

## **FINANCING ENTREPRENEURIAL INITIATIVES IN RURAL AREAS THROUGH THE NATIONAL PROGRAM FOR RURAL DEVELOPMENT 2014- 2020**

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### **Abstract**

*Entrepreneurship is the main engine of growth in any market economy, contributing the majority share in the gross domestic product and to creating new jobs. In these circumstances, regional development, including the development of the rural area, is conditioned by the creation of favorable conditions and appropriate financing instruments, allowing the stimulation of entrepreneurial initiatives. This study represents an analysis of financial instruments proposed to stimulate entrepreneurial initiatives in rural areas of Romania, through the National Rural Development Program. The study is structured in three parts. The first part is an introduction, which is achieved through a documentary synthesis regarding the current state of Romanian entrepreneurial initiatives manifestation, in rural areas. The second part of the study is an analysis of the measures proposed in the National Rural Development Program 2007 - 2013, which aimed the development of entrepreneurship in rural areas, and the impact created by their implementation. The third part of the study analyzes the measures for the development of rural entrepreneurship proposed by the National Rural Development Program 2014 - 2020. The study concludes with a series of pragmatic conclusions, drawn from the analysis carried out.*

### **Keywords**

*Entrepreneurial initiatives; National Program for Rural Development; rural financing.*

### **1. Literature review**

Entrepreneurship represents the growth engine specific to any market economy, participating actively in the creation of a majority share of gross domestic product and the creation of new jobs. Essentially, entrepreneurship and SMEs launch new ideas and initiate new processes that accelerate growth based on a more efficient use of resources. (Miller et al, 2012). Professor Paul Almeida of Georgetown University says that SMEs play a unique role, actively and critically in the process of innovation, their ability to invent the new technological area and improve high technology information networks (Almeida, 2004). Moreover, in recent decades, at the level of developed countries in Europe and North America, entrepreneurship has become a target and a way of life for students and young graduates, especially in rural areas. Recent studies show that in the developed economies such as the USA or UK, there is a major contribution of student entrepreneurs to increase the competitiveness and productivity of SMEs, through facilities for young people to initiate start-ups and by financing their entrepreneurial initiatives (Reason, 2014). Stimulating and funding youth to initiate and develop entrepreneurial activities led to remarkable results. According to Hannon et al. (2004) in the United States, start-ups launched by young entrepreneurs and university graduates contributed with the percentage of 6-8% to the GDP.

Although at worldwide level, the importance of entrepreneurship and SMEs in the economy is confirmed, Romania is facing a shortage of entrepreneurship events, fact which underlies the negative economic and social phenomena with effects on medium and long term, such a

s: poor living standards of the population, migration of young people, particularly in rural areas, the manifestation of psychosocial problems among children left in the care of grandparents, decreasing the share of GDP derived from entrepreneurial activities etc. (Cirstea, Dobre, 2013).

Low interest towards entrepreneurship is manifested pronounced in the case of young people, students or graduates, who do not consider entrepreneurship an opportunity for a career development on their own. According to a study conducted by the Department for SMEs and Tourism Business Environment in Romania, 1 in 100 young people decide to start a business on their own, compared to 1 in 4 young people in the Czech Republic, Poland and Hungary. Very few young people start a business on their own. The most common reasons cited are the lack of funding and bureaucracy (SME Department, Environmental Affairs and Tourism, 2011). Poor initiative of young people for initiating and developing business is sustained by the study conducted by the National Council of Private Small and Medium Enterprises in Romania, entitled "White Book on SMEs in Romania" - which makes a foray on the current situation of SMEs in the country. According to it, by age groups, the highest percentage is owned by 35-45 years entrepreneurs (35.56%) and those between 45 and 60 years (32.05%), while on the opposite we can find the young persons, under 25 (2.03%) (Nicolescu et al., 2012).

To counteract this negative phenomenon, we consider necessary synergistic efforts for financing the entrepreneurial initiatives in rural areas, especially for young people.

The engagement of students and young graduates in entrepreneurial activities is also supported by the scientific literature. Thus, it is considered that, in order to increase quality of life and reduce the negative social and economic phenomenon with an impact on the medium and long term, it is necessary to increase the standard of living, which has to be done by exploiting growth opportunities of entrepreneurship among young people (Cirstea, Dobre, 2011). Specifically, there are required investments in human resource development of the younger generation, and supporting entrepreneurial efforts and activities in order to allow the initiation of profitable activities that can provide them with financial and social rewards sufficient to determine them to continue in this segment of the national economy and to develop and diversify their business activities.

