

ACCESSING STRUCTURAL FUNDS - WAY OF RECOVERING THE TOURISM AFFECTED BY THE GLOBAL ECONOMIC CRISIS

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Abstract

The tourism, as main component of national, as well as of the global economy, could not but be affected by the present financial crisis, already seen as an economic one. The effects of the worldwide crisis put their fingerprints on both components of the tourism, the demand as well as the tourism supply. The first one is affected because of the travelers' prudence in spending money, and the latter due to the lack of money needed for the establishment of new facilities, as well as for the expanding or modernizing the existing ones. On both cases, the main cause of the stagnation or even decrease in the field of tourism consists in the lack of funds and this is mainly due to the fact that getting money has become a real challenge. Within this context, when the banks are more than reluctant to finance new projects, the structural and cohesion funds made available by the European Union can be a source of funds, with impact at both local and regional level.

Keywords: structural funds, tourism, economic crisis, ways of surpassing, cohesion fund, rural tourism

JEL Classification: F59, L83, R58

1. Introduction

The subject of the present paper consists in identifying the ways through which the European Union structural and cohesion funds may help the member states national tourism to recover from the global economic crisis. The paper comprises two parts, the first one being focused on the effects of the crisis on the tourism activities, whilst the second one offers a brief presentation of the European financing sources, a special interest being paid to the funds aimed at enhancing the Romanian tourism.

2. The Influence of the Global Crisis on the International Tourism

The international tourism is characterized by a permanent dynamics due to the factors that are involved in its creation. Tightly connected with the majority of the economic sectors, the tourism could not escape the effects of the financial crisis that appeared last year and which has evolved in the meantime into a real global economic crisis. The journey industry was even more affected as many of the

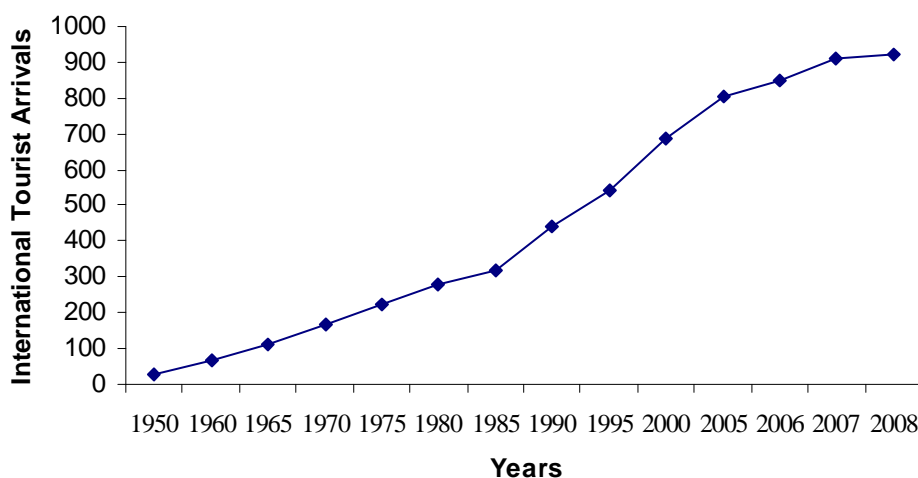
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problems generated by the economic crisis are related to the tourism: the increase of the oil price and of other goods, the volatility of the real estate market and the fall of the credit along with the fluctuations on the exchange rates, leading to increased interest rates and thus becoming a real burden for the borrowers. Each of these factors is influencing the touristic activities leading to specific trends, adapted to the new socio-economic context.

2.1 The International Tourism Flows

Upon analysing the volume of the international trips we can clearly see a radical change of the trend shown by the tourists during 2008 when compared with previous periods defined by an increasing touristic flow. Thus, while in 1950 there were recorded 25.3 mil. tourist international arrivals, in 2006 we can see a total of 842 mil. and it grows even more to 908 mil. in 2007. Despite the expectations and as a result of the socio-economic conditions greatly affected by the crisis, after 4 years of sustained growth, the international tourism has shown a radical change in the second half of 2008 when the international tourist arrivals remained constant or even seeing negative rates, with a final estimation for 2008 of only 924 mil. with a small (2%) increase over the previous year.

Gr. 1. The evolution of the international tourist arrivals during 1950-2008 (mil. arrivals)



Source: World Tourism Organization (UNWTO), Tourism Market Trends, 2008 Edition - Annex

However, the future does not look bleak because according to the WTO¹ forecasts, in spite of the economic uncertainty, the international tourism will maintain his ascending trend and until year 2010 an estimation of aprox 1.6 bilions international tourist arrival is made, out of which 1.2 bil intra-regional tourism and 378 mil long haul trips.

