

# FINANCING THE DEVELOPMENT OF RURAL TOURISM IN SERBIA FROM THE IPARD II PROGRAM

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## Abstract

*The financing of the development of rural tourism in Serbia is realized with the support of the IPARD II program from 2020. For the purpose of implementing Measure 7 of the IPARD II program, two calls were published, through which investments that contribute to the development of rural tourism are supported, as an activity that most effectively encourages the diversification of rural economies. The aim of the paper is to present the contribution of Measure 7 of the IPARD II program to the development of rural tourism in Serbia. The paper uses the method of analysis, synthesis, historical, desk research, as well as the descriptive method. The authors conclude that in order to make a more significant contribution of the EU pre-accession fund to the development of rural tourism in Serbia, greater available financial resources are needed, as well as better education of the inhabitants of rural areas for writing projects.*

**Key words:** *rural tourism, financing, development, Measure 7 of the IPARD II program, Serbia.*

## Introduction

Rural tourism includes all tourist activities that can be realized in rural areas (Radović, 2015). The development of tourism has enabled better living conditions for the villagers (Ciani, 2003). Rural tourism is the activity that most effectively encourages the diversification of rural economies, their economic development, and thus the reduction of regional differences in economic development.

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There are good conditions for the development of rural tourism in Serbia, but it is not sufficiently developed. The causes of this situation are the lack of a growth plan and adequate sources of financing (Radović & Vasiljević, 2016). Financial resources represent a development limitation viewed from the aspect of insufficiency - in quantitative terms, but also due to the lack of sources of financing that would be cheap, available in the long term and aligned with the seasonal character of agricultural production.

### **Sources of financing**

The development of rural tourism in Serbia in the past period has been financed with the support of the state, from loans from commercial banks, as well as from foreign donations and the IPA program of cross-border cooperation. In the previous period, foreign financial resources significantly contributed to the initiation of tourism activities in the villages. The result of these investments is not only of a monetary nature, but also in providing significant guidelines for the realization of this activity (Radović & Pejanović, 2015).

Financing of a greater representation of tourist activities in villages is also realized in Serbia from the IPARD II program. This program was officially approved by the European Commission on January 20, 2015, and its implementation began at the end of 2017. This financial instrument provides 175 million euros for the program period 2014-2020.

Within the framework of the IPARD II program there is a set of measures through which financial support is provided to the development of agriculture and rural development in Serbia. Measure 7 refers to financing the development of rural tourism. Specifically, this financial support is aimed at investments in the diversification of agricultural holdings, the development of non-agricultural activities and the creation of new jobs. All of the above enables the growth of agricultural farms' income, as well as local economic development (<http://www.minpolj.gov.rs/ipard-program-2014-2023/#>).

### **Methodology and data sources**

The aim of the paper is to present the contribution of Measure 7 of the IPARD II program to the development of rural tourism in the Republic of Serbia. The paper uses the method of analysis, synthesis, historical, desk research and the descriptive method. Data sources are scientific and professional domestic and

foreign papers on the subject, as well as data available on the website of the Ministry of Agriculture, Forestry and Water Management – Administration for Agrarian Payments.

### **Research results**

The right to IPARD incentives, as part of the implementation of Measure 7, can be achieved by registered agricultural holdings that are in active status. Entrepreneurs and companies classified as micro or small legal entities in accordance with the Accounting Act are also entitled to these incentives. Through Measure 7, potential users can obtain a refund of up to 65% of the value of realized eligible investment costs.

Investments can be directed to accommodation facilities, tourist facilities, landscaping, construction of areas for tasting food and drinks, as well as make of websites for tourist households. Users can exercise their right to incentives in the amount of at least 20,000 € and a maximum of 300,000 € per request, regardless of the total value of the investment. The user can achieve the total amount of IPARD incentives, through Measure 7, in the value of up to 400,000 €, through a maximum of three projects, during the period of implementation of the IPARD program. By changing the normative framework in 2022, it was made possible for applicants to exercise their right to an advance payment. The advance payment is up to 50% of the approved amount of the IPARD incentive determined by the decision on approving the project, i.e. by the decision on amending the approved project, if the applicants meet the necessary conditions defined by the Rulebook (Rulebooks 2020, 2021, 2022, 2023).

Since the beginning of the implementation of the IPARD II program until now, two calls have been published as part of the implementation of Measure 7. The first call was published on June 8 and was open until October 30, 2020. The total allocated funds under this call were 20,001,446 €, of which the contribution of the European Union was 15,001,085.4 €. The applicant's greatest interest was in investments in "establishment of tourist households and recreational zones". In the structure of applicants, the majority were natural persons - individual agricultural farms, and the majority of submitted applications were from Zlatibor District. The average amount of the investment per submitted request for Measure 7 in the First Call was 226,998 € (Annual Report for 2020).

**Table 1.** Implementation of Measure 7 of the IPARD II program as of August 31, 2023.

	<b>First call</b>	<b>Second call</b>	<b>Total</b>
<b>Budget - EU contribution 2014-2020.</b>	15,000,000 €	11,251,837 €	26,200,000 €
<b>Total number of submitted projects</b>	311	294	605
<b>Number of rejected projects</b>	95	23	118
<b>Number of withdrawn projects</b>	31	12	43
<b>Number of contracted projects</b>	110	71	181
<b>Number of discontinued projects</b>	2	0	2
<b>Number of contracted projects - number of canceled projects</b>	108	71	179
<b>Realized budget contribution to the EU 2014-2020.</b>	12,437,219 €	10,019,993 €	22,457,212 €
<b>Realization of the available budget</b>	82,91%	89,05%	85,71%

Source: <http://www.minpolj.gov.rs/ipard-program-2014-2023/#>.

The second call for applications under Measure 7 was published on September 23, and closed on December 17, 2021. According to this call, a total of 15,002,450 € was allocated, of which the contribution of the European Union amounted to 11,251,837 €. In the structure of the applicant, and in this invitation, there were mostly individual agricultural farms. Most of the submitted requests were from Šumadija and Western Serbia. The average amount of the investment per submitted request for Measure 7 in the Second Call was 202,906 € (Annual Report for 2021). In terms of the structure of the submitted requests, the dominant interest according to the Second Call was for “establishment of tourist households and recreational zones”, and then for investments in the tourist facilities (Annual Report for 2022).

Based on the processed submitted requests of potential users, as of August 31, 2023, a total of 179 projects were contracted for Measure 7. The number of contracted projects according to the First Call is 108, and 71 according to

the Second Call. On both public calls, 605 requests were submitted, but all requests were not in accordance with the defined standards, that is, they could not meet the necessary criteria.

Regarding the utilization of the available budget for Measure 7 of the IPARD II program, it can be stated that it is very high. Utilization of available funds according to the First Call was 83%, according to the Second Call 89%, and when viewed in total, the utilization is 86%. So far, there have been no disbursements of approved funds on the basis of contracted projects.

### **Conclusion**

The interest of rural residents in Serbia in using available financial resources within Measure 7 of the IPARD II program was very high. The utilization of available funds from the EU budget for Measure 7 is almost 90%. For a more significant contribution of this measure to the development of rural tourism in Serbia in the future, a larger amount of the available EU budget is needed, as well as a better preparation of potential users for applying to public calls.

The introduction of an advance payment of up to 50% of the approved amount of IPARD incentives, based on the change in the normative framework in 2022, had a favorable effect on the greater utilization of funds both in Measure 7 and in the remaining three available measures of the IPARD II Program.

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