

## ABSORPTION OF RURAL DEVELOPMENT FUNDS. A LESSON LEARNED?

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### Abstract

*This article presents an analytical survey on the perspectives and impacts of the absorption of rural development funds in Romania. The study makes an x-ray of the level of support and absorption rate in two financial years 2013-2017 and 2014-2020. The aim is to highlight the impact of these capital infusions in the Romanian rural area. The learning mechanism policy of the two programming periods analysed should be "a lesson learned" for the next period. This is particularly important in view of the future funds allocated through the new multiannual financial framework 2021-2027, as well as recovery and resilience assistance through the post-pandemic instrument NextGeneration EU. The main conclusion that emerges is that the absorption rate of the rural development fund in Romania is an appropriate one, being above the NMS-13 average. However, Romania's needs, objectives and priorities in terms of rural development, which are well identified in the National Rural Development Programs, are not addressed in the financial allocations materialized through selected measures and sub-measures. Greater coherence and clarity is needed between what is strategically stated as objectives and priorities and the content of the funding program. The ideas, solutions and suggestions formulated by the authors may have practical applications in developing future programs and the rural strategy on the horizon 2050.*

**Key words:** Common Agricultural Policy, rural development, Romania, objectives, allocations, impact

### INTRODUCTION

The Common Agricultural Policy (CAP) is one of the most important sectoral policies of the European Union. It accounted 66% of the EU budget in the early 1980s, 37.8% of the Community budget in the 2014-2020 period and represents 31% for the 2021-2027 period [12]. Originally conceived as a sectoral policy, the CAP now has a stronger territorial vocation, allowing for possible overlaps and convergences with the objectives of the Cohesion Policy [7]. It is built around two pillars: the first pillar comprising direct payments for agriculture and market measures, with a share of 75.3%, and the second pillar, rural development, with an allocation of 24.4% of the CAP budget [12]. Direct payments are the main financial mechanism of the CAP, enjoying an allocation of 71.3% of the European Union's agricultural budget. Direct payments were

introduced in 1992 as "transitional payments", representing financial support to farmers to compensate for losses caused by falling agricultural prices. Today, farmers' problems are completely different, which is why some authors [21; 31; 32] argue that there is no clear justification for continuing this form of support of farmers. They argue that traditional EU agricultural policies, such as subsidies, are not enough to increase agricultural incomes. These need to be linked to increased investment in agriculture [23] in order to increase farmers' incomes. Also, current payment schemes should be better targeted, providing compensation for farmers who produce agri-environmental public goods and/or clearly contribute to animal welfare [17].

In the opinion of several specialists [5; 21; 30] pillar II (rural development) is the best way to improve the performance of the CAP according to the most socio-economic and

environmental criteria. The development of rural entrepreneurship is a key element of rural development. The aim is to reduce poverty in rural areas by increasing the number of competitive businesses, both in the agricultural sector and in related sectors (manufacturing, tourism, services). The large number of applicants for this type of project shows an increased interest from people, leading to a high degree of absorption of European funds for rural development [26].

An important focus of the rural development program is on the LEADER approach. It involves a public-private partnership that, through local action groups, leads to the development of local communities. The involvement of LAGs was found to have a positive impact on peoples, leading to an increase in the number of initiatives and the absorption of European funds. This is observed in Poland [6; 15], Greece [4], Spain [22]. In Romania, LEADER has clear elements of evolution, representing the most solid and widespread model of small-scale local development [28].

In this context, the present study makes an x-ray of the level of support and absorption rate for rural development in Romania for two financial years 2013-2017 and 2014-2020. The aim is to highlight the impact of these capital infusions in the Romanian rural area. The analysis is outlined around five categories of activities, grouping measures and sub-measures within the National Rural Development Programs (NRDP) 2013-2017 and 2014-2020. We hope that the ideas, solutions and suggestions can be used for future programs and for the rural strategy on the horizon 2050.

## MATERIALS AND METHODS

This section comprises the methodological approach of the research and the process of data collection. The article analyses the evolution of public financial flows (amounts received by Romania for the EU budget plus the national contribution) dedicated to financing rural development, for the 2007-2013 and the 2014-2020 programming periods. Based on the allocated amounts and

of made payments, the absorption degree of the rural development programs was calculated. In the literature, there are two ways to express the absorption rate: either by reference to the EU contribution quota, or by total funding, including co-financing. In this study, the absorption rate is expressed by reference to the total public funding, including Romanian state co-financing.

