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New Approaches to Funding Mechanisms for the Revitalization of Rural Communities

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Abstract
Rural development is a key challenge in the European Union given the economic and social disparities between urban and rural areas. Rural communities are facing depopulation, an ageing population and limited access to essential services, which calls for sustainable financing solutions. This article analyzes the context of rural development in Europe, highlighting the economic, social and technological transformations of rural areas and their impact on communities. Policies and regulations supporting rural development are also addressed, emphasizing the need for solutions tailored to local needs. The conclusions highlight the importance of an integrated strategy for the sustainable revitalization of rural areas.

Keywords: *Rural development, Sustainable financing, Economic revitalization, Innovative funding mechanisms*

JEL Classification: Q14, R58, H54

Introduction

Rural development is one of the main challenges for economic and social policies in the European Union, given the significant disparities between urban and rural areas. Rural communities face problems such as depopulation, ageing, limited access to essential services and reduced economic opportunities [European Commission, 2023]. In order to counter these difficulties, it is essential to identify and implement effective funding mechanisms to ensure the sustainability of the development of these regions.

European policies, such as the Common Agricultural Policy (CAP) and the European Agricultural Fund for Rural Development (EAFRD), have had a significant impact on modernizing agriculture and supporting rural economies [Raicov, Mănescu & Mateoc-Sîrb, 2012]. However, sole reliance on public funds is not sufficient to meet the current challenges. In this context, it becomes necessary to integrate innovative financing mechanisms such as public-private partnerships (PPPs), microfinance, crowdfunding and green finance, which can contribute to the economic revitalization of rural areas [Otiman, 2012]. This article explores new approaches to financing mechanisms for revitalizing rural communities, looking at the European context of rural development, the transformation of the countryside, the impact of regulations and support policies, and sustainable financing solutions.

The study is structured in the following sections:

- In the first part we discuss the need for a sustainable financing system in rural development This section analyzes the economic and social challenges of rural communities and justifies the need for effective financing mechanisms to support sustainable development.
- The second section discusses the context of rural development in Europe, current trends in rural development at European level are presented, including policies, strategies and initiatives implemented by the European Union to reduce rural-urban disparities.
- In section three we look at the Transformation of the countryside and examine how economic, technological and social changes are influencing the structure of rural communities, with a focus on investment in infrastructure and modernization of essential services.
- In the fourth section we discuss the policy and regulatory framework supporting rural development. We analyze the role of European and national policies and regulations in supporting rural development, with a focus on the Common Agricultural Policy (CAP), the European Agricultural Fund for Rural Development (EAFRD) and the LEADER approach.
- The last section is the concluding section summarizing the main findings of the analysis and proposing future directions for improving the funding system for revitalizing rural communities.

Through this approach, the article provides a comprehensive overview of innovative financial mechanisms, emphasizing the need for policies and strategies to support the sustainable development of rural communities.

1. The need for a sustainable financing system in rural development

As economic and social growth in rural areas faces a number of challenges, sustainable financing mechanisms tailored to local needs need to be implemented. These challenges include an ageing population, lack of infrastructure, a shrinking active population and limited access to high quality public services [European Commission, 2021]. The transition to a resilient and sustainable development model is difficult in many rural areas due to overdependence on agriculture and lack of economic diversity [Ministry of Agriculture and Rural Development, 2020].

Traditionally, Romania's rural development has been financed through government subsidies and European funds. The National Rural Development Program (PNDR) and Common Agricultural Policy (CAP) funds have been the most important sources of funding [Ministry of European Investments and Projects, n.d.]. Modernization of infrastructure, agricultural growth and encouragement of rural entrepreneurship were helped by these funding mechanisms. However, the use of EU funds is often constrained by such things as excessive bureaucracy, limited administrative capacity of beneficiaries and problems with project co-financing [European Court of Auditors, 2015].

Access to capital and alternative financial mechanisms is an additional critical component of rural economic development. Rural businesses can obtain credit from commercial banks and conventional financial institutions, but due to stringent collateral requirements and high interest rates, these are often difficult to access [World Bank, 2020]. Under these circumstances, alternative finance, such as microcredit, crowdfunding and impact investing, is gaining increasing popularity in rural communities. These modalities offer entrepreneurs the opportunity to build businesses that are sustainable and innovative [OECD, 2021].

