, thousands, for the period 2005-2010

Source: Own calculations with information from EUROSTAT

We can conclude that the decrease paces of the different types of livestock farms are higher than the diminution rates of raised animals (particularly for the farms with pigs, poultry and rabbits). Therefore, there is some increase of animals' number, bred in one farm of the respective type. For example, in one pig farm the increase is from 0,73 livestock units in 2005 to 1,02 in 2010 or by 39,2%, and in crops-livestock farms- by 15,4%. The increase for the other livestock farms keeps almost the same level: 9,1% for the bovine farms; 11% for the farms, breeding sheep and goats and 11,4% for the mixed livestock farms. On the background of constant diminution of animals' number, it is obvious that there is a farms' consolidation, although not very big.

The cooperated action of the different per pace and direction changes of the total number of farms, UAA size and number of animal units in different farms form the respective changes of the total farms structure (Figure 5).

The analysis of the graph above shows the increasing share of farms growing field crops, almost twice (from 8,8% in 2005 to 16,3% in 2010). The orientation to growing more quantity of field crops is related to the opportunity to receive direct payments, under SAPS, after 2007. According this increase, the share of UAA in this group of farms is bigger, as for 2010 it reaches almost 1/3 of the total UAA (29,6%) , while in 2005 it is twice lower (14,8%). There is also an increase of the share of perennial crops farms - от 5,1% на 10,2% , although its value is too low in the total farms structure. In the same period the share of farms specialized in breeding of pigs, poultry and rabbits has decreased (from 15,6% to 8,3%). For farms of mixed livestock type there is also share diminution – from 26,4% to 16,2%. The share of bovine farms has insignificant increase (from 10,4% to 11,9%), and of these for sheep, goats and other ruminants – from 8,4% to 10,6%.

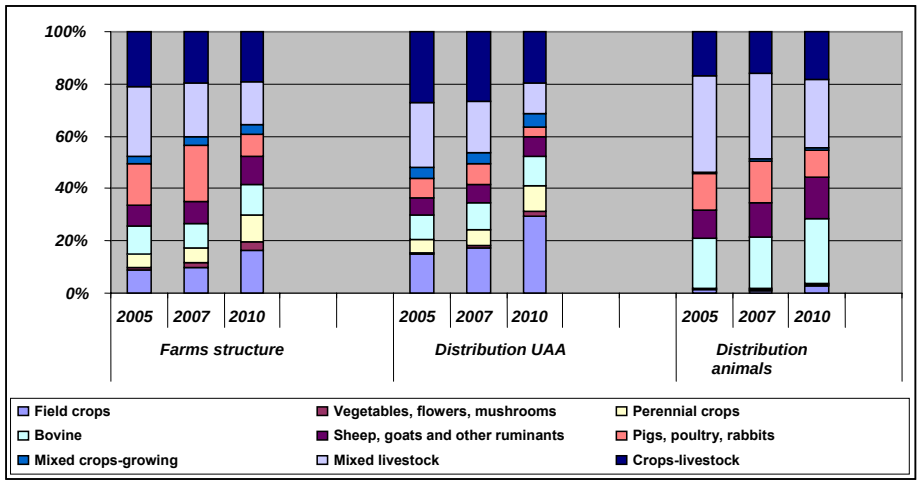

Figure 5. Changes of farms' total structure and distribution of UAA and animals' number, according the production direction for farms having economic size up to 2000 Euros, (%)

Source: Own calculations with information from EUROSTAT

Changes in farms structure differ from already analyzed results, related to changes in farms number, UAA size and animals' number. For example, the share of bovine farms and of these for sheep and goats increases respectively by 15,% and 26,3%, while their number decreases absolutely and relatively. In the farms structure, the share of holdings for pigs, poultry and rabbits diminishes from 13,7% to 10,2%, but this diminution is under the level of their absolute and relative diminution. Similar is the situation for the mixed livestock farms, the mixed crops farms and the crops – livestock farms, for which the changes are very small, about 1%-2%, but in upward direction. The outlined disparities are due to the fact that all farms number with economic size under 2000 Euros decreases more rapidly than the pace of changes for farms number, UAA and livestock number in farms with different production directions.

