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Romanian rural development and foreign direct investments

Abstract: *Investment activity has a central position in economic life, both in production and consumption, being the factor that simultaneously influences demand and supply of goods and services. Investments are the main instrument for achieving economic growth. By carrying out investment projects the newer and more modern technologies can be implemented, hence they represent an instrument for economic modernisation by which new structures can be created, more effective, conform to the strategic options for future development.*

Keywords: *investment, transition, rural development, Romania*

Introduction

During the transition period, different concepts concerning regional development and the role of a solid and clear policy upon the future economic stability, in the pre-accession period and after the integration into European Union, have developed in Romania. Unfortunately, our decision-makers showed total lack of consistency in terms of policy formulation and implementation, with grave negative effects for the subsequent decision steps.

A very good impact on the regional and rural development was associated with the international programmes and projects in which Romania is taking part, under the authority of international financial or the European Union institutions. In spite of many difficulties encountered in the last years, some programmes and projects were already finished or are in the final stage of implementation. The transnational projects between Romania and other countries, even small ones (cross-border projects), have a positive impact on the national economy and its branches. In this context, the agri-food sector and the rural development have an important role. Many international projects have a direct applicability in this field or in fields close to it, like environment and ecology. Besides this, the international funds appear as an important pillar of development, along with the effects generated by the foreign investors during their activity.

Investment activity has a central position in the economic life, being the factor of stimulation by influencing demand and supply of goods and services. Investments are the main instrument for achieving economic growth. At the social level, investments have a regulatory and compensating role in employment and life quality improvement. The implementation of certain investment projects results in modifications on labour market, generating an additional demand for labour in the sectors preparing and carrying out investment activities, i.e. research and design or construction, leading to operation of new production capacities. Investments may be also considered as a link between generations, by creating new jobs for the young generation, as well as by the fixed capital they receive from previous generations. The investments generally and the investments in rural area especially acquire a special importance, as they are closely linked to the natural environment and the population that is mostly sensitive to the climatic, ecological and economic changes, i.e. the rural population.

These are only a part of the arguments supporting the idea that the foreign direct investments in the Romanian agri-food sector and the international regional programmes are welcome and necessary for the recovery of this sector, for improvement of the state of regions in Romania and for evening out of the disparities between them. The analysis of the Romanian agri-food sector, together with the regional policy and foreign capital flow's evolution in economy, in different regions and especially in rural areas, by sources and destinations, will strengthen the above-mentioned arguments and reveal the present drawbacks and the need to accelerate the investment process.

Romania's place on the international market

At the international level, the foreign direct investment (FDI) flows went through important changes in the last 15 years. Thus, from our point of view, there are two important moments which have influenced the international FDI flows (we take into consideration the influence on the European market). One of them is the appearance of a new market on the international map, in Central and Estern Europe (CEECs) and the second is the event which took place in USA, in September 2001.

Generally speaking, the studies show us that, at the end of 2001 the repartition of the FDI was almost the same as 15 years ago. The repartition of the FDI flows in the World is not very different from that of the 1980s, but the volume of investments made at the global level has changed. Before 2001 there had appeared an increase of the value of resources used by the investors because of the economic boom, globalization and the new favourable conditions on the international markets. The year 2001 reduced the investment activity, but the investors kept the conquered markets in their portfolio, even though at low levels (Figure 1). Thus, about 50% of FDI value was in EU, 20% in USA, 15% in Asian Countries, 10% in Latin America and only 2.5% in the transition countries from CEECs, on average in the last years. Among the latter Poland, the Czech Republic and Hungary have attracted 50% of the total in this region, as of the end of 2003 (60% at the end of 2001).

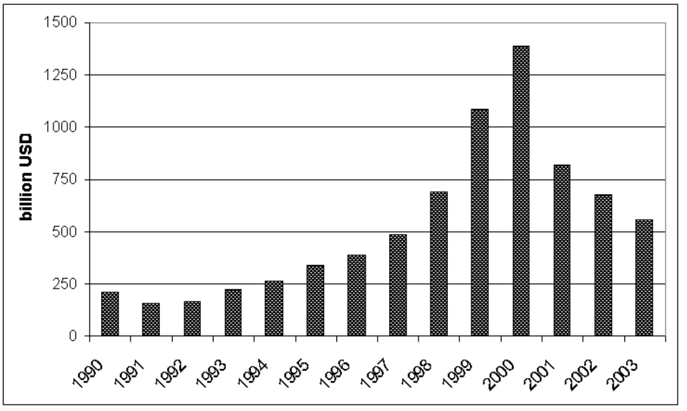

Figure 1. Foreign direct investments flows – global trend, in the period 1990–2003

At the European level, the two distinct entities, European Union – EU, Central and Eastern European Countries – CEECs, have developed parallely, but from different positions. EU was an important investment source for CEECs, the volumes growing gradually, with only some CEE countries as preferred destinations, but at the same time, these were the investment destinations preferred by the investors from all over the world. Also, the CEECs tried to intensify their outward foreign investments, but on another scale, not having a comparable share on the European market. In this period, the main concern of the CEECs was the attraction of more foreign investors, under a very strong competition in this domain (Tables 1 and 2).