A special attention was paid to analysing the management way of financial resources for rural development [2; 14; 16], as well of the structure and implementation level of objectives which are set in the National Rural Development Program [25; 27]. In order to highlight and capitalize some noticeable evolutions in the execution of the two financial periods, we proceeded to group the measures and sub-measures from NRDP on five groups of activities: agriculture; food industry; non-agricultural activities; rural infrastructure and other activities. The primary data were taken from European Commission releases and Ministry of Agriculture and Rural Development of Romania, as well as various national and international publications in the field.

## RESULTS AND DISCUSSIONS

### Overview of public funds allocated to rural development in Romania. Period 2007-2013 versus 2014-2020

A first finding regarding the implementation way of the NRDP 2007-2013 (Table 1), over the years, refers to the fact that many changes were made compared to the initial version approved by the European bodies. It thus reached its 16<sup>th</sup> version. Most of the changes resulted in a reduction in allocations to measures that were provided to bring a significant national contribution. In this situation, the total amounts allocated in the initial version, of EUR 9,970.8 million, decreased in the 16<sup>th</sup> version, to EUR 9,296.5 million. There was a decrease of EUR 674.3 million, a real loss for the rural Romanian area, but an image advantage by artificially increasing of the absorption degree from 84.82% to 90.97%. Most of the amounts redistributed were allocated to the measures

targeting "green payments", which led to an increase in the ceiling for these payments, from EUR 2,492 million (initial version) to EUR 3,165.7 million (in the latest version).

Under these conditions, the share of green payments in total payments destined for agricultural activities increased to 55.3%.

Table 1. Comparative situation 2007-2013 vs. 2014-2020 regarding the level of public funds allocation of the Romanian National Rural Development Program, by types of activities, EUR million, and absorption rate on April, 2020

ACTIVITIES	Period 2007-2013					Period 2014-2020		
	Allocation V <sub>1</sub> , € mil.	Allocation V <sub>16</sub> , € mil.	Payments € mil.	Absorption rate, V <sub>1</sub> , %	Absorption rate, V <sub>16</sub> , %	Allocation V <sub>10</sub> , € mil.	Payments € mil.	Absorption rate, %
I. Agricultural activities	5,814.7	5,721.1	5,364.3	92.25	93.7	6,315.1	4,182.2	66.2
- of which: green payments	2,492.0	3,165.7	3,110.3	124.81	98.2	3,624.6	2,638.9	72.8
II. Food industry	1,071.2	719.9	518.2	48.38	71.9	546.8	159.7	29.2
III. Non-agricultural activities	927.6	741.3	454.7	49.02	61.3	288.1	186.5	64.7
IV. Rural infrastructure	1,546.1	1,596.6	1,525.2	98.60	95.5	1,319.6	837.3	63.5
V. Other activities	611.2	517.6	594.9	97.33	114.9	972.0	478.4	49.2
<b>Total</b>	<b>9,970.8</b>	<b>9,296.5</b>	<b>8,457.3</b>	<b>84.82</b>	<b>90.9</b>	<b>9,441.6</b>	<b>5,844.2</b>	<b>61.9</b>

Source: Authors' development based on Ministry of Agriculture and Rural Development [18, 19].

Regarding the current financial year, we find that in this case as well, several adjustments were made, reaching in April 2020 the 10<sup>th</sup> version. We consider important to note that the funds intended for NRDP financing in the financial year 2014-2020 are EUR 529.2 million lower than in the initial version of the previous financial year due to the decrease of the contribution from the national budget by EUR 533.2 million, which positions Romania on last places in terms of national financial effort for rural development measures. This decrease is due to the increase of the amounts intended for green payments from EUR 2,492 million, in the initial version of NRDP 2007-2013, to EUR 3,624.6 million in the current version. There have been reached at the point that green payments to account for 38.4 % of the total NRDP and 44.6 % of the Community allocation from the European Agricultural Fund for Rural Development (EAFRD). We mention that Regulation (EU) no. 1305/2013 regarding rural development provides a minimum level of 30 % of the EAFRD to be allocated to green payments.

Another issue worth mentioning is the sharp reduction in funding for the development of non-agricultural activities, which should make a substantial contribution to increasing rural employment and thus reducing poverty [13].

In fact, the total amount allocated to measures targeting non-agricultural activities, including food industry and rural infrastructure, is lower than the amount intended for green payments. The analysis of the evolutions in amounts allocated by types of activities, in the two financial years, highlights a series of aspects presented in the following figures.