Restructuring of farms with economic size from 2000 to 3999 Euros

During the analyzed period the total number of these farms has decreased by 45% (from 108450 in 2005 to 59290 in 2010). This means that it comes to a bigger decrease, in relation to the average for all farms decrease. The process of farms diminution is accompanied by increase of their physical size, according the UAA. In 2000 one average farm has cultivated 1,21 ha versus 1,6 ha in 2010. As we can see later, the analysis shows that this trend is characteristic for almost all farms from the target group. More concretely, the dynamics of change of the number of different production types of farms, having crop growing orientation, could be followed in Figure 6.

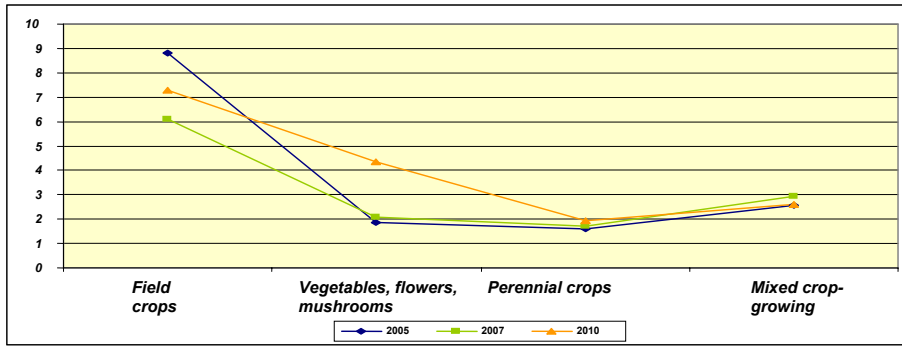

Figure 6. Dynamics of change of the total number of crop – growing farms (thousands), for the period 2005-2010

Source: Own calculations with information from EUROSTAT

As it is seen, from crop-growing farms, there is big drop for the specialized in field crops growing farms – 17,2%, while the number farms with vegetables and perennial crops increases respectively by 135% and 20%. The number of the mixed farms is almost without change in the period 2005 - 2010. Changes of UAA size show that despite the big diminution of filed crops' farms, their total UAA has increased by 49 % (Figure 7). In consequence, the average UAA size in field crops farms has increased from 2,22 ha in 2005 to 3,99 ha in 2010, i.e. almost twice. For the other crop-growing farms has been observed also an increase of the total size of UAA, as follows: vegetables – by 80%; perennial – by 65%, mixed crop-growing – by 16%. Due to the already outlined big increase of the number of vegetables' farms, in difference to these growing field crops, the average UAA size in a farm with vegetables decreases from 0,54 ha in 2005 to 0, 41 ha respectively, for 2010. Having in view the fact that the increase of farms number , growing perennial crops, is not so drastic and the pace of this increase is lower than the pace of increaseof the used by them UAA, the final result is increase of the average size of the used agricultural area by one farm, from 2,12 ha to 2,91 ha in 2010. The two processes have the same result, (1) the change of the total number of farms having mixed crop-growing character and (2) the increase of the total size of UAA, used by them. These two processes result in the increase of the average size in such farms - from 1,97 ha to 2,25 ha in 2010.

The received results show the fragmentation of farms, specialized in vegetables growing and consolidation of farms, specialized in the following three directions: field crops, perennial crops and mixed crop-growing. A conclusion could be made that for this category SF is present a production restructuring with enlargement of areas of field crops. At the effective CAP measures the farmers have the motivation to produce cereals, industrial crops and other field crops, in comparison to other agricultural production. This trend is characteristic particularly for the big farms, but the analysis shows the same trend

for the small ones, these with economic size up to 2000 Euros and these with standard economic size between 2000 and 3999 Euros.

