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## DEVELOPING RURAL TOURISM THROUGH EUROPEAN FUNDS

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**Abstract:**

*A topic of actuality nowadays refers to accessing European funds. In this paper, we will focus on tourism development in rural areas, through European funds. We have chosen this approach because Romania has a great potential in terms of tourism, but unfortunately this potential is not explored enough. We will try to determine the extent to which EU funds are accessed for tourism activities in rural areas, both at national level, and in the North-West region. Based on the findings, we will try some recommendations for increasing the accession rate.*

**Key words:** *European Funds, absorption rate, rural tourism*

### 1. Introduction

As a full member of the EU, Romania has become integral part of the Common Agriculture Policy. As a result, Romania has to follow the principles and regulations that regard the agriculture and rural development EU sets for its members. One of the main issues refers to accessing European funds for agriculture. In this paper, we will not analyze funds for agricultural activities themselves, but we will focus on one of the side direction, namely tourism development in rural areas. We have chosen this approach because Romania has a great potential in terms of tourism, but not exploited enough. We will try to determine the extent to which EU funds are accessed for tourism activities in rural areas, both at national level, and in the Northwest region. Based on the findings, we will try some recommendations for increasing the accession rate.

According to the Council Regulation European no. 1290/2005, two funds for agriculture are available through CAP. These are EAGF - European Agricultural Guarantee Fund - to fund marketing measures and EAFRD - European Agricultural Fund for Rural Development - for funding rural development. Based on Council Regulation (EC) no. 1698/2005 from September 20th 2005 to support the rural development thru the European Agricultural Fund for Rural Development (EAFRD) the National Strategic Plan for Romania has been created, which is the basis for the

implementation of the National Rural Development Program for the funding period 2007-2013.

The National Rural Development Program 2007 - 2013 (NRDP) is a document in which the Ministry of Agriculture and Rural Development details how specific investments are financed from European funds for agriculture and rural development. Rural development priorities and directions contained in the NRDP, in close liaison with the Community's priorities have been established on the basis of a comprehensive analysis of both the socio-economic situation and the environment one. Thus, the National Strategic Plan, which undertook and continued NRDP, contains four priority directions (axes) for funding under EAFRD (European Union documents).

**Table 1. Presentation of main axis**

<b>Axis I</b>	Improving the competitiveness of agriculture and forestry sector	It aims to restructure and develop the agricultural and forestry related processing industries Objectives: - Increasing the competitiveness of the sector and thus improving its contribution to economic growth - Convergence of incomes in rural areas (where possible) - Ensuring the living conditions and environment protection in these areas.
<b>Axis II</b>	Improving the environment and the countryside	It aims to improve the environment in rural areas by promoting sustainable management both on agricultural land and in the forest. Objectives: - Maintenance of biodiversity and nature conservation by supporting forest conservation and development, ensuring a balanced occupation of the territory and the development of sustainable land management practices for agriculture and forestry. - Development of rural infrastructure and services by providing economic multifunctionality of rural areas, and conservation and enhancement of cultural and architectural heritage.
<b>Axis III</b>	Enhancing the quality of life in rural areas and encouraging diversification of the rural economy.	It aims to facilitate the transition management and labor in the agricultural sector to other sectors to ensure adequate social and economic living standards
<b>Axis IV</b>	<b>LEADER</b>	is considering implementing local development strategies for improving administrative governance in rural areas

Source: Author's format based on existing documents

## **2. Literature review and empirical analysis**

European funds, were and still are seen as a “providential gift” and expectations were high both for the state and the beneficiaries. And starting from here, it outlines one of the most important aspect regarding the european funds: we don't keep in mind why these funds are directed toward Romania.(Calistru,2013) All this money are part of an investment policy of EU, so it is expected that this money will have an important impact on Romanian economic development. The dramatic part is that Romania was not able to attract, acces and use this money. Romania currently has - at about 12, 83 percent -

one of the lowest rates of absorption of EU funds in the 27-nation bloc. (Euobserver, 2012)

As we stated before the expectations were high. For the state, european funds should have played an important role in economic growth, it should have generated a 1.5-2.5% increase in Romanian GDP per year. (If Romania would have absorbed most of the 19.6 billions euro, that were allocated to it for the 2007-2013 financial exercise, meaning 3-4 billions per year).(Gratian, 2012) Sadly, this never happend. For beneficiars, the funds should have helped them start a bussiness that would ensure their family a certain stability, and for the comunity or the region an impulse for economic growth, instead some times due to problems during the implementing period of the beneficiarie, delayed reimbursments and corection on paymnets, such projects blocked financialy the beneficiaries.