Public-private partnerships (PPPs) are another trend in rural development financing, as they enable cooperation between government, private and non-governmental institutions to implement vital infrastructure projects and services [European Commission, 2022]. Such collaborations can increase investment efficiency and reduce costs.

Finally, an integrated approach to financing mechanisms is needed for sustainable rural development. This should include innovative solutions such as microfinance, impact investments and public-private partnerships. Diversification of funding sources and adapting them to the needs of rural communities are essential to bridge the urban-rural divide and to provide these regions with a stable economic future.

2. The context of rural development in Europe

Around the world, rural areas face significant problems that affect the sustainable progress of communities. Among them, ageing populations, economic decline, depopulation and limited access to services have a significant effect on the future of these areas. To ensure balanced and sustainable development, these problems are interconnected and require integrated solutions.

1.1. *Depopulation of rural areas*. The continued migration of young people to urban centers in search of better financial opportunities is the cause of depopulation of rural areas. This phenomenon causes an ageing rural population and a shrinking labor force, which affects the sustainability of communities [Johnson & Lichter, 2019]. Studies show that a negative migration flow affects 91% of rural areas in demographic decline, causing economic and social imbalances [Vias, 2012].

1.2. *Population ageing*. The rural population is ageing as a result of youth migration and increasing life expectancy. This trend is having a negative impact on the economic sustainability of rural areas as well as the labor market [Lichter & Johnson, 2023].

1.3. *Economic decline*. Direct contributing factors to the economic decline of rural areas an aging population and depopulation. According to the Federal Reserve Bank of Richmond (2020), a declining population leads to a decline in demand for local goods and services, which leads to business closures and reduced tax revenues. The abiability of local governments to invest in infrastructure and public services is limited without a strong economic base. This further exacerbates the problems of migration and economic decline [OECD, 2020].

1.4. *Another major obstacle to the development of rural areas is limited access to essential public services* such as health, education and transportation. In these regions, the health and education infrastructure is often underfunded, which makes it difficult to attract employees there and makes people travel long distances to get good services [OECD, 2020]. The vicious cycle of demographic, economic and social regression highlights the differences between urban and rural areas, which underlines the need for effective public policies to revitalize rural communities.

Rural development in Europe is marked by significant regional disparities, influenced by economic, demographic and social factors. European and national policies have a crucial role to play in bridging the gap between rural and urban areas by providing support for infrastructure, services and rural revitalization initiative.

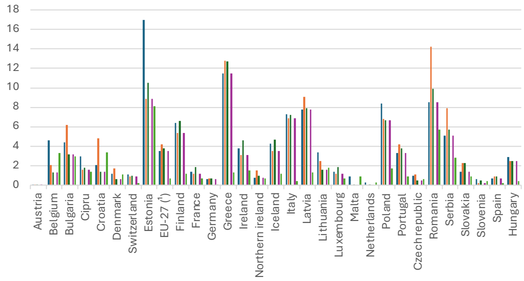
3. The transformation of rural space

Rural roads, bridges, maintenance, digital technologies, intermediate transport modes and transport services are all elements of rural infrastructure. According to research

Measuring Rural Access: Using New Technologies, a third of the world's rural population lives more than two miles from a main access road. This makes access to vital services more difficult and as a result creates isolated communities. Continuing with this method, the following graph shows the number of people across the European Union who have experienced problems accessing essential services.

Figure no.1.

Share of persons aged 16 years and over reporting unmet need for health care in the last 12 months due to expenditure, travel distance or waiting list length, by degree of urbanization



(Source: Own processing based on indicators provided by the Eurostat database in Eurostat Regional Yearbook)

The PivotChart tool was used to process the data in Figure 1. and it shows the proportion of people aged 16 and over who reported basic needs insufficiently met due to high costs, travel distance and waiting time, by degree of urbanization. In the European Union (EU-27), about 4,2% of people in rural areas aged 16 and over reported problems with the indicator. This is higher than in urban areas, cities and suburbs, where the percentages are 3,5% and 3,8% respectively.