Absorption of the FDI was quite varied in the CEECs, from country to country. Some countries had definitely higher volumes of inflow per year as shown in Table 2 (for instance Czech Republic compared to Romania). For Romania, the start of the competition in attracting foreign investors was late (1997–1998) and the evolution of the process was slow, so that the limit of 10 billion USD was passed only in 2003. From the point of view of the FDI's absolute volume, Romania is nowadays situated at the level of Poland and Hungary in the years 1995–1996 (or Czech Republic in 1998). But, if we speak about FDI per capita, the Romanian situation is more dramatic, because its level is lower than in many CEECs (except for such countries as Moldova).

On the basis of this information we can elaborate the matrix "FDI – potential/performance", which determines the place held by Romania among the world's countries, both from the point of view of performance in terms of FDI, and of the potential it has to attract these investments (Table 3). Among the countries which were the candidates to the EU accession or wishing to start the negotiations in a near future, only Turkey and Ukraine are part of the same group with Romania (the sub-performing countries), all the other countries from the region being placed much more favourably.

Table 1. Foreign direct investments in Europe, in the period 1996–2003 (billion USD)

Group/Country	1996	1997	1998	1999	2000	2001	2002	2003
FDI Inflows								
World	**389**	**488**	**691**	**1087**	**1388**	**818**	**679**	**560**
European Union:	111	127	250	479	671	357	374	295
- Germany	7	12	25	56	198	21	36	13
- United Kingdom	24	33	74	88	119	53	28	15
- Belgium-Luxembourg	14	12	23	120	89	88	132	117
- Netherlands	17	11	37	41	64	52	26	20
- France	22	23	31	47	43	50	49	47
Central and Eastern Europe + Russia:	14.7	21.1	24.3	26.5	27.5	26.4	31.2	21.0
- Romania	0.3	1.2	2.0	1.0	1.0	1.2	1.1	1.6
- Bulgaria	0.1	0.5	0.5	0.8	1.0	0.8	0.9	1.4
- Czech	1.4	1.3	3.7	6.3	5.0	5.6	8.5	2.6
- Hungary	3.3	4.2	3.8	3.3	2.8	3.9	2.8	2.5
- Poland	4.5	4.9	6.4	7.3	9.3	5.7	4.1	4.2
- Slovakia	0.4	0.2	0.7	0.4	1.9	1.6	4.1	0.6
- Russia	2.6	4.9	2.8	3.3	2.7	2.5	3.5	1.1
FDI Outflows								
World	**395**	**474**	**687**	**1.092**	**1.187**	**721**	**596**	**612**
European Union:	184	221	415	724	806	429	351	337
- Germany	51	42	89	109	50	43	L.D.	L.D.
- United Kingdom	34	62	123	201	254	39	L.D.	L.D.
- France	30	36	49	121	176	83	L.D.	L.D.
- Belgium-Luxembourg	8	7	29	122	242	67	L.D.	L.D.
- Netherlands	32	24	37	58	71	44	L.D.	L.D.
- Spain	5	13	19	42	55	28	L.D.	L.D.
Central and Eastern Europe + Russia	1	4	2	2	4	4	5	7

Note: L.D. = No data
Source: UNCTAD Database, World Investment Report, years 2001–2004

Table 2. Foreign direct investments` stock in CEECs, in the period 1996-2003 (billion USD)

Country	1996	1997	1998	1999	2000	2001	2002	2003
Poland	11.5	14.6	22.5	26.1	34.2	41.2	47.9	52.1
Czech R.	8.6	9.2	14.4	17.6	21.6	27.1	38.4	41.0
Hungary	13.3	18.0	22.3	25.6	28.4	32.3	35.1	37.6
Romania*	1.1	2.4	4.4	5.5	6.5	7.6	8.9	12.7

* = according to the Romanian methodology (Chamber of Commerce and Industry of Romania and Bucharest Municipality – National Office of the Trade Register, CCIRMB – ONRC), the FDI stock at the end of 2003 is 10,501,782.3 Thou. USD