2.2 The Evolution of the Touristic Demand

In the actual context, when the safety of the jobs is questioned, the customers tend to carefully analyze each buying decision. The same happens when aquiring touristic services, now we can see that an important role is played by the quality/price relation and the thorough search of information related to the offer or the environmental conditions of the destination place, thus becoming imune to the naive commercials.

2.3 The Concentration of the Touristic Offer

In tight connection with the increase in the customer expectations, we can see a trend of increasing the effort that the providers of the services are putting in when creating the offer, either by using clever marketing policies or by investing a high amount of money. Those who afforded this financial effort have continued on their own, others have found another methods to ensure their presence on the market. Thus, in the last decade, a strong trend of concentration of the touristic offer have emerged, mainly by creating strategic international alliances any by buying or merging on the existing entities, sharing the resources, the risks and the costs being an efficient and rapid way of increasing the market share. Taken into account the actual economic crisis, the trend of concentrating the economic offer is even more amplified considering that this is one of the ways by which a company is trying to survive on the market.

2.4 The Crisis Influence on the Various Forms of Tourism

Although in different proportions, I do believe that all forms of tourism are affected by the actual financial and economic crisis. In my opinion, the most vulnerable form of tourism at this moment is the business trip category. This is due to the fact that many of the companies in the market are reducing the costs that are considered not vital – the expenses on the business trips being the first to be targeted. In an attempt to spare the resources, every company will think twice before aproving any business trip and will find all the means to solve the technical issues from a distance, in the same time reducing their presence to conferences, seminars

¹ UNWTO's *Tourism 2020 Vision*.

or other similar activities.

Considering the restrictions when granting credits and the ever decreasing trust that the customers have, the shopping tourism may also record a period of reduction foreseen to end along with the crisis.

3. Accessing the Structural and cohesion funds – Way of Overcoming the Crisis Experienced by the Tourism

3.1 The Structural and Cohesion Funds – Brief Presentation

According to the article 159 of the European Community Treaty, the Community acts through the Structural Funds, Cohesion Funds and other financial tools to help reaching its general goals of economic and social cohesion. Thus, the Treaty contains regulations for coordinating the economic policies, implementing the Community policies, especially the Unique Market and regulations for using the existing Structural Funds (the European Fund for Orientation and Warrant for Agriculture, the European Social Fund, the European Fund for Regional Development and the Financial Tool for Orientation in the Fishing domain) and the Cohesion Fund.

The European Fund for Regional Development is the main tool of the regional policy of EU and represents the structural fund which supports less developed regions by financing the investments in the productive areas, infrastructure, education, health, local development, small and medium companies and the economic-social conversion for the areas that are having structural difficulties.

The European Fund for Regional Development financially sustains a series of eligible activities, amongst which we can note:

- Solving the most important regional unbalances inside the Community
- Financing the interstate, international and interregional cooperation and the economic and social regeneration of the challenged cities and urban areas on the Community Initiative
- Supporting the productive and competitive environment of the companies (especially the small to medium ones), the local economical growth and usage of the work force including the culture and tourism areas by creating new jobs.
- Improving the life conditions and zonal development, especially by promoting zonal agreements on the usage of the work force and generation of new jobs.
- Investments whose sole purpose is to rehabilitate the abandoned areas with an accent on local economic development both urban and rural.

The European Social Fund is aimed at sustaining the social policy of the European Union, mainly by establishing the measures for the work force usage and human resources development. It contains eligible measures such as:

- ✓ assistance in the domains: educational training, hiring help, higher education in research and science, informing about new hiring opportunities;
- ✓ assistance for structures and systems: improvement of the education and training systems, updating the hiring services and developing systems in order to anticipate the specializations needs.
- ✓ additional measures : increasing the awareness and creating new services.

Besides the already mentioned funds, we need to also present the **European Fund for Orientation and Guarantee in Agriculture**, designed for the Common Agricultural Policy of the European Union and which supports the measures taken to update the agriculture and to further develop the rural areas; another fund is the **Financial Instrument for Fishing Orientation**, designed for the Common Fishing Policy, which supports the measures taken to increase the competition on the fishing domain while ensuring a durable balance between the resources and the harvesting capacity.

The European Union acts not only through the structural funds but also through the **Cohesion Fund**¹, a social tool which since 1994 upholds the membership states in reducing the economic and social difference from their economic systems. The Cohesion Fund finances up to 85% of the eligible expenses of the major projects on the environment (a high priority have those projects related to supply fresh water, waste water and solids treatment) and infrastructure for public transportation.

The sums of the structural funds are given as free of charge assistance. The financial assistance is obtained from the development programs which are grouped in measures.