### **2.1 Overview of Measure 313 "Encouragement of tourism activities"**

Of the many possible investments, over 43 possibilities, the one that will make the object of this study will be Measure 313 "Encouragement of tourism activities", belonging to Axis III "Improving the quality of life in rural areas and diversification of the rural economy".

Shortly, Measure 313 can be presented as follows:

**Table 2. Measure 313 – main features**

<b>General Objectives</b>	Development of tourism activities in rural areas to help increase employment and income alternatives, and to increase the attractiveness of rural areas
<b>Specific Objectives</b>	1. Create and maintain jobs through tourism activities; 2. Adding value to tourism activities; 3. Creation, improvement and diversification of tourism infrastructure and services; 4. Increasing number of tourists and the duration of visits.
<b>Operational Objectives</b>	1. Increase and improvement of small scale tourist accommodation; 2. Information systems development and tourism promotion; 3. Create recreational facilities for access to natural areas of tourist interest
<b>Public Contribution</b>	EUR 544.222.774, from which EUR 9.540.000 represents financial allocation for SME's guarantee schemes
<b>Romanian Government Contribution</b>	20%
<b>EU Contribution</b>	80%, 85% from 2012
<b>Eligible beneficiary:</b>	Micro-enterprises, Private entities, Local authorities and Local Action Groups, NGO's
<b>Eligible investments</b>	a) Investment in tourism accommodation infrastructure b) Investment in recreational activities c) Investment in small-scale infrastructure such as information centers, tourism signs, etc. d) The development and / or marketing of tourism services related to rural tourism
<b>Maximum non-refundable value</b>	For public investments that do not generate profit, non-refundable public aid intensity will be up to 100% of eligible expenses and will not exceed

	200,000 Euro / project. For income-generating investments, public grant aid intensity will be up to: <ul style="list-style-type: none"><li>• 85% of eligible expenses and will not exceed 100,000 Euro / project for investment projects in tourism;</li><li>• 85% of eligible expenses and will not exceed 200,000 Euro / project for investment projects in recreational activities;</li><li>• 50% of eligible expenses and will not exceed 200,000 Euro / project for other investments in rural tourism.</li></ul>
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Source: Author's format based on existing documents

A specific situation is the one regarding the agro-tourism activity. As we all know, agrotourism is a combination between agriculture activities and touristical services, within an agricultural household or farm. This could be a complementary solution to obtaining supplementary incomes from agriculture, with economical or/and social positive effects. It also implies that it should have some contact with household activities. More, the food offered through agrotourism should be partially assured from local products. At least one agriculture activity should take place within agrotouristic pensions, such as orchards, different crops, or livestock.

## **2.2 Empirical analysis of accessing European Funds for Measure 313**

In order to sustain what is stated before, we must say that just a few analysis about the impact of European funds on Romanian economy exist. For the investments in tourism activities in the rural area, such an analysis can not be done, yet, because most of the contracted projects are still ongoing, or, the case of 2012 projects, have an uncertain situation. That is why we choose to try an analysis, for now, of the accession of European funds in this sector, and in the future, when data will be available, to make one of the actual impact on national and regional economy. This is just an empirical analysis based on the public data offered by the National Agency on Payments for Rural Development.

First the situation at national level for the projects on Measure 313 will be presented. After that we have chosen to analyse just the just the Nord-West Region (NUTS II), region that comprises 6 counties: Bihor, Bistrita-Nasaud, Cluj, Maramures, Salaj and Satu-Mare. As time series, we have used data from 2008- the year the programme was released- until 2012 when the lastest session for this measure took place. The limits of this analysis are imposed by the fact that we don't have specific data for the projects selected in 2012.

From the launching of PNDR until now 7 calling sessions for projects funded thru Measure 313 were launched.