Source: UNCTAD Database, World Investment Report, years 2001–2004

Table 3. Matrix of inward FDI – performance and potential, 2000–2002

	High FDI performance	Low FDI performance
High FDI potential	*Front-runners* Bahamas, Belgium, Luxemburg, Botswana, Brasilia, Brunei Darussalam, ***Bulgaria***, Canada, Chile, China, Costa Rica, ***Croatia***, Cyprus, ***Czech***, Denmark, Dominican Rep., ***Estonia***, Finland, France, Germany, Guyana, Hong Kong (China), ***Hungary***, Ireland, Israel, Jordan, ***Latvia***, ***Lithuania***, Malaysia, Malta, Mexico, Mongolia, Netherlands, New Zeeland, Panama, ***Poland***, Portugal, Singapore, ***Slovakia***, ***Slovenia***, Spain, Sweden, Switzerland, Trinidad Tobago, Great Britain, Vietnam.	*Below-potential* Australia, Austria, Bahrain, ***Belarus***, Egypt, Greece, Island, Iran, Italy, Japan, Kuwait, Lebanon, Libyan, Arab Jamahiriya, Norway, Oman, Philippines, Qatar, Rep. of Korea, Russia, Saudi Arabia, South Africa, Taiwan, Thailand, Unite Arab Emirate, United States.
Low FDI potential	*Above-potential* ***Albania***, Angola, Armenia, Azerbaijan, Bolivia, Colombia, Ecuador, Gambia, Georgia, Honduras, Jamaica, Kazakhstan, Mali, Morocco, Mozambique, Namibia, Nicaragua, Rep. of Congo, ***Moldova***, Sudan, ***TFYR Macedonia***, Togo, Tunisia, Uganda, Tanzania	*Under-performers* Algeria, Argentina, Bangladesh, Benin, Burkina Faso, Cameroon, Cote d'Ivoire, Dem. Rep. of Congo, El Salvador, Ethiopia, Gabon, Ghana, Guatemala, Guinea, Haiti, India, Indonesia, Kenya, Kyrgyzstan, Madagascar, Malawi, Myanmar, Nepal, Niger, Nigeria, Pakistan, Papua New Guinea, Paraguay, Peru, **Romania**, Rwanda, Senegal, Sierra Leone, Sri Lanka, Surinam, Syria, Tajikistan, ***Turkey***, ***Ukraine***, Uruguay, Uzbekistan, Venezuela, Yemen, Zambia, Zimbabwe.

Source: UNCTAD Database

Foreign direct investments in Romania

The economic opening after 1990, the invitation of economic reforms, of restructuring and privatisation of state enterprises, the switchover from the command to the market economy have produced important changes both in the legal structure of economic operators and in the capital structure. Regardless of the form of FDI, as privatisation inputs, contribution to nominal capital at the establishment of commercial companies, in cash or in kind equivalent, Romania is placed after Poland, the Czech Republic and Hungary on the list of former socialist countries as regards the attracted foreign capital. The data provided by the Chamber of Commerce and Industry of Romania and Bucharest Municipality - National Office of the Trade Register ("C.C.I.R.M.B. – O.N.R.C."), show us the state of the investment process and attractiveness for foreign investors.

The structure of FDI in Romania (Figure 2) is a clear result of the Romanian policy in this field. We can see, in particular, a huge disproportion between branches, with a lack of interest for some of them, very important in the process on integration into EU and the development of the economy (in agriculture: 1% of the total).

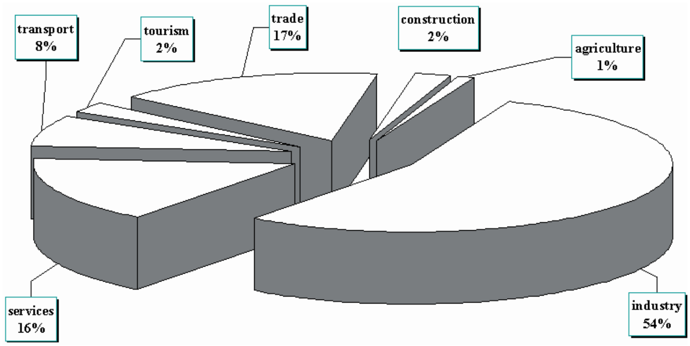

Figure 2. The structure of the foreign direct investments in Romania (1990–2003)

As regards the sources of FDI, i.e. the countries of origin, Table 4 shows the first 15 in terms of volume. The origin of the investors is directly connected with the historical developments, commercial traditions of each country, geographical closeness, cultural and other aspects of social and political nature. Note that the first five countries from this list account for 50% of total FDI in Romania. As regards the frequency of registrations (number of registered commercial companies) until 1 January 2004, the first two positions are occupied by Italy and Germany (25% of the total). The positions of The Netherlands, France, USA, or Austria are quite interesting; these countries having high investment values, but not so many companies present on the market. Comparing the classifications according to the two criteria, it result that the Western European countries represent „the main spring" of FDI for Romanian economy.