## **2. Analysis of the National Rural Development Program 2007-2013**

After Romania joined the EU structures, stimulation of entrepreneurial initiative has been financed from multiple sources, including through operational programs financed by the European Structural Funds and Cohesion. European Structural Funds are an important resource for business financing in Romania, for competitiveness increase and quality of workforce and infrastructure, necessary for the development of efficient business.

According to the Ministry of European Funds in the period 2007-2013, from the total funding of around 33 billion Euros, which Romania has had available to invest, about 7.5 billion lei were allocated to the National Rural Development Program, which means a rate of about 22%.

In Table 1 is shown the structure of absorption of funds allocated from the National Rural Development Program 2007-2013, on categories of measures.

**Table 1: European funds absorption structure of the RDP 2007-2013 (euro)**

Measure	Projects submitted		Selected projects		Contract / Grant Decision concluded		Payments	
	No.	Public Value	No.	Public Value	No.	Public Value	Public Value	
111					29	19.170.420	15.482.431	
112	22.494	630.074.066	13.446	339.118.514	12.990	326.404.035	253.028.840	
121	8.154	3.008.189.083	3.375	1.250.133.509	2.786	912.398.941	497.863.724	
122	20	3.011.934	18	2.513.937	18	2.499.777	727.424	
123	1.762	1.771.015.955	923	908.484.590	628	558.532.743	287.524.979	
Scheme XS 13/123A/2008	247	113.706.025	215	101.626.174	148	56.870.783	48.236.053	
Scheme XS 28/123F/2008	177	78.896.763	157	67.450.879	88	33.881.683	27.047.902	
Scheme N578/2009	453	311.099.775	292	216.093.918	214	139.410.172	54.166.155	
125	1.701	1.789.032.854	555	611.012.899	544	565.818.675	258.554.008	
141	88.846	666.345.000	63.543	476.572.500	60.247	394.253.733	241.767.196	
142	PNDR	86	16.870.702	77	14.390.169	58	10.878.822	3.219.196
	Transferred from SAPARD					3	69.794	47.420
143					7	12.415.223	5.084.766	
211							644.587.385	
212							357.875.957	
214	PNDR						1.212.389.681	
	Transferred from SAPARD					1	9.498	7.837
215							153.346.343	
221	PNDR	52	4.354.839	40	3.775.661	25	1.549.907	275.991
	Transferred from SAPARD					3	13.796	11.452
312	9.499	1.317.172.809	4.187	535.514.693	3.384	437.046.910	247.232.282	
313	3.703	569.890.748	2.584	392.089.882	1.865	266.902.622	66.980.384	
322	3.317	7.646.850.036	886	1.943.039.631	874	1.746.101.592	1.306.163.158	
4.1	7.018	359.399.448	5.021	256.630.907	4.976	254.632.170	26.554.558	
421	93	3.295.020	8	375.944	0	0	0	
431.	faze 3	112	4.920.162	111	4.827.533	99	4.114.585	3.205.795

Measure	Projects submitted		Selected projects		Contract / Grant Decision concluded		Payments
	No.	Public Value	No.	Public Value	No.	Public Value	Public Value
1	fazes 1+2				8	1.704.000	1.657.317
431.2					163	66.907.378	25.629.823
511					123	54.218.787	56.841.992
Guarantee schemes for agriculture and SMEs					2	115.313.453	115.313.453
611							395.007.018
<b>TOTAL</b>	<b>147.734</b>	<b>18.294.125.218</b>	<b>95.438</b>	<b>7.123.651.342</b>	<b>89.283</b>	<b>5.981.119.500</b>	<b>6.305.830.520</b>

Source: Funding Agency for Rural Investments (AFIR)

From the analysis of the table above, it is found that during 2007 - 2013 there were submitted a total of 147.734 projects with a total value of 18.294.125.218 euro, of which 95.438 were selected for funding projects (64.6%), totaling 7,123,651,342 euro (38.9%).

Of the projects selected for funding so far there are completed a total of 89,283 (93.5% of the selected projects), which were paid a total value of 6,305,830,520 euro.