In 2008, there were 2 calling sessions, 18 September - 30 October and 17 November-19 December, with a total allocation of 195.117.728 Euros, representing about 36% from the whole amount of money allocated for the period 2007-2013. In the first session 18 September-30 October, from the total of 121 projects enrolled, with a total value of 22.571.382 Euros, although there were selected 100 projects, just 87 of these were contracted for financing. Total value of contracted projects, initially, was

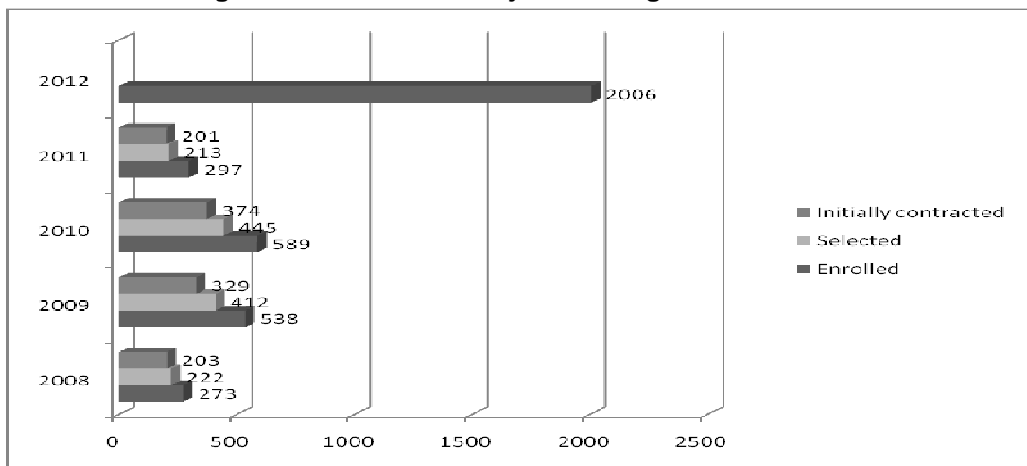
19.839.170 Euros. (It can be easily observed that the number of contracted projects is different from one statistics to another, what implies that some of these are terminated or withdrawn). In the second calling session, 152 projects were enrolled, with a total value of 26.844.380 Euros, 122 were selected, and initially 116 contracted, summing 21.380.692 Euros. Two calling session were launched in 2009, also, and for those 151.142.667 Euros were allocated. During the first session, 12 October-6 November 329 projects were enrolled, with a public value of 57.986.890 euro. From those, 270 were declared eligible and 178 were contracted for financing, with a total value of 29.548.149 Euros. During the second session, 16 November - 11 December, 209 projects were enrolled, accounting 35.398.758 Euros, 142 were selected and 115 contracted for financing, with a total value of 19.780.540 Euros.

In 2010, although 2 calling sessions were announced, just one actually took place, between the 1<sup>st</sup> and 30<sup>th</sup> of July. For this session 136.055.694 Euros were allocated. At the end of the session 589 projects were enrolled, with a total value of 96.166.316 Euros. As a result of the selection process 445 projects were declared eligible, and for 374 contracts for financing were signed. The total value of contracted projects in 2010 was 60.773.289 Euros.

In 2011, the total amount of the allocated funds was smaller than the previous years, of just 85.000.000 Euros. The sessions took place between the 1<sup>st</sup> and 31<sup>st</sup> March, and 297 projects were enrolled, accounting 45.274.969 Euros. Afterwards 213 projects were selected and 201 projects were contracted, with a total value of 29.976.234 Euros. The most projects for Measure 313 were enrolled in 2012. The total number of enrolled projects was 2006, accounting for 285.648.053 euro, surpassing by far the allocated funds of 186.508.910 euro.

In the next picture, an overview of the situation of projects on Measure 313 for the 2008-2012 period of time is presented.

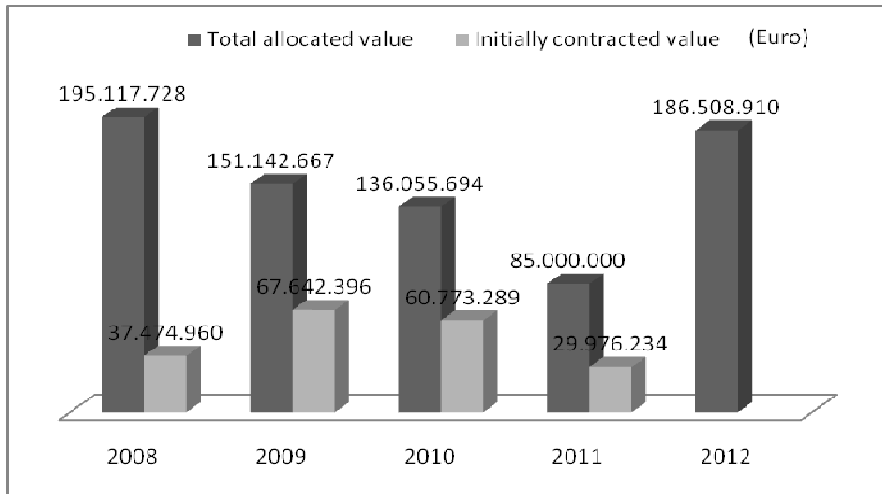
**Figure 1: Situation of Projects through Measure 313**



Source: Author's own calculation

Looking strictly at the number of initially contracted projects, one might say the situation is good, as they represent between 61% and 74% of the total number of enrolled projects, and between 80% and 94% of total selected projects, but the situation changes when we analyse the total value of contracted projects.