The period 2007-2013 is defined, from the funding sources for the common cohesion policy point of view, by the usage of the same structural and cohesion funds, namely the European Fund for Regional Development, the European Social Fund, the Cohesion Fund with the main difference that the previous funds for the agriculture domain (that is the European Fund for Orientation and Guarantee for Agriculture and the Financial Instrument for Fishing Orientation) have been replaced by three financial tools with different attributes. Thus, for the agriculture, according to the *Council Regulation No. 1290/2005* on financing the common agricultural policy, there were created two European funds named EFGA² – for financing the marketing measures and EFARD³ for financing the rural areas development programs. Also, the *Financial Instrument for Fishing Orientation* has been replaced by the *European Fishing Fund*, which will implement the Common Fishing Policy – the warranty on long term for the fishing activities by an efficient harvesting of the aquatic resources, resizing the fishing flotillas and the improvement of the marine life, lakes and coastal areas that were affected by intense fishing activities.

¹ regulated through the *Council Regulation (EC) No 1265/1999 of 21 June 1999 amending Annex II to Regulation (EC) 1164/94 establishing a cohesion fund and Council Regulation (EC) 1264/1999 of 21 June 1999 amending regulation (EC) No 1164/94 establishing a Cohesion Fund.*

² European Fund for Guarantee in Agriculture.

³ European Fund for Agriculture and Rural Development.

The proposals¹ of the European Committee on the local policy reform for the 2007 – 2013 period mention the usage of a total 307,619 billions EUR (approx 30% of the EU budget).

During this period, the structural and cohesion funds are acting to accomplish three objectives: the convergence, regional competitiveness and work force usage and finally the European territorial cooperation. The sums for the structural and cohesion funds allocated based on the above objectives are shown in the table no.1 below.

Tab. no.1 The repartition of the structural and cohesion funds on the objectives during the 2007-2013 period

| Objectives | Programs and financial instruments | Eligibility | Priorities | Financial allocation |
|---|--|--|---|--|
| Convergence (including the special program for the furthest regions) – 251,32 bil. Euro | National and regional programs financed by EFRD and ESF | Regions with GDP/inh. <75% of the EU 25 average | -innovations -risk prevention -environment protection | 70,5% of the funds allocated to this objective (177,1bil Euro) |
| | | Regions with GDP/inh. < 75% of the EU 15 average, but over 75% of the EU 25 average | -infrastructure -HR -administrative abilities | 5% of the funds allocated to this objective (12,5bil. Euro) |
| | Programs financed by the Cohesion Fund | Member states with GNR <90% of the community average | -public transportation networks -environment infrastructure -energy field | 24,5% of the funds allocated to this objective (61,5bil Euro) |
| Regional competitiveness and employment – 48.60 bil. Euro | Regional programs financed by EFRD and national programs financed by ESF | Regions that do not qualify for the Convergence objective | -innovations -risk prevention -environment protection -European strategy on employment | 78,7% of the funds allocated to this objective (38,2bil Euro) |
| | | Regions covered by Objective 1 during period 2000 – 2006 (which receive temporary support) | | 21,3% of the funds allocated to this objective (10,3bil Euro) |
| Territorial cooperation -7,38 bil. Euro | International and Tran frontiers programs and networks financed by | Regions located along borders and extended international cooperation regions | -innovations -risk prevention -environment protection -culture and education | 77% for international cooperation and for the European Instrument for Neighborhood and Partnership (5,68 bil. Euro) 19% for international |

¹ Financial Perspective 2007-2013, Council of the European Union, 15915/05

| | | | | |
|--|------|--|--|---|
| | EFRD | | | cooperation (1,4bil. Euro) 4% for inter-regional cooperation networks (0,3bil. Euro) |
|--|------|--|--|---|

Source: www.infoeuropa.eu

3.2 The Influence of the European Funding Mechanisms on the Tourist Activity

Based on the necessities of each country, the European funds are destined in different proportions to the economic and social sectors which need to be developed. Thus, according to the individual requests from each member state of the European Union, the funds can be allocated to the development of medium and small companies, the agriculture, the social sector and also to any other strategic domain for the recipient economy.

The tourism is one of the activity areas that fully enjoy the favorable effects of structural and cohesion funds usage. By accessing them, one can obtain the stimulation of both components that makes up the touristic phenomenon, namely the touristic request and offer.

The influence of the funding from the European Union on the first component of the tourism manifests itself indirectly, by creating new working places, encouraging professional development and improving the living conditions of the potential tourists. All these can only be accomplished not only by upholding the social measures, but also by stimulating the economic activity of the existing companies in order to improve their efficiency, with effects on the wages of the employees. Considering that the existence of the exceeding incomes are the main premise for engaging in touristic activities, the higher these incomes are, the higher the probability of asking for tourist services.

However, in the tourism sector, the European financial instruments are acting mainly on the tourist offer. The influence is both direct - on the specific tourism infrastructure, namely for developing new accommodation facilities, new relaxation places, or extending and upgrading the existing ones, and indirect - by financially sustaining the general access infrastructure to the touristic destinations.