Table 4. Sources of foreign direct investments for Romania – end of 2003 (by country)

No.	Country	Value of nominal capital in foreign currency		Registrations of companies with foreign capital	
		thousand USD	%	No.	%
1	The Netherlands	1858921.2	17.93	1743	1.79
2	France	1067964.2	10.30	3150	3.24
3	Germany	880328.5	8.49	10954	11.27
4	USA	704323.9	6.79	3800	3.91
5	Italy	624525.4	6.02	14157	14.56
6	Holland Antilles	598485.3	5.77	9	–
7	Austria	595063.9	5.74	2785	2.87
8	Cyprus	504914.4	4.87	1144	1.18
9	Turkey	418741.4	4.04	8666	8.92
10	Great Britain	373705.7	3.61	1658	1.71
11	Greece	318093.8	3.07	2555	2.63
12	Switzerland	308139.1	2.97	1252	1.29
13	Hungary	264526.8	2.55	4392	4.52
14	South Korea	218365.8	2.11	82	0.08
15	Luxembourg	196780.1	1.90	218	0.22

Source: CCIRMB – ONRC Data, Statistical Bulletin

For a clearer picture, let us mention the list of the most important commercial companies registered on Romania's territory in the last years, according to the investment volume: Romania Efes Brewery, Danone, Kraft Jacobs Suchard, Unilever Romania, British American Tobacco Romania Investment, British American Tobacco, DRM Draxlmaier Romania Sisteme Electronice, Bucharest International Cargo Centre – BICC, Hochland Romania, Gedeon Richter Romania, Daewoo, General Motors, Renault, Lafarge etc.

The agri-food sector's characteristics

Inevitably, the rural development in Romania is closely correlated with agriculture's development, food industry and all the associated activities. The structural characteristics of Romania make necessary the elaboration of a national policy, which should have in view the sustainable development of the rural areas and the promotion of the national regional development or the international one, in conformity with the European principles. According to them, the rural development policy has to be closely linked to the sectoral (agricultural) policy and to the regional policy, having in view three dimensions: the restructuring and development of the agricultural sector, promotion of the economic and social cohesion of regional horizon, and the integrated development of the rural area. In this context, foreign investments and especially FDIs have a main place, given that the internal financing sources are currently limited. The agri-food sector has a special importance at the macro-economic level due to its features and the connections with the other branches of the economy. For Romania, this sector acquires higher importance because of the size of the Romanian market (Romanian population being at 22 million), the size of the rural population (47% of the total), or the share of persons involved in agriculture (about 30% of the active population). For these reasons, but not exclusively, the development of the rural areas in Romania is an important issue and a big challenge. Unfortunately, the place of this sector in the "FDI equation" is not significant because of its lack of attractiveness, high risks involved and low profitability. These are the reasons why the foreign investors do not consider this sector as a priority in their activity (Table 5).

Table 5. The Romanian agri-food sector attractiveness for foreign investors

Period 1990–2003*	Total FDI – Romania (10.501 billion USD), out of which:	
	Agriculture	Food industry
Number of investors (%)	3.6	5.3
Value of investments (%)	1.2	9.4

* = year 2003 – preliminary data
Source: CCIRMB – ONRC Data, Statistical Bulletin

Analysed in dynamics, the FDI in the agri-food sector express the attitude of the investors and in the same time, "the preoccupation of the decision makers in solving the problems" having appeared in the transition period in this sector (Figure 3). Both in agriculture and in food industry FDI had a sinuous trend. These yearly fluctuations cannot provide a basis for a conclusion related to a distinct and clear policy of the government as regards definite products.

The FDI value in the agri-food sector and the number of the foreign investors, for the period 1990–2003 (Voicilas 2004), are presented by groups of activities according to the National Classification Code (Table 6). Out of the total number of commercial companies registered in the agri-food sector 40.3% were established in agriculture, while the remaining 59.7% in the food industry. Crop production has the largest share in total agriculture i.e. 50.3%, which reflects the general orientation of entrepreneurs. In food industry many companies were registered in meat production, beverages, milling products that together account for more than 35% of total industry (except production of bread, pastry and other food products with 47% of total food industry). The participation in the nominal capital of commercial companies, in foreign currency, was 11.3% in agriculture and 88.4% in food industry. The essential funds in agriculture went to mixed activities (49.7%) and in food industry to beverages production (47.4%).

In conclusion, according to these data, we can design a consumption profile of the Romanian customer (consumer), because of the investors' tendency and the supply on the market: the consumer used to buy and had a high demand for beverages, meat products, milling products, bread and pastry. In the same time, we can we can say that the orientation of the investment flows in the Romanian agri-food economy took place with no significant state support; the investors moved into the branches with lower risk, in which they could adjust more rapidly to market needs.

