THE IMPLICATIONS OF THE LOCAL BUDGET IN THE PROCESS OF RURAL DEVELOPMENT IN ROMANIA

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The paper analyzes the strengthening of Romanian rural development in the context of local financial autonomy and Romania as an European Union country; found that the administrative ability exercised at local level is still inadequate to the needs of increasingly diverse local communities, being limited by the lack of experience needed in developing strategies, creating a net gap between Romania and other EU Member States.

Key words: *rural development, local budget, local autonomy, European Union funds*

The Romanian decentralization process generates the implication of local authorities in rural development, as a result of exclusive competences and, so, the necessity of ensuring the financing sources for them. The low level of funds available for local public administrations in rural areas and real impossibility and not legal to raise local taxes for bigger revenues of local budgets, makes the money look insufficient for rural development, even for small investments. Local borrowing must be used prudently for not generating budgetary deficit over the limit, although it looks like a viable solution. In this context, it is necessary to find alternative sources of financing, such as EU funds.

At the same time, in the EU context is accorded a special place to the agriculture common policy, EU institutions being implicated in the process of rural development. Also, the EU Treats mention and develop agriculture common policy. So that, EU researchers and politicians are focused on the possibilities to develop rural common policy and to satisfy the local rural interest. Meanwhile, local budgets are targeted to satisfy the general interest of the local community.

Rural development policy, although it is set in a framework agreement at the EU level, it must respond, in fact, the needs of national, regional and local. EU Member States play a major role in setting the parameters, especially financial, of rural development programs to be implemented in their territory and are responsible for managing them.

Romania is under the impact of fundamental reforms of the rural development policy of the EU in the context of local financial autonomy. With a population of Romania by more than 46% living in rural areas and covering nearly 90% of the country, rural development policy is an area of extreme importance.

MATERIAL AND METHOD

The reform process of local public administration in Romania and the Eastern Europe countries emphasize some difficulties in having equilibrium between public needs and financial possibilities of local communities. The statute of Romania as an EU member state imposes restrictions on local authorities, but, also, offers them the opportunity to access new financing resources for local rural development projects Romania has been elaborated instruments to develop rural communities, using the funds offered by the EU.

This paper is a quick assessment of the implications of the local budget on rural development, analyzing the profile of the Romanian local budget and the context of the possibility to absorption the European Union funds. Information are provided by the European Commission on the Common Agricultural Policy, Ministry of Agriculture, Forestry and Rural Development on the National Strategic Rural Development 2007-20013, National Institute of Statistics, Eurostat, research programs and papers made by different Romanian and foreign institutions as Central and Local public administrations, Universities.

The information obtained is analyzed using a praxiological perspective on the relation rural development and local budget. The final aim of the paper is to show the implication of local budget in the process of rural development in Romania in the context of local autonomy, based on a number of simplifying assumptions to be interpreted as results indicative rather than precise estimates.

RESULTS AND DISCUSSIONS

In the traditional way, the financing of ordinary expenditures or local rural investments projects in should be made only with ordinary resources of local budgets. From this point of view, article 9 of the European Charter of Local Self-Government suggests, at least implicitly, that the structure of local authorities' resources should be broken into two broader concepts as follows: own resources and transferred resources or financial transfers.

The own resources, of which they may dispose freely within the framework of their powers, are from the local community territory and mean: local taxes, fees. Transferred resources are financial transfers from central budget with the help of tax-sharing system. The own revenues in accord with Romanian Local public finances Act are: local taxes, contributions, quotas from income tax (in total amount of 82%) and others. Another source of financing are the transfers from the state budget or other budgets, but as a rule of local financial autonomy, it is indicate this amount to be smaller. The transfers from state budget have the form of sums from VAT and subventions.

If the ordinary resources are insufficient, a solution for local investments in infrastructure is local indebtedness using borrowings, as extraordinary resources of local budgets. There are two main possibilities that local government can use in borrowing: bonds and loans from commercial banks.

The Romanian local public finance Act stipulates that local councils, counties councils and the General Council of Bucharest County can contract internal and external loans, short, medium and long-term, for local public investments and for refinancing local public debt. An important prudential rule is that "annual debts representing the due installments deriving from contract loans…shall not exceed 30% of own revenues of the local budgets…".

However, prudence is recommended when employing local indebtedness, for Romania and other EU member states, because of the nominal convergence criteria which says that the ratio of government debt to GDP must not exceed the benchmark value of 60%. The practice of local indebtedness in the context of a big central government debt stock can generate the unfulfilment of the convergence criteria. For Romania and the other Central and Eastern European countries the situation is not a worrying one because they have a low level of total public debt, much less than 60% (Hungary being an exception).

If the public deficit ratio to Gross Domestic Product (GDP) exceeds the reference value of 3%, no project will be financed from the Cohesion Funds, until the deficit problem will be solved. So, it is necessary to practice a prudent local indebtedness for not limiting the access to EU funds.