In the latter category one can find the national road upgrade funding, the proper marking of the touristic paths, renewal of the bridges and tunnels, replacing the damaged sewage systems, introducing or upgrading the existing energy, fresh water or heating facilities in the potentially touristic areas. Moreover, by using the structural funds one can initiate and sustain commercial campaigns for promoting the tourism both at local and national level.

When speaking about the direct influence of the European financial instruments over the damping crisis effects, or even overcoming them, I do believe that a careful

consideration should be directed in upholding the funding projects for locations destined for social tourism. The motivation would be that amongst the forms of tourism that not only have not been affected by the crisis, but have become even more popular, one can find the social tourism, a form of tourism used by the people with a rather limited financial power (family tourism); the social tourism may be defined as all the activities concerning the development of the tourism for the lower wages social class. These tourists require cheap or complementary accommodations (bungalows, tents, room renting etc.) and also affordable means of transportation.

Besides the social tourism, it is the rural and ecologic tourism, tourism forms that can survive the crisis because they don't depend so much on other economic components; thus, the holidays in rural areas are not as expensive as those in urban areas. The agro tourism for example, means using the owner's house as accommodation facility and offering food directly from his garden. More than this, the rural tourism is often encountered for the families with children, eager to relax away from the noise and the pollution of the city.

3.3 The Structural and Cohesion Funds Aimed at Enhancing the Romanian Tourism

After joining the European Union, Romania has become both contributor as well as beneficiary of the structural funds. The verdict will be given by its capacity of using the post-accession funds, amounting up to 29,2 billion euro (out of which 12 billion euro for the Common Agriculture Policy and 17,2 billion euro for the Structural and Cohesion Fund) for the 2007-2013 period.

In the field of tourism, Romania benefits of grants (no reimbursable funding) from the European Union in two programs: the Regional Operational Program and the National Program for Rural Development.

Within the first program, the touristic infrastructure is financed on Axis 5 – Durable development and tourism promotion, the major intervention field 5.2 *Creation, development, upgrading the tourism infrastructure in order to better use the natural resources and increasing the quality of the touristic services.*

The eligible recipients for the financing are the territorial administrative units, the partnerships between local public administration authorities and NGOs, inter-communities development associations and also the small and medium companies in the tourism field. The general conditions for the applicants stipulate they should not be in a state of insolvency, should not have any debts to the state/local budget, should not be the object of a *res judicata* lawsuit, should not be in any difficulties etc.

The maximum intensity of the grant (the maximum percentage computed on the eligible value of the project) is differentiated according to the type of the recipient :

- Public authorities, their partners, partnerships between public authorities and NGOs, inter-communities development associations: 40% for the Bucharest – Ilfov

area and 50% for the rest of the country;

- Medium companies: 50% for the Bucharest – Ilfov region and 60% for the rest of the country;

- Small companies, micro-companies, LPA with a yearly budget less than 10mil Euro and less than 5000 inhabitants: 60% for the Bucharest – Ilfov region and 70% for the rest of the country.

The eligible projects may target:

- ✓ To create the proper infrastructure for visiting the natural objectives with tourist potential

- ✓ To valorize the mountains tourism potential

- ✓ To develop the balneal-climatic tourism

- ✓ To modernize and extend the accommodation structures and the related units

- ✓ To create, rehabilitate and extend the tourist infrastructure.

Within the National Program for Rural Development, the investments in the tourism may be financed through the measure 313 *Encouraging the tourism activities*, where there may be financed mainly projects aiming at developing new accommodation facilities in the rural areas, extending or modernizing the existing ones. Besides the general conditions concerning the solvency of the company, the beneficiaries should also observe certain rules regarding the quality standards and should develop their project in the rural area.

4. Conclusion

Like all the other sectors of the national economy, the tourism was strongly influenced by the present economic crisis. Romania, as other states of the world, is trying to identify the best ways of overcoming the difficulties raised by the crisis. In my opinion, along with other economic or financial measures, a way of enhancing the investments in the sectors most affected by the crisis could be the process of accessing the no reimbursable financing granted to Romania from the European Union's budget. The legal and administrative efforts made by the local authorities in the field of financing from European sources show these opportunities are fully understood and also that the economic and political entities are aware of the necessity of being involved in all stages of the financing process. Within this context, the authorities from Bucharest have initiated legal projects regarding the proper regulation of the mechanisms and procedures specific to accessing the European financing and have completed the administrative structures responsible with the management of the structural funds from various fields, through establishing the management and payment authorities for each operational program. Reaching the goals aimed by the European organisms through granting the no reimbursable financing mostly depends on the interest shown by the final beneficiaries and their organizational and entrepreneurial skills. This is why there is so important to focus

on properly and completely informing the population about the opportunities developed within the new European context.

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