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## EFFECTS OF POST-ACCESSION FINANCIAL SUPPORT MEASURES ON THE ROMANIAN RURAL ECONOMY DIVERSIFICATION

### ABSTRACT

The objective of this paper is to present how the EU funds have been accessed for national rural economy diversification in the post-accession period in Romania. The methodology used is based on the analysis and synthesis of information resulting from the evaluations regarding the implementation of the national rural development programs of Romania. Including relevant technical, financial and administrative details on the implementation of these programs, as well as an assessment of the achievement of the defined objectives, these assessments highlight the positive impact of investments on the revitalization of labour market in the rural areas by creating/maintaining new jobs, this being a cross-cutting theme throughout the implementation of programs for all measures, as well as on the improvement of population's life quality, both in terms of incomes, hence living conditions, and in terms of infrastructure.

**Key words:** European funds; rural development; rural economy diversification.

**JEL Classification:** Q18, R50.

### 1. INTRODUCTION

In Romania, agricultural activities have an important socio-economic role. The activities specific for the secondary and tertiary sectors are developed in the urban area and they attract the active rural population. Thus, under the background of migration (mainly of young and educated persons) and ageing, the Romanian rural area is characterized by a low level of entrepreneurial activity and added value (the available labour force being involved mainly in the subsistence and semi-subsistence farming); low investments in other activity sectors; access infrastructure services much under the level of urban areas; regional discrepancies; high share of the population under poverty and social exclusion risk and a series of environmental risks induced by people, aggravated by climate changes, which represent a real threat for the rural areas and the entire country ([www.afir.madr.ro](http://www.afir.madr.ro)).

As a result, having in view the situation characterizing the Romanian rural area, the promotion of the entrepreneurial spirit oriented towards pluri-activity

development becomes a development imperative, not only at the level of part-time farms/agricultural holdings to which they provide additional incomes, but also at the level of overall national economy. This is a complex process, which implies the development of micro-enterprises that carry out representative activities for the upstream and downstream sectors, providing new jobs and a marketplace for gross agricultural production (Sima, 2014).

The present paper is meant to contribute to the necessary evaluations for boosting investments in the Romanian rural area with regard to the promotion, development, and maintenance of the diversification of economic activities as an opportunity financially supported through the rural development programs implemented during our country's pre- and post-accession periods, having in view the lack of capital in the rural areas, as well as the low level of knowledge in business management in a sector other than agriculture.

The analytical approach proposed is of descriptive-comparative nature to reveal both the direction, pace and context in which the promotion, development, and maintenance of actions that facilitated the diversification of economic activities and the improvement of the life quality have evolved in the Romanian rural area. This approach is significantly relevant, given that the predominantly rural regions in Romania cover around 60% of the national territory, these also representing the living space for almost half of the country's population.

## 2. STATE OF KNOWLEDGE

In the European Union (EU), the Common Agricultural Policy (CAP) represents a set of rules and mechanisms that regulate the production, processing and marketing of agricultural products in all Member States, paying great attention to the development of rural economy. That is why financial resources are directed towards direct subsidies provided to agriculture through CAP Pillar I and integrated development of rural economy, as well as towards environmental protection through CAP Pillar II (<https://enrd.ec.europa.eu>).

In this context, the EU rural development policy, as defined by the Council Regulation no. 1257 of May 17, 1999, through its objectives, provides support to the *development of complementary and alternative activities generating jobs*, to counteract the process of the depopulation of agricultural areas and to strengthen the economic and social fabric of rural areas. One of the principles at the basis of the European rural development policy refers to the multi-sectoral and integrated approach to rural economy, in the sense of *diversification of activities*, creation of *additional income and employment resources*, as well as preservation of the rural heritage (<https://enrd.ec.europa.eu>).

Thus, a series of measures to stimulate the rural economic activities and to encourage local initiatives are applied for labour employment in the countryside, which lead to:

- diversification of agricultural and non-agricultural activities in the rural area;
- creation of jobs and increase of rural population's incomes;
- reducing differences between rural and urban areas;
- facilitating the supply and use of renewable energy sources, of by-products, waste and residues and other non-food raw products for bio-economy;
- encouraging the maintenance and development of traditional activities.

For the economic growth in each EU Member State, great efforts have been made for a smart, sustainable growth favourable to inclusion, leading to the increase of employment on the labour market, to the increase of productivity and economic, social, and territorial cohesion, in line with the following general key directions:

- promoting knowledge, innovation, education and digital society;
- a more competitive production, with more efficient use of resources;
- higher participation in the labour market through acquisition of skills and fight against poverty (<https://enrd.ec.europa.eu>).