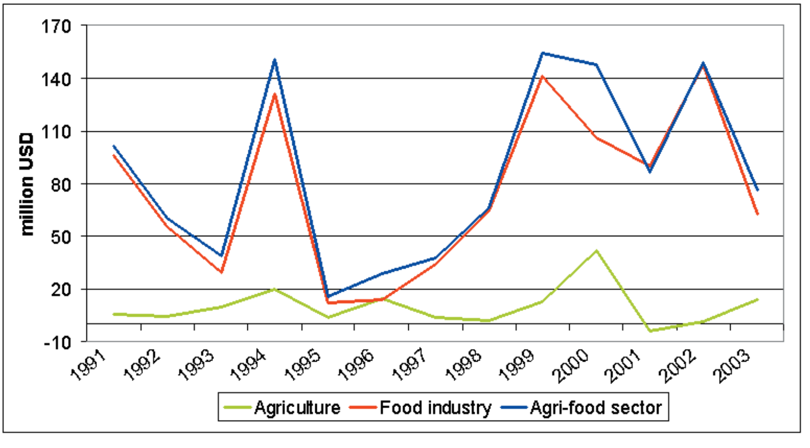

Figure 3. The evolution of the foreign direct investments in Romanian agri-food sector (1990–2003)

Table 6. The value of the foreign direct investments in Romanian agri-food sector's sub-branches

Groups of activities	Total 1990–2003*	
	No. of comp.	Total in foreign currency (thousand USD)
AGRICULTURE	***3 464***	***128 943.3***
Crop production	1 741	40 536.9
Livestock production	629	17 666.2
Mixed activity (crop and livestock)	737	64 023.7
Auxiliary services (without sanitary – veterinary services)	357	6 716.8
FOOD INDUSTRY	***5 127***	***983 350.6***
Meat production, processing and preservation	811	61 199.7
Fish and fish products processing and preservation	31	1 089.3
Fruit and vegetables processing and preservation	285	20 274.6
Production of oils and vegetal and animal fats	89	13 612.2
Dairy products	371	62 653.0
Milling products, starch and starch–based products	452	58 658.7
Production of livestock feed	53	11 073.2
Production of bread, pastry and other food products	2 411	213 784.3
Production of beverages	579	466 392.0
Tobacco industry	45	74 614.8
TOTAL AGRI-FOOD SECTOR	***8 591***	***1 112 293.9***

* = year 2003 – preliminary data

Source: processing of CCIRMB – ONRC Data

The territorial analysis of foreign direct investments

The territorial repartition of the FDI for all activity sectors of the economy puts into evidence some of the trends manifested by the investors in the 1990s. As a result, there are emerging centres of concentration for the foreign investors in the geographical areas and historical provinces with a rich economic and infrastructure potential or with historical traditions in certain activity branches.

If we analyse the repartition of the foreign investors in the function of the number of commercial companies (Table 7), we can see, that more than half (55%) have been founded in Bucharest, having also the supremacy regarding the value of the invested capital (about 50%). On the subsequent places are the Western and North-Western Regions. The fewest commercial companies were founded in the Southern and South-Western Regions. If, however, we take into consideration the value of the investments made, Bucharest is followed by the Southern and South-Eastern Regions. These three regions account for almost 75% of the total of foreign investments in Romania. On the last places are the North-Eastern and South-Western Regions. Following these two criteria, we can conclude that the Bucharest Region is concentrating the greatest part of the foreign investments in Romania, the rest (almost 50%), being shared by the other seven regions of economic development, there being a great economic imbalance manifested in all domains of activity. The least attractive region for the foreign investors is the South-West, which is on the last position in terms of both criteria. It is in fact one of the poor regions of Romania, together with the North-Eastern, region with a rural majority and a strong agrarian character. If we take into account also the rural population share in total population of each of the regions, we can see that North-East, South and South-West are predominantly rural. Except for the South, which has important investments, foreign investors generally avoid the other two.

Table 7. Foreign direct investments in Romania by economic development regions (1990–2003)

Development regions	Investors		Capital (thousand USD)		Rural population
	No.	%	Value	%	%
North-East	3 868	4.0	385 126.9	3.6	59.5
South-East	50 589	5.8	1 247 697.8	11.9	44.8
South	3 758	3.9	1 267 175.9	12.1	59.5
South-West	2 373	2.4	345 471.1	3.3	55.8
West	10 112	10.4	743 598.0	7.1	38.4
North-West	9 454	9.7	775 296.6	7.4	49.9
Center	8 591	8.8	467 671.9	4.4	41.5
Bucharest	53 484	55.0	5 269 744.1	50.2	11.3

Source: National Institute of Statistic (INS); CCIRMB – ONRC Data, Statistical Bulletin

The classification of counties by the size of the attracted foreign investments, lists in the first 10 positions, after Bucharest, the following ones: Galati with 6.2% (South-East), Arges with 5.9% (South), Ilfov with 5.6% (Region Bucharest), Constanta with 4.7% (South-East), Timis with 3.9% (West), Cluj with 3.7% (North-West), Prahova with 3.7% (South) and Bihor with 1.8% (North-West). Except for the two counties in the South, all the others are in the regions with bigger concentration of urban population. On the last positions, according to this criterion, there are: Ialomita (South), Botosani (North-East), both with 0.1%, and Gorj (South-West) with less than 0.1%, which are the areas with predominantly rural population.