**Figure 2: Comparison between value of contracted projects and totally allocated value**



Source: Author's own calculation

As you can see in the figure above, the total amount of attracted European funds has a fluctuant evolution. In 2008, the first year for enrolling such projects, the total value of contracted projects barely represented 19% of the total amount allocated for that year. Most probably, this situation is due to inherent problems of a beginning. Things were sort of better in 2009 and 2010, when the proportion of contracted projects value reached 45% of the total amount annually allocated. Unfortunately, in 2011, reported to a much smaller amount (approximately 62% of the previous year and less than half of 2008 – what was the peak with the biggest amount allocated) the proportion of contracted projects value was just 35%. Although it looks like a high percentage, the total value of initially contracted projects was the smallest of the entire analysed period of time – about 30 million Euros (less than half of the contracted amounts of 2009 and 2010).

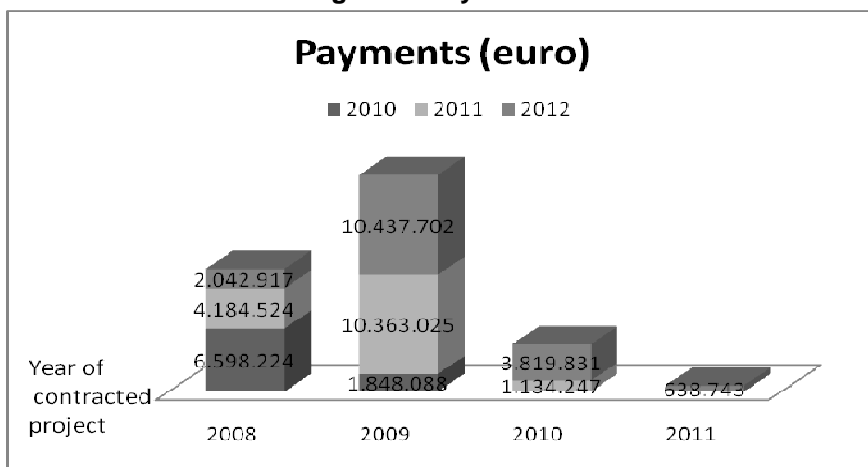
As a whole, for the entire period 2008-2012 the proportion of contracted projects value was approximately 30%.

For an unadvised observer, what we presented above could represent the absorption rate, but it is not. The absorption rate means the amount reimbursed by EU to the Romanian government reported to the total amount allocated.

The situation seems even more dramatic when we look at the numbers representing the period of time, 2008-2012, from a total of 157.445.341 Euros (for 963 contracted projects) payments of 41.067.300 euro were actually made and these payments represent 26% of the total available funds.

Thus, till 2012, inclusive, from the projects contracted in 2008, payments of 12.825.665 Euros were made, meaning a little more than 34%. Almost the same percentage can be observed for the payments made for projects contracted in 2009. From a total value of 67.642.396 Euros, payments worth of 22.648.815 Euros were made. As expected and understandable, the payments made for the projects from 2010 and 2011 were much smaller, 8% for 2010 and just 2% for 2011.