In Romania, since the year 2000, the agricultural and rural development policy has been based on the European policies in this field. Our country has consistently followed the guidelines developed by the European Union to develop a legal and institutional framework in line with the other EU member states and to get in line with the Lisbon and Gothenburg objectives ([www.afir.madr.ro](http://www.afir.madr.ro)).

The National Rural Development Program (NRDP) represents a real opportunity for the development of Romania's agriculture and rural area, focusing on the strengths of these sectors. NRDP is financed through the European Agricultural Fund for Rural Development Fund (EAFRD). This represents a financing instrument created by the European Union to support member states to implement the Common Agricultural Policy.

At the same time, the year 2000 marked the beginning of the accession decade, characterized by reforms meant to prepare Romania's accession to the European Union (the adoption of the *Acquis Communautaire*), obtaining the market economy status and support to commercial farms. For this purpose, various support forms were provided to improve the technical endowment of farms, to support commodity production and input procurement ([www.afir.madr.ro](http://www.afir.madr.ro)).

*Romania's priorities* for the sustainable development of rural areas focused on the following:

- rural economy development;
- human resources development;
- improvement of access to markets and competitiveness of processed agricultural products;
- improvement of rural development and agriculture infrastructures.

*The overall objectives* pursued by the national rural development programs targeted the following:

- contribute to Romania's accession to the European Union;
- let Romanian agriculture get consolidated so as to be able to face the competition pressures on the community market;
- improve the living standard of economic operators in rural areas ([www.afir.madr.ro](http://www.afir.madr.ro)).

These goals have been fulfilled through *measures* targeting the promotion, development and maintenance of investments in the agricultural sector, in rural enterprises and in rural areas, in the environmental and climate measures as well in the support measures, all these selected according to the social and economic needs that have motivated the support provided to our country ([www.afir.madr.ro](http://www.afir.madr.ro)).

As a result, the more developed and dynamic the rural economy, the more diverse its structure. The share of non-agricultural economy in the rural area gets higher by increasing the number of enterprises in the extractive and processing industry, in the food and light industry, forestry and timber processing, crafts, agrotourism and services. The development of micro-enterprises, as well as of small and medium-sized enterprises plays an essential role in the European economy, representing a significant source to obtain incomes and promote entrepreneurial skills, for innovation and job creation (Sima, 2015a).

Thus, *the diversification of economic activities in the rural area* contributes to the creation of new alternative or even additional income sources for the rural population, as the main possibility to increase the utilization of available time in the rural areas and becomes the main possibility to increase job opportunities that does not depend on any agricultural work, yet it is connected to the farm.

### 3. MATERIAL AND METHOD

The present paper sets out to quantify the way in which European funds were accessed for the diversification of national rural economy, in Romania's post-accession period, as an opportunity financially sustained through the rural development programs, having in view the lack of capital in rural areas, as well as the low level of managerial skills in businesses other than farming. The proposed analytical approach is of descriptive-comparative nature, to reveal both the direction and pace as well as the context in which the actions that facilitated the diversification of economic activities and the improvement of life quality in the Romanian rural area have been promoted and developed, given that the rural area plays an important socio-economic role as it represents a large part of Romania's total area, where almost half of the country's population is living.

The data used in the paper were taken over from different materials on the websites of the following authorities involved in the administration, control and implementation of the rural development programs in our country:

- "Managing Authority" (AM PNDR), represented by the Ministry of Agriculture and Rural Development (MARD) – General Rural Development Directorate (DGDR-AM PNDR), in charge of the implementation and management of the Program;
- "Payment Agency", represented by the Agency for Financing Rural Investments (AFIR), responsible of the payment function, charged with the

certification of the veracity, completeness and accuracy of accounts of the accredited payment agencies.

Given that in Romania there are two payment agencies for working with the EU funds, namely AFIR for EAFRD and the “Agency for Payments and Intervention in Agriculture” (APIA) for EAGF, a “Coordination Body” was set up to act as a sole interlocutor of the two agencies with the European Commission. The accreditation of the payment agencies and of the coordination body is the responsibility of the “Competent Authority”, established at MARD level. The most relevant sources used in the analysis of the effect of financial support measures on the diversification of national rural economy in the post-accession period are the following: “Ex-post Evaluation Study of the National Rural Development Program 2007–2013”, final version of April 2017, “Final Ex-ante Evaluation Report of the National Rural Development Program 2014–2020”, March 2015 and “NRDP 2014–2020 – version 13” issued in June 2021.