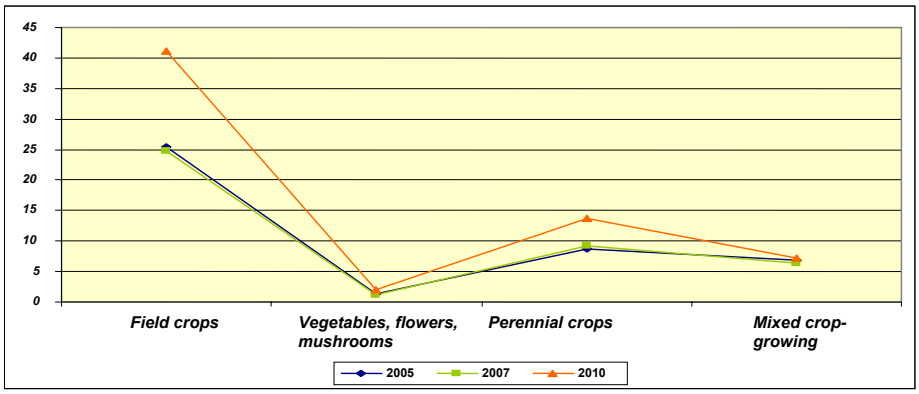

Figure 7. Dynamics of change of the total UAA size, according the types of crop-growing farms, thousands ha, for the period 2005-2010

Source: Own calculations with information from EUROSTAT

The dynamic of farms structure from the livestock sector in the period 2005-2010 could be seen in Figure 8.

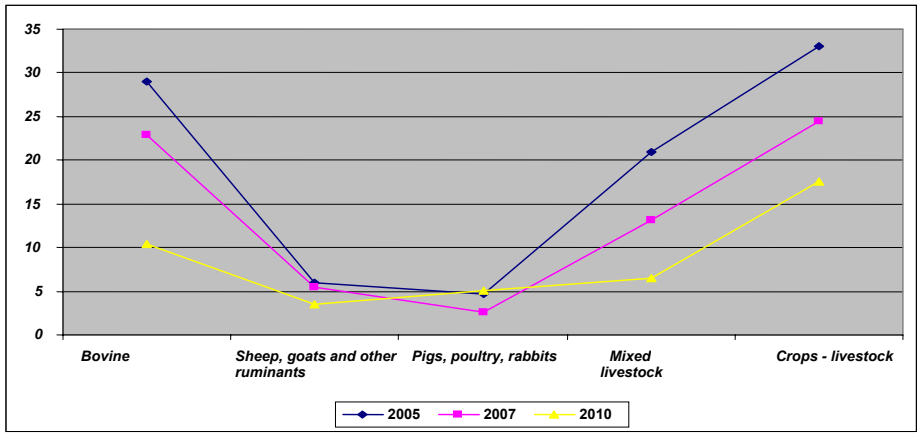

Figure 8. Dynamics of change of livestock farms' total number (thousands) for the period 2005-2010

Source: Own calculations with information from EUROSTAT

Unlike the farms with economic size up to 2000 Euros, specialized in pigs, poultry and rabbits breeding, the same farms with standard production amounts from 2000 up to 3999 Euros retain, even slightly increase their number in 2010 against 2005 (from 4670 to 5120). For all the rest livestock farms, the

trend is to drastic decrease of their number . The most expressed diminution is of mixed livestock - 3,12 times and for the bovine farms - almost three times (2,78). Weaker, but also enough high is the rate of decrease of mixed crops-livestock farms – almost twice (1,9) and of these, breeding sheep, goats and other ruminants - 1,68 times. The trends of farms number change for the different farms, excluding these with pigs, poultry and rabbits, are more unfavorable than for the farms with economic size under 2000 Euros. Particularly alarming is the situation with the outlineddecrease of bovine and ovine farms. The self-liquidation of part of them is related to the hard economic conditions of functioning for the dairy farms (particularly the high prices of fodder and low milk prices) and to the difficulties of execution of obligatory European requirements for sanitary – hygiene standards, for animal welfare etc. which must be fulfilled by the farms, in order to pass to higher category.

The noticed negative trends of the livestock farms number correspond to similar negative trends of the number change of animals, bred in these farms (see Figure 9).