Following this short analysis we could conclude that foreign investors avoided generally the rural environment, the regions that are mostly rural, preferring the towns or the adjacent areas. In addition, a relevant mention is that the biggest towns in Romania where the investors have had an important investment activity are not situated in mountains area. The regional distribution of the FDI in Romania is characterised by great inequalities, the one between the Bucharest Region and the other regions being most obvious. For the future, it is possible that the present discrepancy may diminish and the poorest counties of the country might implement certain development programmes based on the analysis of comparative advantages for the foreign investors, first in agriculture, food industry and rural tourism, given that the local labour force is cheap, and the employers are enjoying certain facilities from the state, if they hire the unemployed.

Landmarks for increasing the attractiveness for the rural space and agri-food sector regarding foreign investments

In the recent years, many times the problem of facilitating the way for the foreign investors was analysed. This involved enforcing the legal framework for investment making and also for its treatment. The rights enjoyed by the foreign investors in the past and in the present can be synthesised as follows:

Rights granted to all investors (national or foreign):

a) The right to invest in any field and any legal juridical form;

b) The right to be equally treated, regardless the nationality, residence or headquarters;

c) The right to benefit by guarantees against nationalisation, expropriation and other measures with an equivalent effect;

d) The right to benefit by legal customs' and taxes' facilities;

e) The right of assistance in fulfilling the administrative proceedings;

f) The possibility for all investors – legal persons to acquire any real rights on any assets, real and personal estate, according to law, for their activity's needs, except for land which can be acquired only by the Romanian legal and natural persons;

g) The right to convert into foreign currency the sums in *lei* having resulted from the investment activity and to transfer the currency to the country of origin, according to the currency exchange settlements;

h) The right to choose the juridical or arbitration courts competent to judge any litigation that may appear.

Rights granted only to the foreign investors:

The law stipulates that the foreign investors benefit by the same rights and obligations as the national investors, having in addition some specific rights:

a) The right to transfer abroad without any restrictions, after paying the legal taxes, the incomes having resulted from an investment done in Romania, transfer that will be made in the investment's currency;

b) The litigation regarding the rights and the facilities granted by the Romanian law to the foreign investors, between the Romanian state and these investors, will be judged through a different procedure than the ordinary one.

General facilities granted to the investors:

a) The Emergency Ordinance no. 17/2000 regarding the value added tax (V.T.A.), stipulates the exception from the payment of this tax for some categories of activities;

b) According to the Emergency Ordinance no. 21/1999, which modified and completed the Emergency Ordinance no. 70/1994 regarding the profit tax, the contributors who buy technological equipment and means of transport, starting with the 1st of January 2000, benefit from a deduction of 10% of the acquisition price of these from the taxable profit.

Specific facilities granted to the direct investments with a significant impact on economy:

In order to encourage the investments, Law no. 332/2001 was promulgated in Romania, regarding the support for the direct investments with an important impact on economy. According to this law, these are the investments exceeding the value of 1 million USD. The main facilities are:

a) Duty free import of technological equipment, installations, measurement and control devices, automation and software products necessary for the implementation of the investment, under the condition that the imported assets be at most one year old before their importation date and that they have never been used;

b) The delay of the VAT payment for the new assets necessary for the investment's implementation, bought from Romania or imported, to the date of 25th of the next month after the date of the investment's implementation;

c) The deduction from taxable value in the month of the investment's implementation, of a 20% quota from the respective entire value;

d) The possibility to recover the fiscal losses from the profits in the next 5 years;

e) The possibility of using the accelerated amortisation for the investments, without any other preliminary approval.

Facilities granted to micro, small and medium size enterprises

By the Law no. 133/1999 and the Ordinance no. 24/2001 some economic, financial, fiscal and banking measures were introduced for the registration, development and stimulation of the micro, small and medium size enterprises.

The unfavoured areas' regime

The Emergency Ordinances no. 24/1998 and no. 75/2000 established the facilities for the investments in these special areas.

The regime of the industrial parks

The Ordinance no. 65/2001, regarding the organisation and functioning of the industrial parks, provides new facilitating measures for certain types of investments. In the sense of the ordinance, an industrial park represents a delimited area in which the economic, scientific research activities and/or technological development take place in view of putting into value the human and material potential of the area.