In the paper, the following research methods and techniques were used: analysis, synthesis, interpretation and tabular presentation of data and available information on promoting, developing and maintaining the diversification of the economic activities in the Romanian rural area. The information existing in the paper were obtained through specific scientific research methods, respecting all the research stages from the methodological point of view: identification of the research issue, delimitation of the research issue, delimitation of the research framework, collecting the information, processing, analysis and interpretation of data and drawing the conclusions. The desk research played an important role, consisting of the identification of other studies and articles on the same subject, as well of processing statistical data. As a result, the information sources used can be ranked into governmental sources (statistical, ministerial and from research institutes), as well as into non-governmental sources (independent publications).

#### **4. RESULTS AND DISCUSSIONS**

The real opportunity for the development of the Romanian rural area and agriculture through actions targeting rural economy diversification was offered by the National Rural Development Program (NRDP), which consequently applied the guidelines elaborated by the European Union. The support granted under NRDP targeted the improvement of the social and economic conditions in the rural area, starting from the situation of the rural area at the beginning of the programming period ([www.afir.madr.ro](http://www.afir.madr.ro)).

The non-refundable European funds are granted to entities (physical certified persons and legal entities) responsible for the initiation and implementation of projects approved for financing, which lead to the diversification of economic activities in the rural area, with a positive impact on rural communities through

contribution to providing additional incomes and increasing the use of labour in the countryside. The development of non-agricultural activities, through any income gaining activity, which does not depend on any agricultural work but is connected to farming refers to actions meant to support the development of the processing of raw agricultural products and the sale of these products; the development of activities producing renewable energy for the market; development of local specific crafts and handicraft activities; development of services for the rural population, development of rural tourism and agro-tourism activities, as well as of other activities related to silk farming, bee-keeping and harvesting wild berries.

The first investments in the *diversification of economic activities developed in the rural area* were initiated with the implementation of the Pre-Accession SAPARD 2000–2006 Program and continued with the post-accession programs: NRDP 2007–2013 and NRDP 2014–2020. The financial support is ensured through certain measures with distinct allocation (Table 1).

Table 1

Measures regarding the Romanian rural economy diversification, in the period 2000–2020

1. Pre-accession Program SAPARD 2000–2006	
Priority Axis 3 “Development of rural economy”	Measure 3.4 “Development and diversification of economic activities generating multiple activities and alternative incomes”
2. National Post-Accession Rural Development Program 2007–2013	
Axis 3 “Improvement of life quality in rural areas and rural economy diversification”	Measure 312 “Support for the creation and development of micro-enterprises” Measure 313 “Encouraging tourism activities”
3. National Rural Development Program 2014–2020	
Measure 06 “Supporting farms and business development”	Sub-measure 6.2. “Business start-up aid for non-agricultural activities in rural areas” Sub-measure 6.4. “Investments in creation and development of non-agricultural activities”

Source: <http://www.madr.ro/>

*The National Rural Development Program (NRDP) for the period 2007–2013*, has an objective targeted by Axis 3 that encourages rural economy diversification and improvement of life quality in rural areas through Measure 312 – Support for the creation and development of micro-enterprises and Measure 313 – Encouraging tourism activities.

The support under Measure 312 was provided for non-agricultural activities in the rural area through the development of micro-enterprises, both of the newly created and already existing enterprises with investments in non-agricultural productive activities, investments for the development of local crafts, of handicraft

and traditional non-agricultural activities, marketing of these products, services for the rural population and investments in renewable energy production from other renewable sources than biofuels (Table 2).

*Table 2*

Applicability field and actions foreseen for Measure 312

No.	Applicability field	Type of actions foreseen
1	Investments in non-agricultural activities	<ul style="list-style-type: none"> <li>– light industry (leather, footwear, wool, fur, knitwear, home appliances, air fresheners, etc.)</li> <li>– activities in the industrial processing of wood, starting with timber (e.g., furniture)</li> <li>– fine mechanics, machine assembling, household tools and products, production of packages, etc.</li> </ul>
2	Investments for the development of specific local crafts and handicraft activities	Processing of iron, wool, pottery, embroidering, knitting, musical instruments, as well as marketing of obtained products through small retail shops.
3	Services for the rural population	Tailoring, hairdressing, shoemaking, internet connection and broadcasting, mechanization, transport (other than procurement of means of transport), phyto-sanitary protection, artificial insemination of animals, sanitary- veterinary services, repair of cars, machinery and household appliances
4	Investments for the production of renewable energy	Procurement of equipment to produce energy from renewable sources other than biofuels

*Source:* Ex-post evaluation study of NRDP 2007–2013, final version April 2017

According to the ex-post evaluation study of the program, within Measure 313 encouraging the tourism activities in the rural area, the highest share of investments is in the category “Leisure infrastructure”, with 75% of total projects approved and 72% of the value of payments made, followed by the category “Small-sized infrastructure” with 25% of total projects approved and 27% of the value of payments made, and the category “Development / promotion of rural tourism services” with a share of almost 1% of total approved projects and total value paid for this measure (Table 3).

