# FINANCING DEVELOPMENT EVOLUTION OF RURAL DEVELOPMENT BY EUROPEAN PROJECTS IN ROMANIA

# EVOLUŢIA FINANŢĂRII DEZVOLTĂRII RURALE PRIN PROIECTE EUROPENE ÎN ROMÂNIA

**C. HEREDEA[1], I. CSOSZ[1]**

***[1] Banat's University of Agricultural Sciences and Veterinary Medicine Timişoara, Agricultural Management Faculty, Timisoara, Romania i_csosz@yahoo.com***

***Abstract***. *One of the most debated aspects lied of the recent expansion of the European Union (EU) in May 2004 and January 1, 2007 is to finance the new Member States. Given the limited size of the EU budget, regional and cohesion development policies are facing fundamental challenges, due to economic and social disparities.*

*European funds are the main catalyst for agricultural development. Romania was able to access only 13.7% of the nearly 20 billion euro provided by the European Union. Even if for Romania is available almost 20 billion euro of EU funds, in 2007-2010 period, our country had the lowest percentage of absorption of these funds.*

***Key words:*** *European funds, percentage of absorption, aspects*

## INTRODUCTION

EU Structural Funds are managed by the European Commission and are intended to help financing structural measures at Community level, to promote regions with delays in development, conversion of areas affected by industrial decline, tackling long-term employability of young people or promoting rural development.

The usage of European funds represent an opportunity for Romania's economic development, given that their use would mean an annual influx of capital that is, as a share, up to 5% of GDP. In addition, with the attraction of post-accession funds, Romania could become a favorite target of investors, the potential of investment projects development, especially infrastructure is huge. Achieving a degree of absorption of 10% places

Romania behind Member States integrated into the European Union in 2004 wave.

## MATERIAL AND METHOD

The authors of the paper were used as methods of work: data collection, processing, analysis, observation and their interpretation.

## RESULTS AND DISCUSSIONS

Absorption degree in the first years after accession of the ten countries amounted to only 20%. Absorption degree of structural and cohesion funds achieved in September 2006 reached by states entered the EU in 2004 wave is estimated between 20% and 34%, Slovenia is ranked first, with a coefficient of 34.1%, followed by Hungary 32.6%. Delays registered by Romania would be able to place our country in a situation similar to that of the states that joined the EU in 2004, which, at this point, risk losing reserved funds.

Table 1

**Pre-Structural Funds 2000-2006**

*Millions euro*

| Years | EU contribution | | | | | |
|---|---|---|---|---|---|---|
| | **PHARE** | **ISPA** | **SAPARD** | **Total UE** | **Co-financing UE funds** | **Total** |
| 2000 | 88 | 478 | 151 | 716 | 247 | 964 |
| 2001 | 103 | 413 | 151 | 666 | 228 | 894 |
| 2002 | 112 | 326 | 151 | 589 | 189 | 778 |
| 2004 | 174 | 312 | 161 | 646 | 243 | 889 |
| 2005 | 162 | 338 | 161 | 660 | 241 | 901 |
| 2006 | 128 | 364 | 161 | 652 | 219 | 872 |

Source: http://www.ier.ro/documente/studiideimpactPaisII_ro/Pais2_studiu12_anexe_ro.pdf

Payments for projects carried out by European pre-accession funds (PHARE, ISPA and SAPARD) rise to 70% of amount allocation.

The deadline for PHARE contracts was November 31, 2008. EUR 169.055 million can be considered unused and have been partially recovered or will be soon. Other 211 million are still to be paid, provided that payment requests are sent on time and will be eligible.

Regarding the pre-accession program SAPARD, which was devoted to agriculture, the deadline was extended until December 2009, after the Commission froze payments because of irregularities and weaknesses in particular the procurement and internal management. Payments were resumed in July 2009 after an independent audit confirmed that the Romanian authorities have implemented the action plan required by the EC. Overall, Romania has received about 100 million SAPARD funds.

Contracting rate of pre-accession funds has reached, in late February 2009, at a level of 90% of the total, amounting to 5.1 billion EUR and effectuated payments totaled 3.4 billion euros. [7] By February 22, 2009 were incurred 5.1 billion EUR from a total of 5.6 billion euros. The degree of contraction is about 90%. Cumulative up to this period, is paid an amount of 3.469 billion euros, which is 67.88%. For 2009 estimates are 1.24 billion euros: 435 million euros in Phare program, the 706 million euro on ISPA program, 98.21 million euro on SAPARD program.