The low level of funds available for local public administrations in rural areas generates to o find an alternative sources of financing, such as European Union funds.

According to EU rural development policy focuses on three policy objectives: competitiveness of agriculture and forestry, land management and environment and quality of life and diversification of economic activities. This allows EU co-financing for rural development to focus on commonly agreed EU priorities for the three policy axes for the period 2007-2013 *(tab. 1)*.

On 20 February 2008, the European Commission has approved the National Strategic Plan for Rural Development, allowing Romania to access EU funds of nearly 8 billion by 2013.

Table 1

EU Financial support for rural development

Objective setting		EU Strategy National Strategy Rural Development Programmes
Axis I Competitivennes	Funding share	minimum 15%
	EU – co-financing rate	maximum 50/75%
	Territoriial aplication	All rural areas
Axis II Land management	Funding share	minimum 25%
	EU – co-financing rate	maximum 55/80%
	Territorial application	All rural areas
	Baseline (Agriculture)	Cross-compliance
Axis III Wider Rural Development	Funding share	minimum 15%
	EU – co-financing rate	maximum 50/75%
	Territorial aplication	All rural areas
	implementation	Preferably through local development strategies
Leader Axis	implementation	Leader aproach for selected territories within the scope of the 3 thematic axes
	Funding share	minimum 7%
	EU – co-financing rate	maximum 55/80%
	Territoriial aplication	toate zonele rurale dintre teritoriile selectate
	reserve	3% of overall EU RD funding (excluding modulation)

In accord with the three major objectives of rural policy - transforming and modernizing the production and processing in agriculture and forestry, maintaining and enhancing the quality of rural environment and ensure economic and social conditions suitable for the rural population - are the three axes of action. The fourth axis involves the implementation of Leader measures, which include: the implementation of local development strategies, implementation and operation of cooperation GAL, skills and territory animation.

Leader axis - implementing local development strategies - defines very well the involvedness of the local budget, because strategies are always developed by public authorities.

NSPRD 2007-2013 provides for the implementation of the four priority axes, from a financial allocation of about 8.02 billion euros from the European Agricultural Fund for Rural Development (EAFRD) with the addition and national co-financing of approximately 1.95 billion euros.

Funding for rural development is accessed the same way as SAPARD funds. Potential beneficiaries must first submit the draft to the National Agency for Rural Development and Fisheries, according to the specifications included in the plan.

Table 2

The budget of the National Plan for Rural Development for the period 2007-2013

	Total public expenditures (EUR)	Contribution of EAFRD (EUR)	National co-finance from the Local Budget and State Budget	Percentage BL/BS in total expenditures	EAFRD percentage in rapport with the other axes
Axis I	3967311581	3173849264	793462317	20%	43.95%
Axis II	2293413375	1880598967	412814408	18%	26.05%
Axis III	2473739880	1978991904	494747976	20%	27.40%
Leader Axis	235074871	188059896	47014975	20%	2.60%
Technical Assistance	376119793	300895834	75223959	20%	
Supplements to direct payments [7]	625136100	500108880	125027220	20%	
TOTAL	9970795600	8022504745	1948290855	19.53%	

Financial intervention of the Romanian state is quite low *(tab. 1, 2)*, the European Union going on the maximum percentage of funding through the four axes. This is due to poverty in Romanian rural areas reflected in a low level of living of the population and the lack of alternative sources of income.

Financing of the Romanian state is approximately 1.95 billion euros. Considering the lowest financial capacity of many local authorities to assure this co-financing, the Romanian Government decided to reduce as far as possible the local budget contribution. Thus, the principle which will be applied in the operational programs tell us that the personal co-financing which the local authority need to assure for a project will be in general 2% from the eligible value, a major exception being the projects which generates incomes. Consequently, the approved contribution of the local authorities is under 5% from the total of national co-finance.

According to data provided by the Management Authority for National Strategic Plan for Rural Development (MANPDR) is trying to accelerate access to European funds for agriculture by introducing a new set of measures. One of these measures with the involvement of local public authorities is measure 322 - Renovation of villages, which has decided to auction off the entire amount remaining in the program and changing scores of balancing selection for rural infrastructure investments for water / sewage and municipal roads. Public contribution regarding this measure is 1.54 billion, of which the Romanian Government contribution from the state budget is 20% and the EU contribution is 80%. Private contribution is approximately 30 million. The maximum value of the grant funds is 100% of the total eligible costs for projects of public utility which don't generate profit and under 70% of the total eligible costs for projects of public utility which generate profit.

CONCLUSIONS

Local rural development opportunities exist, even if not through direct support of local budget expenditures, but through alternative sources of funding included in the budget, such as attracting EU grants. Only must local authorities to demonstrate commitment to attract funds by drawing funding applications according to established criteria. Up to now Romania has demonstrated that doesn't have the capacity of absorption of these funds because of the inadequately institutional and legal framework, although the volume of EU funds is considerable.

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