Of all the measures proposed by the National Rural Development Program 2007 - 2013, only one specifically addressed the initiation and development of micro enterprises in rural areas in non-agricultural areas, measure 312. This measure aimed to sustainable development of economy by encouraging rural non-farm activities in order to increase the number of jobs and additional income (AFIR, 2014). This was achieved through the creation of micro-enterprises and the development of existing non-agricultural sector in rural areas, encouraging business initiatives promoted, especially by young people and women, encouraging craft activities and other traditional activities and reduce dependence on the agriculture (AFIR, 2014).

From the total projects submitted for funding, a total of 9.499 have been registered for Measure 312, which represents about 6.42% of the total, placing it 4th in number of projects submitted, after steps 141 - Setting up producer groups, 4.1 - The implementation of rural development strategies and 112 - Establishment of young farmers. Also, the measure dedicated to the foundation of rural microenterprises owned a significant share in the structure of the projects selected for funding, with a percentage of 4.38% of the total. Regarding the financial amounts paid so far by the beneficiaries of this measure, they rise to amounts of 247,232,282 euro, which means a share of 3.9% of the total amounts paid by the NPRD (PNDR).

Analyzing the data presented in Table 1 it is noticed that, on average, for a selected project it has been allocated an amount of approximately 73,059.18 euro, an sufficient amount for the establishment and development of micro enterprises in rural areas in fields such as services, tourism, trade, transportation and others. However, the number of companies per 1000 inhabitants in rural areas, and profitability are much lower than in developed European countries.

In further study, there are presented measures for financing the entrepreneurial initiatives in rural areas through the new National Program for Rural Development 2007-2013.

### 3. Analysis of the National Rural Development Program 2014–2020

From the analysis elaborated for the implementation of the National Rural Development Program in 2014-2020, it was found that in rural Romania, employment opportunities are reduced, especially in the non-agricultural sector. Moreover, the rural population depends mainly on agricultural activities giving them subsistence living conditions. The gap between rural and urban is shown by the low level of income and employment rate. The need to obtain an additional income for the population employed in subsistence and semi-subsistence agriculture is absolutely necessary, especially in the context of depopulation trend. At the same time the need to stimulate entrepreneurial initiatives in rural areas is high and is consistent with the need to increase the recovery potential of rural communities and the standard of living in rural areas.

Small business development is recognized as the most important source of jobs and to obtain additional income. Addressing the need of increasing the quality of life in rural areas can result from the development, by farmers small or their families, of small-scale activities in the non-agricultural domain like agro-tourism and crafts. Also, investments in the creation and development of service activities, especially production in rural areas will serve the need to create jobs for the rural population and maintenance of the population in rural environment (AFIR, 2014). Entrepreneurship in rural areas will be funded from the new NRDP mainly through the measure "Support for the establishment of non-agricultural activities in rural areas", which promotes the investment in creating and developing of non-agricultural activities.

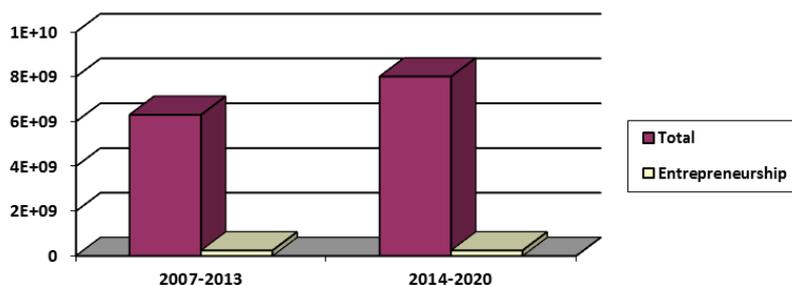
In Table 2 it is presented the structure, by years, of the funds allocated by the National Rural Development Program in 2014-2020.