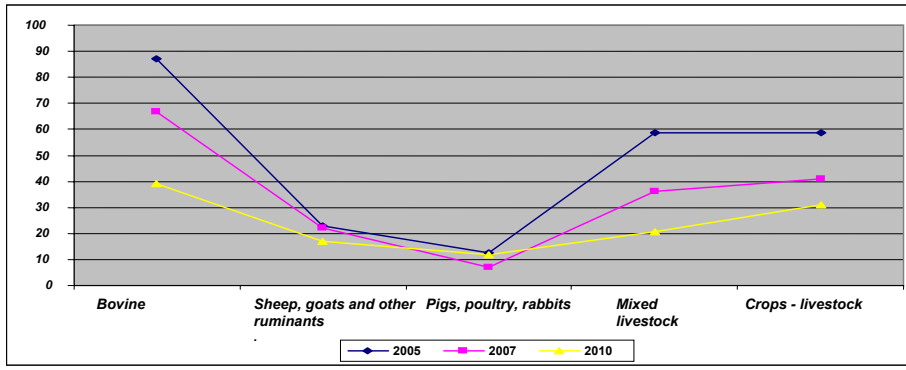

Figure 9. Dynamics of change of the total number of conventional livestock units, per livestock farm types, thousands, for the period 2005-2010

Source: Own calculations with information from EUROSTAT

As it is seen, the biggest drop is also for the conventionallivestock units at the mixed livestock farms - 2,85 times, followed by the bovine farms - 2,23 times, mixed crops – livestock farms - 1,88 times and these, specialized in pigs, poultry and rabbits - 1,35 times. Despite the two trends for the four groups are similarly negative, they differ slightly, regarding their range. The decrease rate of animals' number is smaller than the decrease rate of the farms' number. This determines some increas e of the average livestock number, bred in one farm, as follows: for the bovine and ovine farms by 24%-25%, for the mixed livestock – by about 13% and for the crops – livestock farms the animals' number remains the same. Independently from the established increase of the average livestock number, bred in bovine and ovine farms, it must be noticed that it remains very low: 3-4 cows and 4-5 sheep on average, in one farm. For

the farms with pigs, poultry and rabbits the dynamics trend is inverse, there is a diminution of the total number of animals' units by about 5%. This lead to a respective decrease of the average number in one farm – of 13,3%, i.e. the increase of pig farms number is at the expense of their fragmentation. From 2,7 animal units on average in one farm in 2005 they have diminished to 2,33 in 2010. We can generalize that despite the observed differences of the orientation and change rates of the total livestock farms number and animal's number, these farms remain fragmentized as a whole.

The complex running of the different changes of farms number, of UAA size and of conditional animal units in animal farms has had impact on the changes of the farms' structure with production amounts from 2000 to 3999 Euros, seen of Figure 10. Although the cereal production is concentrated in the big massifs of large farms and barely presented .in small farms, the share of farms specialized in cereal, industrial, oilseed and other field crops has increased 1,5 times in 2010 against 2005. It is present in the total structure of farms from the analyzed category, having value of 12,3%.

The drastic diminution of bovine and ovine farms and the number of animals, bred in these farms, has led to the respective diminution of their share in the total farm structure – from 26,7% in 2005 to 17,6% in 2010. Regardless of the fact that in SF is concentrated the big part of animals in the country, especially cattle, sheep and goats, in the present program period the livestock sector obviously has not been a priority sector and conditions for its developmentdo not stimulate small farmers to breed livestock.