#### **Analysis of the National Rural Development Program by types of activities**

For **agricultural activities** (Figure 1), in the financial year 2007-2013, the initial allocated amount was of EUR 5,814 million. According to the latest version of the NRDP (16<sup>th</sup> version), the allocated amount decreased to EUR 5,721 million, of which EUR 5,364 million were actually consumed, resulting in an appreciable absorption of 94%. In the NRDP 2014-2020 for agricultural activities there is allocated an amount of EUR 6,315 million, amount that exceeds the allocation from the 16<sup>th</sup> version of the previous program by EUR 594 million.

It should be mentioned the fact that from the total amount allocated to agricultural activities, only 42.6% are actually intended to productive investments, the difference being attributed to other activities, mainly to green payments.

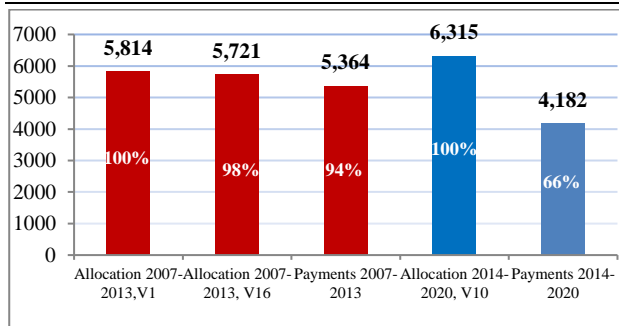


Fig. 1. Allocations, payments (EUR million) and absorption of funds (%) for agricultural activities  
Source: Authors' development based on Ministry of Agriculture and Rural Development [18, 19].

The latest version of the NRDP 2007-2013 meant a sharp decrease in the amounts allocated for the development of **food industry** (Figure 2) creating new jobs in rural areas, from EUR 1,071 million to EUR 720 million. The absorption degree was of only 48%, compared to the initial version, respectively 72% compared to the final version.

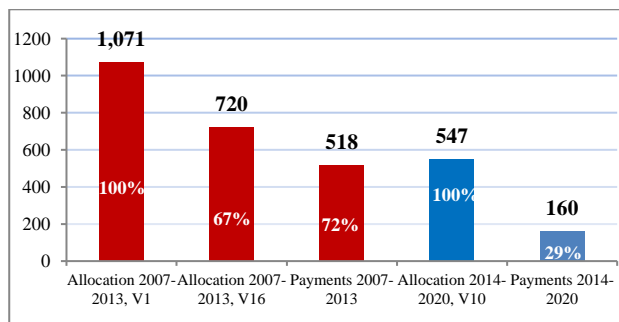


Fig. 2. Allocations, payments (EUR million) and absorption of funds (%) for food industry  
Source: Authors' development based on Ministry of Agriculture and Rural Development [18, 19].

For the current financial year, out of the 26 needs identified in the documentary part of NRDP 2014-2020, Chapter 4.2, the need that explicitly requests “*Increasing the number of jobs in rural areas*” should find solution by financing **food industrial activities** and **other non-agricultural activities** [24]. However, for the period 2014-2020, in order to support food industry, the amount of EUR 546.8 million is proposed, which represents only 76% of the amount allocated in the previous program (the 16<sup>th</sup> version), and only 51% of the initial version. The low absorption degree in the financial year 2007-2013 for this

activity should not have been a reason to reduce the allocations for the current period, but rather, given the actual need for the food industry development, should identify adequate leverage to support those interested in implementing these types of projects, including by reducing the beneficiary's contribution. The current absorption degree, extremely low, of only 29%, we consider to be the consequence of the multiple required conditions and of the contribution of unattractive public funds, problems that remained unresolved since the previous year. The consequence of an inadequate approach to these issues represents the weak development of food industry and maintaining of a high level of imports of processed agricultural products and, at the same time, the maintaining of a low added value of domestic agri-food production [3; 9].

For the **non-agricultural activities** (Figure 3), other than food industry, the amount of EUR 288.1 million was provided, which represents 39% of the last version of the previous program (period 2007-2013) or 31% of the initial version. This means a decrease in financial resources allocated in the current financial year of EUR 639.5 million. In fact, the EUR 288.1 million provided for the period 2014-2020 show a negative difference even compared to the amounts actually consumed in the previous program, of EUR 54.7 million.