**Figure 3: Payments situation**



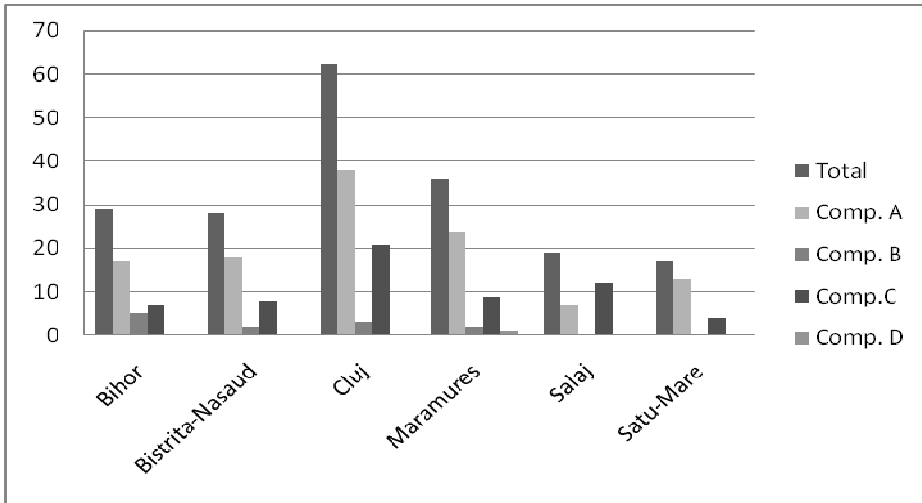
Source: Author's own calculation

Within the mesure 313 the biggest competition, so to speak, was between component A) Investment in tourism accommodation infrastructure and component C) Investment in small-scale infrastructure such as information centers, tourism signs, etc., especially during the last years.

For the Nord West region the situation of selected projects is the following. In 2008 14 projects were selected, out of which 13 for component A (3 –Bihor, 7-Cluj, 2-Maramures, 1-Salaj) and 1 for component B (Maramures). In 2009, 39 projects from this region were selected. 34 projects were for component A (2 – Bihor, 6-Bistrita-Nasaud, 9 – Cluj, 12- Maramures, 2 –Salaj si 3 – Satu Mare), 2 for component B ( Bihor and Bistrita-Nasaud) and 3 for component C (2- Cluj, 1-Maramures). In 2010 the number of contracted projects doubled in comparison to the first year – 87 projects. For component A 46 projects were contracted (6 – Bihor, 10 -Bistrita- Nasaud, 14 – Cluj, 9 - Maramures, 2 –Salaj si 6 – Satu Mare), 8 projects for component B ( 4 – Bihor, 1 – Bistrita-Nasaud, 2 –Cluj, 1 – Maramures), 32 projects for component C (6 – Bihor, 4- Bistrita Nasaud, 8 - Cluj, 6- Maramures, 6 - Salaj, 2 - Satu Mare), and finally 1 project for component D (Maramures). 50 projects were contracted in 2011, 24 for component A (6 – Bihor, 2-Bistrita- Nasaud, 8 – Cluj, 1- Maramures, 2 –Salaj si 4 – Satu Mare), 1 for component B (Cluj), 26 for Component C (1 - Bihor, 4 – Bistrita Nasaud, 11 - Cluj, 2 – Maramures, 6- Salaj, 2 –Satu Mare) and none for component D.

The situation of contracted projects can be seen in the next figure:

Figure 4: Distribution of contracted projects on counties



Source: Author's own calculation

From the situation above, it is easy to observe that the Romanians are more attracted to building and/or opening new pensions or other accommodation facilities. Also there are a lot of projects that have as result the creation of information centres. The link between the two is a consequence of the definition of the scoring grid as investment in both accommodation facilities and information centres in areas with great touristic potential and little exploitation was an objective of the Ministry. So investments in such areas had priority to financing to the investments in areas that had great touristic potential but were already pretty well exploited.

As we stated before, the impact of these projects should be measured. Unfortunately, this is almost impossible to be done, at least for now. No data basis regarding the number of implemented projects and their outcomes exists.

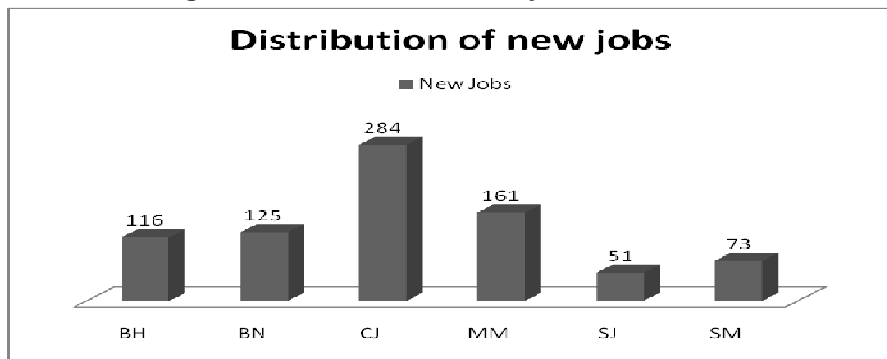
Even so, estimation can be done when referring to the number of new jobs created. According to one of the scoring factors of the projects for 25.000 Euros used from non refundable funds one job must be created.