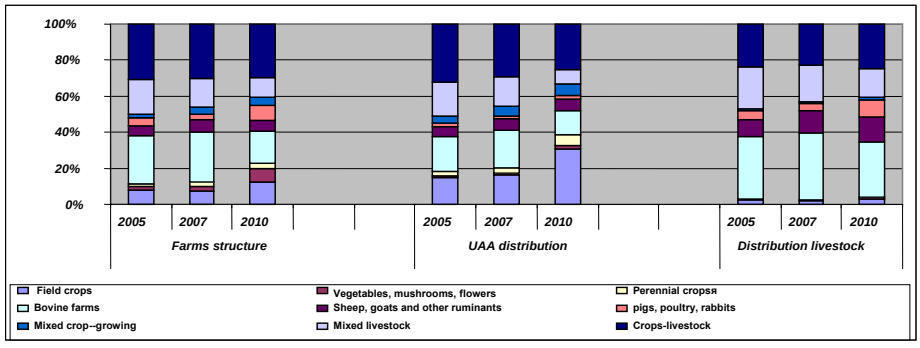

Figure 10. Changes of total farms structure, UAA distribution and animals number, according the production direction in the period 2005-2010 for farms with economic size from 2000 to 3999 Euros, (%)

Source: Own calculations with information from EUROSTAT

This hypothesis has been confirmed by the change of the share of mixed livestock farms, which for the analyzed period decreases from 19,3% to 10,9%. The highest share in the farms structure is of the mixed crops – livestock far-

ms (approximately 30%). For all other farms (growing vegetables, perennial crops, mixed crop – growing and these, specialized in pigs, rabbits and poultry), regardless the observed increase of their share, the presence of the farms in the total structure remain very modest. Every group has share under 10%.

Conclusions

Concerning the analysis of farms changes with total production amount up to 2000 Euros in the period 2005-2010, the following conclusions could be made. There is a considerable decrease of the total number of farms with standard amount up to 2000 Euros, although, their decrease is smaller than the absolute diminution of all farms number. Therefore, their relative share in the total farms structure increase by 2,5%. There are some differences between crops and livestock farms, regarding their orientation and rates of change of their number. For the crop growing farms, there is an increase of their number and UAA size, for all directions. The biggest increase is for farms with field crops and these growing perennial crops. For livestock farms the situation is different: their number and the number of animals decrease in all farms subtypes. The most drastic decrease is of farms for pigs, poultry and rabbits.

As a final result from the realized ambiguous processes of changes in different groups and sub-groups of farms, changes occurred in their general structure. In the analyzed period the farmers have been oriented predominantly to the enlargement of areas with field crops and these of perennial crops, compared to vegetables. Subsidies, received by farmers in livestock farms are not a sufficient stimulus for the prolongation of farmers' activity and more less, for the livestock number increase.

From the made analysis of changes related to the physical indicators, characterizing farms with economic potential from 2000 to 3999 Euros could be made the following conclusions. As in the first group (farms up to 2000 Euros), so for the second group, per size, the farmers have been stimulated to enlarge the field crops areas size. On the background of diminution of their number in the group from 2000 to 3999 Euros standard production size, there is a consolidation of field crops farms. For the farms growing perennial crops and the mixed crops- livestock farms there is also a consolidation, although in small scales, compared to farms with field crops. In the analyzed period there is a further fragmentation of vegetables - growing farms, because of the higher rate of increasing of their number, compared to the increase rate of the used by them land. Very alarming is the trend of drastic drop of the mixed livestock and of bovine farms' number and the number of bred animals in these farms, in difference to the changes of the same farms types, but having economic potential up to 2000 Euros. Having smaller power, but also decreasing are the ovine farms, accompanied by the diminution of the number of bred sheep, goats and other ruminants.

The results from analysis of the both group of small farms restructuring give rise to offer differentiated support for these farms in thenext programming period 2014-2020. With this approach should be taken into account production direction since the effects of EU subsidies on the various specialized farms is not the same. It is advisable holdings specializing in growing vegetables, fruits and animals have specific additional financial incentives unlike those with field crops.

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Chronicle

European Rural Development Network XIth Conference: EU transformations under CAP 2007-2013 and rural development perspectives in the future programing period 2014-2020, 3-4 October 2013, General Berthelot/ Hateg, Hunedoara County, Romania

In the last part of this book, we would like to highlight the main results of the 11th conference of the European Rural Development Network, which was organized by the Institute of Agricultural Economics of the Romanian Academy and the Romanian Association of Rural and Agri-Food Economy "Virgil Madgearu" in the period 02-05 October 2013 and hosted at the Sustainable Development Center "Țara Hațegului-Retezat" of the Romanian Academy from the commune General Berthelot, Hunedoara county. It debated aspects concerning "Transformations of the European Union induced by the Common Agricultural Policy 2007-2013 and rural development perspectives in the next programming period 2014-2020".