**Table 2 Annual EAFRD contributions in euro**

Types of regions	2014	2015	2016	2017
Less developed regions	1.143.033.279,83	1.141.530.073,61	1.139.995.970,62	1.138.430.319,73
Regions with GDP/capita > 75% of EU 25 average	6.815.274,17	6.806.311,39	6.797.164,38	6.787.829,27
Total	1.149.848.554,00	1.148.336.385,00	1.146.793.135,00	1.145.218.149,00
Entrepreneurship stimulation measure	-	-	-	-
%	-	-	-	-

Types of regions	2018	2019	2020	Total
Less developed regions	1.136.836.057,43	1.135.157.289,9	1.133.170.724,78	7.968.153.715,99
Regions with GDP/capita > 75% of EU 25 average	6.778.323,57	6.768.314,01	6.756.469,22	47.509.686,01
Total	1.143.614.381,00	1.141.925.604,00	1.139.927.194,00	8.015.663.402,00
Entrepreneurship stimulation measure	-	-	-	250.000.000,00
%	-	-	-	3%

Source: AFIR



**Fig. 1 Financial allocation for National Program for Rural Development 2007 – 2013 and 2014–2020**

From the data analysis presented in Table 2 and Figure 1, we can see that the financial allocation of the National Rural Development Program in 2014-2020 is about 27% higher than the amounts paid in the programming period 2007 - 2013. Regarding the measure dedicated exclusively to stimulating entrepreneurial initiatives in rural areas is observed that both in the programming period 2007 - 2013 and in the period 2014 - 2020 are given financial amounts in proportion of about 3% of the total program.

But to increase the effectiveness of this measure, we believe that joint efforts are needed, which will materialize in:

- Strengthening the administrative capacity by training the staff responsible for implementing measures at central and local level, and avoidance of delegating untrained users the tasks related to the domain. In this regard it is recommended to conduct training courses in the field of EU funds and project management for all those responsible for overseeing the implementation of projects or their development;
- Increase transparency by providing more information in a more easily accessible way for users;
- Stimulating the public consultation process and the establishment of mechanisms for assessing the performance of regional management authorities;

- Eliminating excessive bureaucracy both at inter-ministerial and inter-agency level (central-local) and at beneficiary level;
- Organize regular information sessions and local debate on accessing European funds;
- Reducing the time of evaluation, selection, contracting and payment project by hiring efficient human resources that are certified in the field and in better coordination between public institutions involved;
- Following the example of Poland, Romania should define and implement a coherent administrative division and a decentralization process in terms of the Structural Funds. This would lead to streamlining and acceleration in the process of starting the projects, a better management of funds, with a positive effect on efficient allocations and decreasing the period of financial reimbursement payments to beneficiaries.

### **Conclusion**

Following the study conducted the following conclusions can be drawn, regarding the financing of entrepreneurial initiatives in rural areas:

- in the period 2007 - 2013 the measure dedicated to establishing micro-enterprises in rural areas obtained a significant share in the structure of the projects selected for funding, with a percentage of 4.38% of the total;
- for the period 2014 - 2020 there are assigned substantial financial amounts, for measure dedicated to stimulate entrepreneurial initiative, representing approximately 3% of NRDP.

We consider that for a relevant assessment of the effectiveness of measures to stimulate entrepreneurial initiatives, it is necessary a further evaluation of the impact of these measures in the post-implementation period. We propose to initiate pragmatic measures for assessing the profitability of businesses initiated by using the NRDP measures, which should aim at the turnover and profit growth and other indicators of the living standard of rural residents.

Also, in order to stimulate entrepreneurial initiatives by young people in rural areas, sustained and synergistic efforts are needed from educational institutions and business representatives to guide the students and young graduates to entrepreneurship. An important role in achieving this goal is the link between business and the university, there must be given an increasingly higher importance to economic education sphere, which in order to exist there must be a proper symbiosis between teaching and scientific content and the competencies and skills required in the business environment at national and international level (ADAPT. after Dabija et al., 2014).

Another starting point for achieving this goal is the creation and promotion among young people of appropriate business practices, so that inexperience may not be a disincentive for them and build the skills they hold, summarized in study by Ceptureanu and collaborators: discipline, creative and innovative spirit, intuition, perseverance, competitiveness, adaptability to market demands, dynamism in terms of communication, thinking, feelings and mode of action (Ceptureanu, 2012).

Among the solutions proposed to be adopted, the most important and pressing issues, is established however to be those who are considering simplifying the management and coordination of accessing structural funds, greater transparency of the process and providing more information to the interested public to access these funds, better coordination between management and accelerating the decentralization process.

An important factor in streamlining processes and increasing the competitiveness and quality of projects is given by the quality of the human resources involved in managing the Structural Funds, both at the public level and the beneficiary institutions. Therefore, following the example of Poland and Ireland, it is important to focus on improving human resources involved in these processes and provide adequate support for those interested in sustainable business development in rural areas financed from NRDP and other operational programs.

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