*Table 3*

Situation of projects under Measure 313 by types of actions

No.	Type of action	No. of approved projects.	Total volume of investments Mill. euro	Public value Mill. euro	
				contracted	paid
1	Leisure infrastructure	962	287.36	132.16	98,14
2	Small-sized infrastructure	318	69.81	46.50	37,06
3	Development / promotion of rural tourism services	9	1.80	1.21	0,66
Measure 313 total		1289	358.97	179.87	135.86

*Source:* data taken over from the “NRDP-2015 Annual Progress Report”, <http://www.madr.ro/>

Through the finalized projects, although the 2693 beneficiaries of Measure 312, as well as the 1289 beneficiaries of Measure 313 attracted only 23% of the value of payments made for Axis 3, these contributed to the improvement of life quality and diversification of economic activities, both through non-agricultural productive economic activities and investments in local specific crafts and handicraft activities, services for the rural population and though encouraging tourism activities in rural areas.

*The National Rural Development Program (NRDP) for the period 2014–2020* benefitted from progress and expertise acquired throughout the implementation of measures from previous programs and implementation structures and at the same time it is in line with the reform and development context that the EU has proposed through the Europe 2020 Strategy, which represents the economic growth strategy of Member States for the period 2010–2020.

Facilitating the diversification, establishment and development of small businesses and job creation are the objectives of Area of Action 6A, achieved through three measures: M02 – advisory services, farm management and farm relief services; M04 – investments in physical assets; M06 – development of farms and businesses.

The resources necessary to reach the objectives of this area of action are ensured through three sub measures: sub-measure 4.2 “Support for investments in the processing/marketing of agricultural products”, sub-measure 6.2 “Support for the establishment of non-agricultural activities in rural areas” and sub-measure 6.4 “Investments in the creation and development of non-agricultural activities”.

The support is provided in the form of a lump sum, on the basis of a business plan with a period of implementation of maximum 5 years, which includes control of correct implementation and payment of last tranche, and in the case of non-correct implementation of the business plan, the sums paid will be recovered proportionally to the non-achieved objectives, directed towards the creation of new production activities (eligible operations/actions) with the goal to encourage the diversification of the economic activities in the rural area.

The eligibility of support (in the form of premium, in two tranches, namely 70% of the support value when signing the funding decision and 30% of the support value shall be granted on the condition of correct implementation of business plan, without exceeding 5 years from the signing of the funding decision) is limited to authorized natural persons and legal entities, according to national legislation (Ordinance 44/2008 and Law 346/2004).

The non-authorized natural persons are not included as potential beneficiaries. In the case of the support granted to micro-enterprises and small enterprises, for sM6.2 and M6.4 the relevant information refers to the definition of a newly-established enterprise (start-up) as enterprise established in the year of submitting the application or with an age of maximum 3 fiscal years, which has not carried out activities until the moment of submitting the application for funding).

According to the “Stage of NRDP 2014–2020 implementation on 28.10.2021” on <https://www.madr.ro/>, analyzed at the moment of this study, the sub measures with distinct allocation of support granted for the diversification of



economic activities in the Romanian rural area have been allocated funds with a value of 1,107,805 thousand euros, representing 9% of the public allocation of NRDP 2014–2020 v.13.0; they finalized contracts with a value of 280,339 thousand euros, representing 11% of total value of contracts /funding decisions finalized through NRDP 2014–2020, with a contracting degree of 25% and they made payments with a total value of 504,541 thousand euros, representing 6% of the total of payments made through PNDR 2014–2020, with a payment degree of 46% (Table 4).