40 participants were present at the ERDN/FP7-COMPETE Conference, out of which 30 researchers or university teaching staff, including 19 foreign guests. The participants represented 8 EU countries (Austria, the Czech Republic, Italy, Great Britain, Poland, Romania, Slovakia, Hungary), 3 extra-Community countries (Moldova Republic, Ukraine, USA) and the Kosovo region.

During the Conference, analyses of the agri-food economy and rural development from 9 countries were presented, as well as overall analyses, on the entire EU. At the same time, the organization of this Conference had in view the attraction of the local farmers in the FP7-COMPETE project activities, regardless of the farm size or activity profile, as well as of the local decision-makers, administrative staff with attributions in the project field. Moreover, the dissemination of the partial results of the project was had in view, as well as the attraction of new beneficiaries interested in aspects linked to competitiveness, or entities involved in the agri-food production and trade in "Țara Hațegului" area.

The researchers, university staff, decision-makers from the local and regional administration, entrepreneurs from the agri-food sector, specialists from different activity fields debated the themes included in the program and evaluated the rural devel opment perspectives in the EU member states in the period 2014-2020. At the same time, the research activity results were promoted, which emerged from the analyses and projects carried out by the participants to the Conference in the last years; the participants made an exchange of experience and good practices, ensuring a favourable environment for future collaboration. The Conference, through the presented papers, represented a platform for debates on the theme of competitiveness of the Romanian and European agri-food sector and sustainable rural development, considered as premises for efficient future economic development and governance programs, in the new conditions generated by the economic and social phenomena manifested throughout the world, as well as a true opportunity for attracting new members in the European Rural Development Network.

The event was reflected in the mass-media through press releases in the local media, in the newspaper "Servus Hunedoara", for instance, or TV broadcasts on the channel "TV Hunedoara". The transparency of the works of this scientific event had also in view to provide periodical information by the organizers since the beginning of the FP7-COMPETE project (October 2012) and in the pre-conference period in particular, with regard to the pursued objectives, the partial results of research works carried out and the expected final results, both to the potential beneficiaries and to the societal actors interested in the investigated subjects. The main communication channels were electronic, through the internet web pages: www.eadr.ro, www.arera.ro, www.compete-project.eu and www.erdn.eu.

During the conference, the most recent analyses in the field of interest were presented. From the presentations and debates, certain conclusions were drawn from the very beginning, with regard to the characteristic s of the agri-food sector and rural area after the implementation of the Common Agricultural Policy (CAP) in the period 2007-2013. The structural changes in agriculture and rural areas were investigated, which took place in the EU countries under the CAP impact, both as regards the size and profile of holdings, the labour force structure and the rural infrastructure, the available services, the characteristics of the business environment or the diversification of the non-agricultural gainful activities, with focus on the experience of the Czech Republic, Poland and Austria. Thus, it was highlighted that CAP 2007-2013 attenuated the disparities between the different EU regions only to a low extent, and maintaining the same mechanisms in the period 2014-2020 would not solve up the investigated problems. An idea was issued that one solution would be the implementation of dif ferentiated mechanisms, based on the "positive discrimination" principle, by which the less developed regions could benefit from additional funds and mechanisms based on real needs, on the basis of development programs designed according to these needs and not imposed by the European bodies with attributions in this field.