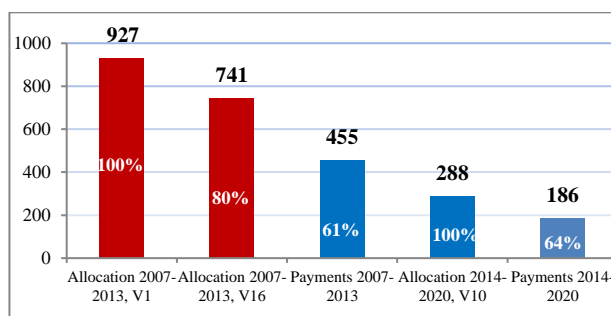


Fig. 3. Allocations, payments (EUR million) and absorption of funds (%) for non-agricultural activities  
Source: Authors' development based on Ministry of Agriculture and Rural Development [18, 19].

This situation proves, on one hand, that there is a total disagreement between the needs and priorities of the Romanian rural area, identified in NRDP 2014-2020, and the amounts allocated by the proposed measures

and sub-measures. On the other hand, highlights a total neglect of social issue of the rural space which is becoming more and more precarious. The current absorption degree is quite high (64%), which indicates the increased interest of investors to develop these activities, as evidenced by the contracting level based on projects which are submitted and in progress of implementation (over 90 % of allocated amounts).

Solving the complex issues of rural localities also requires significant financial efforts to **improve rural infrastructure** (Figure 4), to reduce poverty and the risk of social exclusion, to preserve local heritage [1; 20], which finally means to increase the living standard of rural population [29]. The amount proposed for the development of rural infrastructure for the period 2014-2020 (EUR 1,319 million) is well below the provisions of the previous program (EUR 1,596 million) and even below the amount actually consumed in the previous year (EUR 1,525 million). However, the highest absorption degree was achieved precisely at this measure (98% compared to the initial version and 96% compared to the latest version in 2007-2013), which proves both the need to strengthen rural infrastructure and the capacity to prepare projects and to use the capital allocated by local authorities. This time also we find the same deficient approach, in total disagreement with the real needs of the rural area. The actual absorption rate in the current programming period is 63%, given that the projects submitted and contracted have already exhausted the full allocated amount.

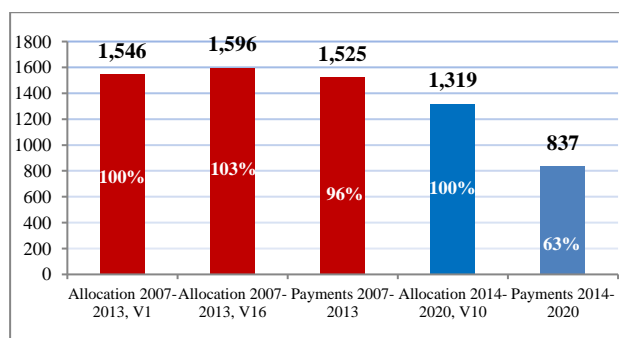


Fig. 4. Allocations, payments (EUR million) and absorption of funds (%) for rural infrastructure Source: Authors' development based on Ministry of Agriculture and Rural Development [18, 19].

For **other activities** (Figure 5), which include the measures included in the LEADER axis from the previous program, respectively measure *M19 Local development of LEADER* from the current program, to which is added the measure *M20 Technical Assistance - Member States*, there were allocated EUR 972 million, which represents 159 % of the amount initially allocated in the previous period, and well above the EUR 595 million actually consumed in the previous year. From the total of EUR 972 million, the following sub-measures are financed: "Preparatory support"; "Support for the implementation of actions within the local development strategy"; "Preparation and implementation of the cooperation activities of the Local Action Group"; "Support for operating and running costs" and "Technical Assistance", which are important but that we consider that they do not need such financial support to the detriment of other priorities, even if the projects to be carried out on these measures (especially in the context of LAGs) will partially affect the other types of activities.

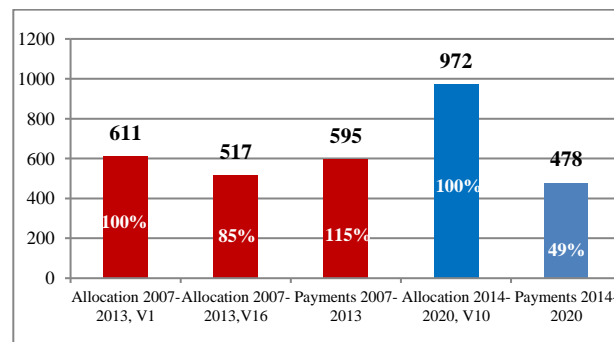


Fig. 5. Allocations, payments (EUR million) and absorption of funds (%) for other activities Source: Authors' development based on Ministry of Agriculture and Rural Development [18, 19]

For the financing of knowledge needs [8], counseling and research, the allocation of only 2% [16] is considered superficial, highlighting another deficient aspect of NRDP for the period 2014-2020. The modernization of the agricultural education infrastructure (vocational schools, high schools, agricultural universities), although mentioned as a priority need, does not have financial coverage to any measure.