The inventory presented above is only a part of the normative acts issued recently, meant only to create the most favourable frame for the investment activities. But without any doubt, even with all these facilitating measures, the investments will not have the expected effects if a general favourable climate, credible abroad, in which the legislative instability, the lack of transparency, bureaucracy and corruption should not have any place, is not established.

Rural and agri-food development programmes

The international financial bodies and other institutions have developed a series of programmes in support of agriculture, agri-food sector, programmes for rural development, regional programmes, programmes for developing the private sector, the small and medium enterprises etc. These ones have as a goal either the increase of investment effects, or the approach to the EU structures, or the increase of the qualitative level of life. Most important programmes are developed through the World Bank (WB), The European Bank for Reconstruction and Development (EBRD), or other financial institution of EU.

By loans, consulting in matter of policies and technical assistance, The World Bank supports a large range of programmes for poverty reduction and increase of the life standard in numerous countries. The loan programmes are meant to strengthen the social protection system, increase the investments in the health care system, education and rural development, consolidation of the business environment or the development of the environmental protection capacity. The World Bank Projects in Romania are developing in very different fields. An important project is the "Private Sector Adjustment Loan", PSAL, with its two components PSAL I and PSAL II, which helped in the government's efforts of macroeconomic stabilisation through its four main components: the reform and privatisation of the financial sector; the state enterprises' privatisation; the consolidation of the business environment in Romania; further development of the social protection programmes for the unemployed.

In the financial year 2001, The Executive Board of Directors of the WB approved six projects in a total value of 230 million USD. They refer to priority aspects of the Romanian economy:

- The project for the restructuring of the mining sector and the alleviation of the social impact (45 million USD);
- The project for services in agriculture (11 million USD);
- The project for trade and transport facilitation (17 million USD);
- The project for reform of the health care sector (40 million USD);
- The project for rural financing (80 million USD);
- The loan for the social sector development.

Moreover, there are also six projects in the preparatory stage:

- The project for irrigation system rehabilitation;
- The project for pollution reduction in agriculture;
- The project for developing the forestry sector;
- The project for rural development;
- The loan for the social sector development;
- The loan for the private sector adjustment (PSAL II);
- The Romanian Fund for energy efficiency.

Schematically, the World Bank's programmes are presented in Table 8.

Table 8. Projects portfolio (year 2002)

Name of Project	Date	Loan (million USD)	Draw (million USD)
Future projects			
Non-reimbursable financing			
GEF Project for financing programmes for energy preservation	05/15/2001	5.00	
Loans			
PSAL II			
Project for forestry sector development		24.35	
Project for rural development		150.00	
Project for rehabilitating the irrigations		75.00	
Present projects			
Non-reimbursable financing			
Grant for preparation of the project for forestry sector development	08/14/2000	0.43	0.19
Improving the public information capacity	01/26/01	0.40	0.31
Improving the institutional capacity for macroeconomic analysis	10/21/1999	0.35	0.15
The management of biodiversity preservation	10/15/1999	5.50	0.93
Project for pollution reduction in agriculture		5.50	0.00
Pollution reduction in agriculture	02/23/2000	0.30	0.22
Loans			
Second project for roads modernization	10/24/1997	150.00	127.10
Cadastre	05/20/1998	25.00	2.70
Preservation of cultural patrimony	02/11/1999	5.00	0.84
Social sector development	10/26/2001	50.00	0.00
Development of services for agriculture	08/24/2000	11.00	0.95
The social development fund	03/30/1999	10.00	9.87
The Romanian fund for social development II		28.60	0.00
Loan for building the institutional capacity in the private sector - PSIBL	10/14/1999	25.00	9.92
Labour force and social protection	12/05/1995	55.40	27.08
Project for financial markets development in the rural area	08/28/2001	80.00	0.00
Project for facilitating trade and transport in the South-East of Europe	11/06/2000	17.10	1.95

Project for railways rehabilitation	08/15/1996	120.00	91.35
Project for rehabilitating the oil sub-sector	08/29/1994	175.60	104.09
Project for pre-university educational reform	10/07/1994	50.00	43.03
Child rehabilitation	10/28/1998	5.00	3.00
School rehabilitation	01/23/1998	70.00	31.80
Rehabilitation and modernization of energetical sector	01/24/1996	77.00	17.84
The reform in education and research	01/23/1997	50.00	36.17
The reform in health sector	11/02/2000	40.00	15.38
Restructuring of the mining sector	01/27/2000	44.50	3.30
Support for the reform and privatization in telecommunication	09/28/1998	19.00	7.64
Ended-up projects			
Non-reimbursable financing			
Reduction of pollution in agriculture – preparing project	02/23/2000	0.30	0.21
Loans			
Improvement of water supply for Bucharest	11/25/1996	25.00	17.60

Source: World Bank Database – Romania

In the process of Romania's accession to the EU three pre-accession instruments are used currently: the programmes PHARE, ISPA and SAPARD. The financial support is given as a priority for complying with the criteria of the accession into the EU.