Another debated theme was that of the institutional framework to sustain CAP, the modalities to finance agriculture, in close connection with farm productivity and sustainability, all having the main target to increase the competitiveness of the EU's agri-food products in the intra- and extra-EU market. The main problems the farmers are currently facing were identified, both in the EU countries (e.g. Poland, Romania) and in the non-EU countries (e.g. Moldova Republic, Ukraine); the conclusion that was reached was that many of these problems are common, regardless of the EU member or non-member status, or they had been common problems at a given moment in their economic and social evolution, on the way to their accession to the EU. The debates were extremely useful not only for the representatives of the EU countries but also for those from the non-EU countries, and many of the experiences accumulated by the countries that had already joined the Union can be useful lessons for the countries on the way to accession or potentially candidate countries for EU accession. At the same time, the following issue was brought to discussion, i.e. the situation from many New EU Member States or non-EU Member States where a great number of small farmers exist, with no financial support and development possibilities, with an old-aged population and inefficient in farming activities, who in many cases do not produce for the market. This category still has significant land areas that are not included in the CAP mechanisms, and the main question that arose was whether this "social agriculture" must receive support from CAP 2014-2020, must be naturally eliminated or special measures should be applied for integration into commercial farms. Although no unanimity of opinions existed, one conclusion can be drawn, namely the tendency to transform these small subsistence and semi-subsistence farms into commercial farms or to eliminate them through integration into the large-sized farms. A perfomant modern economy must be based only on a modern and performant agriculture, consisting of modern and competitive farms.

The competitiveness theme was the subject of large debates, both through the number of presented papers and by the investigated geographical area. The debates focused on the competitiveness of the agri-food products from Romania, as well as from non-member countries such as Moldova Republic, Ukraine or Kosovo. The conclusion that was reached was that not only the intra-European trade is important for the next CAP financial programming period 2014-2020, but also the extra-Community trade, which is continuously subject to the competitiveness of the agri-food products from other regions of the world. That is why, it is necessary to increase the competitiveness of intra-Community products. With small differentiations across countries, it resulted that the New EU Member States and the non-EU countries are not competitive at the intra- or extra-Community level. Recommendations were issued with regard to adjusting the agri-food sector to the market demand and the selection of those outlet or supply markets to ensure competitive advantages.

The CAP perspectives for the period 2014-2020 were debated in the last part of the scientific meeting. The points of view of researchers who analyzed the situation from Romania, Hungary, Poland and Slovakia were presented. Thus,

subjects were approached concerning the role of national rural development networks, the innovation opportunities in rural areas, rural initiatives and regional/national agricultural and rural development policies. The debates focused on the need to create those structures and mechanisms in the rural area that should actively contribute to rural area development and to an active life comparable to that in the urban area or at least pre-urban area. This objective can be reached only through a close local or regional cooperation between all the entities present in the social and economic life, i.e. local and regional administration, political decision-makers, entrepreneurs, professional organizations, non-patrimonial associations and foundations, research institutes and university centers.

Although the discussions on the approached themes were not exhausted during the Conference, one conclusion can be drawn, namely that a differentiated approach is needed for the future CAP, if we have in view the attenuation of regional/national differentiations created throughout history after the second world war, as well as a unitary approach when it comes to the attenuation of urban – rural differentiations, or sectoral differentiations, so that the rural population and the population involved in agricultural activities should not be socially and economically discriminated.

The scientific nature of the event was completed by field applications, under the form of documentation visits in the territory to the main agricultural producers in the region and of the discussions with some of the most important entrepreneurs in "Țara Hațegului" area. Visits were made to a large-sized farm specialized in vegetable farming, with a good marketing orientation, which developed since 2010 with great investments based on structural funds and to a dairy and beef farm, business started in 2007 on the basis of pre-accession funds. These two firms can be considered examples of successful business, developed in two different periods of Romania's agriculture evolution, which grew every year and have favourable future perspectives in the local and regional economy. Following the visits in the field, numerous conclusions were drawn, among which we can highlight the positive, potential issues, in the sense that the domestic market can absorb the obtained production, a great demand existing in spite of the economic-financial crisis, as well as certain negative aspects, mainly concerning the capacity to ensure a constancy in the quality of the obtained products.

All these results, briefly presented in this section, make us conclude that the objectives pursued by the organization of this Conference were fully reached and new scientific collaboration and cooperation opportunities were opened for the next period, both with the researchers from the EU member states and with those from the non-EU countries, but also cooperation between scientists, practiciens and decision-makers.

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