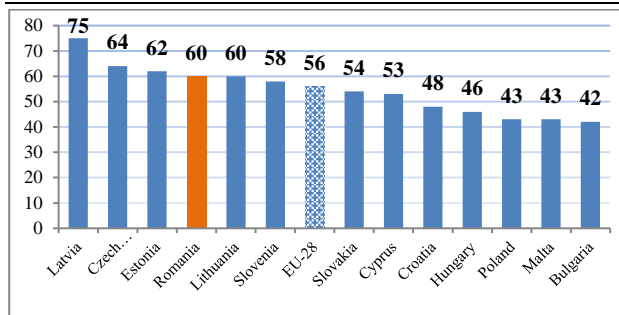


Fig. 6. Absorption rate of rural development fund for 2014-2020 programming period in New Member State and EU average (%), situation at the end of 2019)

Source: EC, 2020 [10].

Regarding the absorption rate of the rural development fund, the situation is much more encouraging in Romania, this being double the absorption rate of the structural and cohesion funds. With an absorption rate of 60% (Figure 6), Romania is above the EU average, being on the 4<sup>th</sup> place in the top of NMS-13, but far from the first ranked, Latvia, which has an absorption rate of 75%. The consumption in a large proportion of the sums destined for rural development has a maximum importance considering the multiple problems that the inhabitants of the Romanian rural area face.

The question arises: Has Romania learned its lesson? Does Romania manage to absorb the funds made available to it? Because for the period 2021-2027 the amounts expected to be allocated are important (Table 2).

Table 2. European funds allocated to Romania for the period 2021-2027 (EUR million)

<b>Multiannual financial framework 2021-2027, of which:</b>	<b>51,280.2</b>
- Cohesion policy	30,305.0
- European Agricultural Guarantee Fund	13,991.9
- European Agricultural Fund for Rural Development	6,983.3
<b>NextGenerationEU</b>	<b>30,500.0</b>
<b>Total EU funds</b>	<b>81,780.2</b>

Source: Author's development based on EC [11].

## CONCLUSIONS

The absorption of rural development funds is an important objective for Romania. It significantly influences the future developments in terms of agricultural and

non-agricultural investments, sustainability of rural areas and economic growth.

In Romania, the National Rural Development Program has the highest degree of absorption of all programs (co)financed from European funds. The explanation comes from the fact that most of the beneficiaries are private beneficiaries, and it is verified that the absorption is higher among them compared to the beneficiaries of the public system. On the other hand, there are some measures (called green payments) allocated to farmers which do not require development of projects. All this has led to a better absorption rate of the rural development fund.

Analysing the Romania's needs, objectives and priorities in terms of rural development, presented in the National Rural Development Programs, and the financial allocations materialized through selected measures and sub-measures, several uncorrelations could be identified. For example, the absorption of funds intended for the processing of agricultural products is greatly hampered by the multiple requirements, conditions and of the contribution of unattractive public funds. These issues remained unresolved since the previous year. The consequences are the weak development of food industry and maintaining of a high level of imports of processed agricultural products and, at the same time, the maintaining of a low added value of domestic food production.

Another example of non-correlation can be found in the amounts allocated for non-agricultural activities. There is an increasingly lower allocation for such activities, given that there is an increased demand for such projects. This situation highlights a total neglect of social issue of the rural space which is becoming more and more precarious. We also find a deficiency of budget allocations in the field of educational infrastructure, with a visible impact now, in the era of the pandemic.

For the financing of knowledge needs, counselling and research, the allocation of only 2% is considered superficial. The modernization of the agricultural education infrastructure (vocational schools, high schools, agricultural universities), although



mentioned as a priority need, does not have financial coverage to any measure. So a greater coherence and clarity is needed between what is strategically stated as objectives and priorities and the content of the funding program.

The analysis shows that the legislation, design of the programmes, bureaucracy, multiple requirements to be met, create constraints in the absorption of rural development funds. We conclude that there is a need for reforms in the national institutional framework and structures along with a different philosophy in approaching the Community funding initiatives in rural areas.

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