The PHARE Programme

The assessment of the programmes with financial assistance from the EU was made until September 2001 by the OMAS Consortium, and further by the ECOTEC Consortium. The PHARE programmes in the fields: "Public Function and Public Finances", "Transports", "Agriculture and Rural Development" were assessed, for which the qualification given was "satisfactory". There are also now programmes in the sector "Financial services and the internal market" under development.

The Programme PHARE 2000 comprised a non-reimbursable financial assistance of 255.62 million (215 million for the National PHARE Programme, 13 million for the programme of cross-border co-operation with Hungary and Bulgaria, and 27.6 million for the community programmes).

The Programme PHARE 2001 benefited from the financial support of 286.69 million , with the following distribution: 148.89 million for the National PHARE Programme, 24.8 million for the supplementary investment facility, 13 million for the programmes of cross-border co-operation with Bulgaria and Hungary.

In the year 2001, the competition for PHARE 2002 Programme projects was launched, with the same priority chapters as in the previous years. The National Programme PHARE 2002 includes also the participation in the community programmes, Romania showing a great interest in participating in 25 programmes and one European Agency: Leonardo Da Vinci II, Socrates II, The Vth Framework Programme in research and technological development, Youth, Culture 2000, Life III, Fiscalis, Customs 2000, Save, Altener II, Etap, Sure, a multi-annual programme for the enterprises and entrepreneurship etc, and also The European Agency for Environment.

The ISPA Programme represents for Romania an important financial support in the domain of rehabilitation and modernisation of the environmental and transport infrastructures but, at the same time, it is a fundamental instrument for complying with the criteria for accession and development of some policies, convergent and coherent with the community policies, as a preliminary phase of the integration into the EU structures and procedures in these fields. Within the framework of this programme Romania is benefiting, in the period 2000-2006, of non-reimbursable financial assistance from the EU of about 1.5 billion , both for accomplishing the objectives foreseen in the Partnership for the Accession, and for the modernisation of the environment and transport infrastructures. Until the year 2002, the European Commission had approved for Romania 22 ISPA projects of the total value of 1.050 billion (65% of the funds allocated), placing Romania first among the EU candidate countries.

The SAPARD Programme is the financial instrument for pre-accession in agriculture and rural development, which has as priority objectives facilitation of implementing the *acquis communautaire* in the candidate countries and consolidation of the framework necessary for the sustainable development of the agricultural sector and rural areas, following the progressive adaptation of the intervention mechanisms to the principles governing the Common Agricultural Policy. It comprises a set of measures (eleven in total), which will be developed in the pre-accession period, and the effective financial support will be of 153.2 million annually, for seven years, in the form of non-reimbursable credits. Romania will be the second country, after Poland, in terms of the volume of funds received. At the same time, the programme measures assume the governmental co-financing (around 50 million /year), and also a share of local/a private funds.

Besides the above-mentioned programmes, Romanian Ministry of Agriculture is developing and implementing a series of programmes and is also the co-ordinator of some of them, based on both internal and external sources. In this manner, during the period 2001–2005 the following projects have been developed with sources received from the IBRD, WB: “Rural Development”, “The Development of Rural Financing” and “Control of Agricultural pollution”, with a total financing budget of 256 million USD. The organisations such as FAO, FIDA, PNUD envisaged also for the period 2001–2002 other three projects: “The Rural Development of the Apuseni Mountains”, “The Strategy for the Development of Agriculture and Rural Areas in Romania” and “The Economic Affirmation of Women in the Romanian Rural Areas”, with the total financing budget of

290 million USD. Negotiation and debates regarding the development of more programmes with external financing, through WB or other financial institutions are held permanently, so that there is hope that in a short time the gaps between Romanian agriculture and rural environment on the one hand and the ones of the EU, on the other, would diminish considerably.

Conclusions

This short study of FDI in Romania allows us to formulate the following final conclusions:

- there is a weak investment potential;
- there is a weak capacity of investment absorption;
- the under-investment syndrome is still present, especially in rural areas;
- there is no positive impact on the agri-food sector rural development and mountains area.

The effects generated by the under-investment phenomenon in the agri-food sector and rural areas are the following:

- low productivity and high costs of the production due to the obsolete technologies;
- subsistence agriculture features with high auto-consumption; low productivity;
- high level of hidden unemployment in agriculture and rural areas;
- lack of environmental protection measures;
- Romania became a net importer of agri-food products;
- the negative effects spread to other branches of economy.

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