Methodology for EU funds allocating introduced a new concept, such as of absorption capacity, thus limiting the transfer of EU funds to a maximum of 4% of GDP in each country. In compensation, to facilitate fund absorption of the new Member States, the maximum rate of co-financing structural funds increased from 80% to 85%, being relieved, also, certain eligibility criteria. [3]

Absorption capacity is given by the responsibility of a Member State to spend financial resources from structural funds, in an effective, targeting three areas:

- Macro-economic absorptive capacity, defined and measured in terms of GDP (limited to 4%);

- Financial absorption capacity, defined as the ability to co-finance EU supported programs and projects, to plan and guarantee these national contributions in multi-annual budgets and to collect inputs from the partners involved in various programs and projects;

- Administrative capacity, which is the ability and competence of central and local authorities to prepare projects and programs appropriate

and timely, as well as coordination with the partners involved, compliance with administrative and reporting requirements, funding and monitoring of programs and projects and also avoiding irregularities. [3]

Given the definition of absorption capacity specified above, we assume that it is influenced mainly managerial and administrative capacities of co-financing. The relationship between absorption capacity of structural funds and regional economic situation is at least a paradox; practice showing that the most disadvantaged regions are facing the greatest difficulties in absorbing these funds, although the need for financial support is essential to economic restructuring in these regions. [1] The main explanation for this phenomenon is given by two factors: on the one hand, the difficulties faced by regional authorities for lack of experience and qualifications, followed by red tape and slow nature of EU decision-making in circumstances where sequential procedures for appointment especially central and regional authorities are not quite clear. Thus, issues lied of absorption capacity largely depends on institutional factors, both the EU structures, as well as national ones.

Other determinants refer to the programming and administrative capacity building and development in the pre-accession period. According to Commission recommendations and best practices of EU countries, a golden rule is obvious, namely: the possibility of higher rates of absorption is proportional to the number of institutions from new member states involved in various levels of management and programs (sectorial and regional). [4]

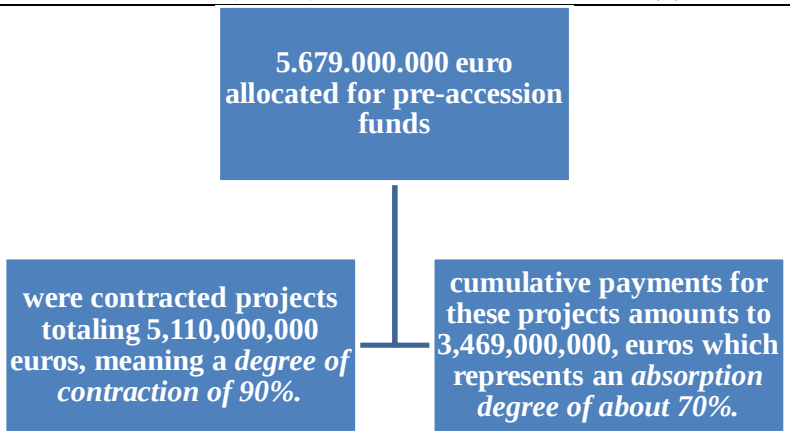



**Fig. 1. The absorbency degree of the pre-accession funds**

According to official data, by the end of February 2009, from the total of 5.679.000.000 euros allocated through these programs for 2000-2007 have been contracted projects totaling 5.110.000.000 euros, so an degree of contraction of 90% .

Cumulative payments for these projects amounts 3,469,000,000 euros, which represents an absorption degree of about 70%.

## CONCLUSIONS

In our opinion, the low absorption degree of EU funds was due to institutional fragility problems, delays and communication problems between institutions, low level of involvement of civil society, which should be the main supporter of the needs and requirements of the population, bureaucracy procedure difficult and time for submission and approval of projects, as well as corruption and poor management of the pre-accession funds. To assess the impact of structural instruments on economic and social cohesion we believe that both in Romania and in any other Member State is a need a high contribution level there of investment to develop analysis tools work in Structural and Cohesion Funds field and especially to create a "culture of assessment" in developing methods for assessing and promoting best practices among Member States. Also, we believe that the extent to which Romania uses technical and financial support from the European

Union will unfold over the years and will be measured by the speed at which the Romanian economy will adjust and operate as the European system.

Therefore, the pre-accession experience in implementing strategic planning, investment and adequate financing plans are basic ingredient in the integration into the community. However, we wish to emphasize that European institutions are open to Romania, there are significant funds for regional development, which can be accessed and this depends only on how Romania fails to implement, to draw up development projects and access funds allocated in this respect.

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