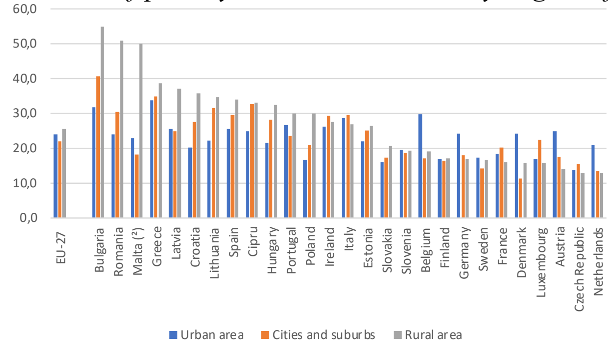
According to the hierarchy, Romania stands out for having a significantly higher share of rural areas than the other EU Member States, with 14,2%. This indicator highlights the limited access to basic services and, implicitly, the poor infrastructure in Romania's rural areas. Other countries with a higher share of people with unmet health care needs in rural areas include Greece, Latvia, Estonia and Bulgaria. On the other hand, in countries such as Germany, Austria, Slovenia, Malta and the Netherlands, the share of people with unmet health care needs in rural areas is very low, ranging between 0,1% and 0,7%. These data underline the importance of addressing inequalities in access to basic services in rural areas and the need to develop specific policies and interventions to ensure that services are tailored to the needs of rural communities.

Another important aspect is the share of the population at risk of poverty or social exclusion. In 2019, in rural areas, the share of the population at risk of poverty was higher than in urban areas (22,4% in rural areas compared to 21,3% in urban areas and 19,2% in cities and suburbs) (SWD, 2021). In terms of the challenge posed by the risk of social exclusion or poverty in the EU Member States in urban and rural areas, the following results are identified.

In the below graph, the indicator showing the share of people at risk of poverty or social exclusion according to the degree of urbanization in the 27 Member States of the European Union has been analyzed. The analysis was applied to rural areas, urban areas, cities and suburbs. The results show that there is a significant difference in the risk of poverty and social exclusion between the countries analyzed.

Figure 2.

Share of people at risk of poverty or social exclusion by degree of urbanization



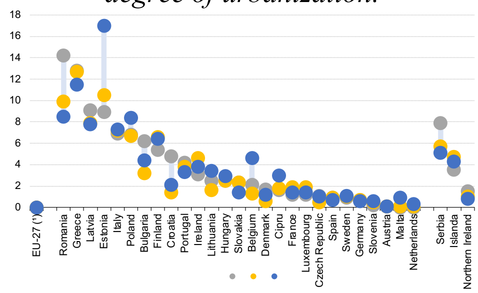
(Source: Own processing based on indicators provided by the Eurostat database in Eurostat Regional Yearbook)

At EU level, the average rate of people at risk identified is 24%, with considerable variation between urban areas, cities and suburbs and rural areas. Among the countries analyzed, the highest share of the population at risk is found in Bulgaria, with 31.7% in urban areas, 40.6% in cities and suburbs and 54.8% in rural areas. Among the countries analyzed, the highest share of the population at risk is found in Bulgaria, with 31.7% in urban areas, 40.6% in cities and suburbs and 54.8% in rural areas.

The country with the lowest share of the population at risk of poverty and social exclusion is the Netherlands, with the lowest impact of urbanization on the population with 20.9% for rural areas, 13.% for cities and suburbs and 12.8% for rural areas. In terms of the indicators recorded at the level of Romania, it is ranked second among the EU member countries with a high risk exposed to the indicator analyzed, with values recorded of 24.1% in urban areas, 40.6% in cities and suburbs and 50.8% in rural areas. The risk of poverty or social exclusion was often higher for people living in cities in many of the Western and Northern Member States, while the risk was higher for rural populations in the East, the Baltic States and the South.

Figure 3.

The proportion of individuals aged 16 and over who reported unmet healthcare needs in the past 12 months due to costs, travel distance, or waiting list duration, based on the degree of urbanization.