Hypothetical speaking, if all the projects will be implemented correctly, for 2008-2011, inclusively, in the whole Nord-West region 810 new jobs could be created. From all these, most of them - 629 new jobs would be created as a result of implementation of component A) projects, 57 of component B), 122 of component C) and just 2 of component D).

Within the Nord-West region the distribution of new jobs created is the following one.



**Figure 5: Distribution of new jobs on counties**



Source: Author's own calculation

As we can observe, the most jobs would be created in Cluj County, which is the most important county of the region. The touristic attractiveness of Cluj County is a high one, due to its history and its landscape. Also, the history and kept traditions are making Maramures a unique place in the region, and even in Romania. So it is understandable that Maramures County is trying to develop its rural tourism. Bistrita – Nasaud has also rural traditions that are still kept alive and wonderful mountains, which make it attractive.

### **3. Conclusions**

Right now, there are a lot of disfunctionalities of the entire system responsible for the absorption of these funds. Not long ago, the payments for some Operational Programmes were suspended by the European Commission. The invoked reasons were the management and control deficiencies. But we can imagine that the real reason is corruption and, in some cases, incompetence. The authorities are not capable to stop questionable and rigging bids, especially in the area of public procurement. More, within Management Authorities, the human resource is highly volatile and unspecialized, unprepared for these type of activities.

The evaluation and the selection process of projects are sometimes poor, especially due to unclear criteria that live place for interpretations. There are also delays with the reimbursement. There are deficiencies within the monitoring and supervising mechanisms. And the list could go on.

So imagine writing a business plan for a ten room pension in 2008, based on offers and prices available for 2008. The evaluation period of the proposal taking about 8 months- being optimistic- and then another 2 months for contracting. The signing of the financing contract would occur after almost one year. The beneficiary will have to find a way to respect the budget that was elaborated a year before, or support the differences in prices and will probably need a credit for supporting the investment. Receiving the credit would be another few months. From the start there will be delays in the implementing process. And if we take into consideration that the beneficiary

might ask for an advance payment, which will take another few months to be paid, financial and operational blockages could appear from the beginning. After two years of implementation, the reimbursement of the financial aid will take 3 or more months. During this period the beneficiary has used all his liquidities and the credit, and more so, he will now have rates to pay for the credit and at the same time finance the operation costs of the business.

Having in mind this example is easy to see the effects the deficiencies of the system will have on the beneficiary, but it also helps us intuit some recommendation for better absorption of such funds:

- Administrative reorganization, with centralization of the entities involved in the evaluation process of both the proposals and the reimbursement requests, that would translate into shorter periods of evaluation;
- Employment of qualified personnel within the entities, personnel that will be trained and motivated to do the job at a high standard (through bonuses that are offered on a clear and transparent basis, in close connection to the success rate of the projects they evaluate as fundable) ;
- Higher advance payment rate: in some cases such measures were already taken, the advance rate has been raised from 20, 25% to 50%. It would be a good step to raise the rate at 50% for all projects funded in the rural area, but it would have to be connected to the second recommendation, which implies only strong projects are being financed;
- Requesting evidence that the beneficiary had the financial power to implement such a project. In this regard a step has been made since 2010 when Bank Guarantee Letters have become a compulsory document the beneficiary has to submit with the business proposal. Such measures should also include the possibility the beneficiary could substitute the letter with bank statements of their account balance or with goods;
- Higher co-financing rate for all projects. If the co-financing rate would be 80-85% on all axes and measures the absorption rate would also be higher as more beneficiaries will be able to financially manage the businesses they created or consolidated with the help of these funds.
- Define transparent and exhaustive evaluation grids both for the proposals and the reimbursement requests, so that delays in evaluations will be eliminated as the evaluators will not need to ask for complementary information, and no correction will be applied on the payments made to the beneficiary.

At a national and wider level, steps should be taken towards defining real development priorities. Romania needs to develop effective programs for development, connected with the real development needed for the country. In order to identify the real development needs, an ongoing dialogue with potential beneficiaries, private sector and civil society is necessary, so that they can be actively involved in the development of future OPs.

Thirdly, Romania needs to be seen and heard in Brussels. We need an intense lobby in Brussels, we need to be there and actually hear and listen the signals sent by European Commission and other European Institutions.

Positive signals still exist as the absorption rate could reach 30% till the end of 2014.

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