Table 4

Stage of implementing the sub-measures with distinct allocation of support granted to the diversification of activities through NRDP 2014–2020, on 28.10.2021

Sub-measure	Public allocation NRDP 2014–2020*	Contracts/Funding decisions finalized**	Degree of contracting	Payments made ***	Payment degree
	Thousand EUROS	Thousand EUROS	%	Thousand EUROS	%
Sub-measure 4.2 “Support for investments in processing/marketing of agricultural products”	679,778	120,610	18	277,408	41
Sub-measure 6.2 “Support for the establishment of non-agricultural activities in rural areas”	161,553	59,990	37	98,021	17
Sub-measure 6.4 “Investments in the creation and development of non-agricultural activities”	266,474	99,739	37	129,112	48
Total support to the diversification of rural economic activities	1,107,805	280,339	25	504,541	46
NRDP 2014–2020 TOTAL	12,697,676	2,615,539	21	7,803,086	61

\* NRDP 2014–2020 v.13.0, 2021 (as result of approving EU Regulation no. 2220/2020 for establishing certain transitory provisions regarding the support granted to EAFRD in the years 2021 and 2022);

\*\* Contracted / funding decisions finalized plus Contracted / funding decisions not finalized from the programming period 2007–2013 that are paid from funds from the programming period 2014–2020;

\*\*\* Payments made plus payments made for non-finalized contracts from the programming period 2007–2013 that are paid from funds from the programming period 2014–2020.

Source: <https://www.madr.ro/>

The evaluation of the fulfilment of established objectives through the national rural development programs for the diversification of economic activities in the rural area is taken over from the reports of Romanian organizations in charge with the management, monitoring and implementation of these programs (Managing Authority and Payment Agency for Rural Development and Fishing). The evaluation of the implementation results of all measures was made on the basis of a quantitative and qualitative analysis of the socio-economic and environmental effects, based on: output indicators (improving the receptivity and diversification of enterprises); result indicators (increase of tourist flow and of non-traditional products); impact indicators (increase of incomes and of the number of jobs).

In the opinion of experts who evaluated the fulfilment of the objectives of these measures, the success of the initiative was determined by:

- involvement of beneficiaries, even of those coming from non-agricultural sectors, having a different mentality oriented towards the promotion, development and maintaining of the production activities and basic services for the rural population;
- concentration of most resources in the sector of tourism promotion, which is growing to satisfy both domestic demand and demand from overseas;
- the support and promotion of agricultural production on a niche market in the future (wild berries, honey, mushrooms, medicinal herbs), with a good capacity to generate attractive results, in terms of value added.

Evaluators have concluded that the measures of national rural development programs are relevant and reveal a high degree of adequacy to the needs of rural development. The ex-post evaluation clarifies the hierarchy of objectives and confirms the coherence of objectives in the implemented measures, on the basis of which the financing of a vast number of projects was anticipated, although the practical results have shown a low efficiency of the programs and many deficiencies in the implementation methodology. At the same time, the results obtained through the investments made in the development and diversification of economic activities in the rural area are more than satisfactory in relation to the resources used. Effectiveness was reached, mainly through the measures and sub-measures that allocated significant amounts for the promotion and development of tourism and agro-tourism activities.

## 5. CONCLUSIONS

The year 2007, the year of Romania's accession to the European Union, has marked a new era in our country's agricultural economy and rural development. In agriculture, forestry and food sector, the increase of competitiveness has led to the improvement of performance and revitalization of rural areas and to job creation, aspect mentioned in the Partnership Agreement under point.1 "Development

Challenges”. This is the national document that described how Romania intends to use the EU funds for the fulfilment of CAP objectives in the post-accession period.

The goal of the present paper is to present how the funds were accessed for the diversification of the national rural economy, in the post-accession period, as it results from the (governmental and non-governmental) evaluations made with regard to the implementation of national rural development programs in Romania.

Including relevant technical, financial and administrative details regarding the implementation of two national rural development programs, as well as an evaluation of the fulfilment of the objectives defined through the measures targeting the diversification of Romanian rural economy, these assessments highlight the positive impact of investments on the revitalization of labour market in rural areas by creating/ maintaining jobs, this being a cross-cutting theme throughout the implementation of programs and for all measures, as well as on the improvement of the quality of life for the rural population, both in terms of incomes, hence living conditions, and in terms of infrastructure.

From the studies and reports on NRDP implementation in Romania, made by experts agreed by MARD, it results a medium level of financial absorption of the measures encouraging the diversification of economic non-agricultural activities of households/farms/agricultural units, as well as of small entrepreneurs in the rural area.

The cause is either the lack of beneficiaries’ own resources and the difficulties they are facing in getting the necessary credits for co-financing the projects, or the long financing and implementation period for the integrated infrastructure projects, the top to bottom approach of various strategies, the non-involvement of authorities and rural communities, as well as the lack of certain priorities to be maintained on a long enough time line.

Therefore, future actions must ensure a whole system of institutional-legislative instruments, meant to boost the development and diversification of economic activities in rural Romania, as a strong and efficient platform for demarcation and guaranteeing sustainable economic and social development.

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