(Source: Own processing based on indicators provided by the Eurostat database in Eurostat Regional Yearbook)

Figure 3 illustrates the share of persons aged 16 years and over who reported unmet need for health care in the last 12 months due to cost, distance to health care services or waiting list length, by degree of urbanization. Eastern European countries such as Romania, Greece, Latvia and Estonia have the highest percentages of people reporting unmet need for healthcare, well above the EU-27 average. At the opposite pole, countries such as the Netherlands, Malta, Austria and Germany have the lowest values, indicating better accessibility to healthcare. The differences by degree of urbanization highlight that in most countries, people in rural areas report a higher percentage of difficulties in accessing health services than in urban areas, which confirms the existence of structural problems in the provision of health care in rural areas, where health infrastructure is less developed. Romania is among the most affected countries, with a high percentage of unmet medical needs, well above the EU average, with clear differences between urban and rural areas, indicating problems in the distribution and accessibility of health services in rural areas.

The cases of Serbia and Iceland show unusual variations: in Serbia, the rural population reports a significantly higher level of unmet need than the urban population, while Iceland, despite having a well performing health system, has a relatively high level of unmet need, possibly explained by the isolated geographical distribution of the population .

4. Policy and regulatory framework supporting rural development

European policies and regulations play a key role in promoting rural development by providing a strategic and financial framework for revitalizing rural communities. These policies are designed to address the specific challenges of rural areas and to stimulate economic growth, social cohesion and environmental protection [European Commission, 2023].

4.1. The Common Agricultural Policy (CAP) and rural development

The Common Agricultural Policy (CAP) is one of the oldest and most important policies of the European Union, aiming to support farmers and rural communities [Porumbăcean, 2010]. In the period 2023-2027, the CAP has been reformed to respond to new challenges, with a particular focus on sustainable development and the European Green Pact [Raicov, Mănescu & Mateoc-Sîrb, 2012]. This reform includes national strategic plans that allow Member States to tailor CAP measures to their specific needs, thus promoting integrated and sustainable rural development [European Court of Auditors, 2010].

4.2. European Agricultural Fund for Rural Development (EAFRD)

The EAFRD is the EU's main financial instrument for rural development, aiming to reduce the economic and social disparities between rural and urban areas [European Commission, 2023]. Through the National Rural Development Program (NRDP), the EAFRD finances projects aimed at modernizing agriculture, diversifying rural economies and improving local infrastructure [Ministry of Agriculture and Rural Development, 2023]. For example, in Romania, the PNDR 2023-2027 focuses on increasing the competitiveness of the agricultural and forestry sector and improving the quality of life in rural areas (Mihaleache, 2013).

4.3. The LEADER approach and involvement of local communities

The LEADER approach is an innovative approach to rural development that encourages the direct involvement of local communities in decision-making (Olar, 2024). Through Local Action Groups (LAGs), this approach promotes public-private partnerships and supports projects tailored to the specific needs of each community (Vulpe, 2019). However, the implementation of LEADER has faced challenges related to administrative complexity and effective monitoring of results, highlighting the need for additional measures to maximize the positive impact on rural development [European Court of Auditors, 2010].

4.4. National regulations and adaptation to the local context

In addition to the European framework, Member States adopt national regulations that complement and adapt EU policies to local specificities [Otiman, 2012]. These regulations aim at simplifying administrative procedures, facilitating access to finance and promoting sustainable agricultural and development practices [Ministry of Agriculture and Rural Development, 2023]. For example, in Romania, national legislation in the field of rural development has been harmonized with European regulations, emphasizing transparency, efficiency and results orientation [Mihaleache, 2013].

5. Conclusions

The revitalization of rural communities requires an integrated approach, combining effective policies, innovative financing mechanisms and the active involvement of local actors. European and national policies, such as the Common Agricultural Policy (CAP) and the European Agricultural Fund for Rural Development (EAFRD), play a key role in supporting the sustainable development of rural areas. However, in order to ensure the effectiveness of these initiatives, there is a need to simplify administrative procedures and increase the accessibility of funds to local communities [European Commission, 2023].

A crucial element in successful rural development is the use of innovative financing mechanisms such as public-private partnerships (PPPs), microfinance, crowdfunding and green finance. These solutions make it possible to diversify financial resources and reduce exclusive dependence on European or governmental funds [Raicov, Mănescu & Mateoc-Sîrb, 2012]. At the same time, programs such as LEADER, which involve local communities in the decision-making process, have proven to be effective in tailoring projects to the specific needs of rural regions, although their implementation has encountered bureaucratic obstacles [European Court of Auditors, 2010].

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