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CURRENT CHALLENGES IN RURAL FINANCE

Abstract: *From assessing the financing classical rural and evaluating the current situation of financing the rural world, we can say that in introducing and witnessing the intervention of certain persons to the goal of fateful building a facility for microfinance mechanism to facilitate sustainable access of rural entrepreneurs to sources of funding in a systematic and comprehensive manner, and that leads us to the development of perspective microfinance in rural areas.*

Microfinance solutions for small entrepreneurs (SMEs and microenterprises) in rural areas and outskirts of small towns, must be accompanied by an integrated package of support services microfinance (financial counseling, consulting and design services, care management throughout each project developed and co-financed from European funds, special assistance value chain, etc.) is a first process of the whole mechanism microfinance locally. Through this paper we try, besides a brief assessment of past rural credit, to bring to the fore the current mechanisms microfinance tailored to the current phenomenon of accelerated growth relative and absolute poverty agrarului the countryside. Romania currently has over 2.5 million subsistence farms (rural households) and financially excluded 5.5 million (the majority share of rural areas).

Key words: *inclusion, social, economic, microfinance, poverty, family farms.*

JEL classification: *Q – Agricultural and Natural Resource Economics; Environmental and Ecological Economics; Q0 – Generate; Q01 – Sustainable Development; Q1 – Agriculture ; Q14 – Agricultural Finance.*

Introduction

A review time of social and economic leap in the countryside reveals a setback which nevertheless urges meditation. The rural economy has increased 4 times in the last 50 years, but unfortunately not the social status of those who inhabit the Romanian villages. The pace of change is evident in some sectors, especially in large agricultural companies, where the yield of crops, gradually approaching those made by neighboring countries that joined the EU in wave two or three. If we consider the productive potential of the Earth and the level reached by livestock in early 1990 it is difficult to form a positive assessment on the current stage of development of the Romanian agriculture as a whole, especially the social status of those who inhabit rural areas.

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Materials and methods

Regarding the methodology of research on microfinance, complexity and diversity of the issues addressed have required the use of methods, techniques, and procedures tools and interpretation of scientific investigation to which we attached particular importance:

- Documentation, namely accessing and studying general and specialized bibliography, domestic and foreign, state approach to knowledge microfinance and rural issues investigated scientific substantiation of the research;

- Rational method, used as instrument year of knowledge, reflection, analysis, organization and approach ongoing scientific research;

- Integration of forms, methods and logical operations research carried out through the use of analysis and synthesis, abstraction and concretization, comparison, generalization and systematization;

- Statistical methods, through the use of descriptive statistics and statistical analysis;

- Observation method, carried out systematically and analytically;

- Discussions with experts from national and international institutions and institutions, but also the beneficiaries of microfinance products and services;

- Data analysis and interpretation, using graphs, charts and figures to highlight various developments in microfinance.

Using the classic instruments of scientific research, based on analysis and synthesis, induction and deduction, general and particular and adding modern methods, we achieved substantial and pertinent analyses and studies on rural microfinance main ways, both internationally and especially nationally. Our own contributions on investigated the issue has highlighted during research work and theoretical significance and the application value resulting from the conclusions and proposals that we have formulated and promoted. Also, the results of research were disseminated during 2015 in the frame of national and international scientific conferences and through publication I attended in scientific journals, as author. The research results are presented using tables, figures and graphs. The theoretical information for the research needed were taken from literature and specialized works (books, studies, papers, articles, etc.) in the field of microfinance research, from home and abroad. Statistical information on how and concrete date microfinance works were taken from reports and statistics of the microfinance institutes involved in the country and abroad as well as to public and private bodies specialist.

Rural credit developments, past and present

The beginnings of agricultural credit in Romania dates back to late 1872 when those times landlords conclude that the next chance of their existence lies in

the establishment of institutions to ensure their financial resources for their prosperity. This was how the first credit institution in rural Romania began.

The institutions establish a new law was promulgated by royal decree. Under this law, the only access to rural credit had great landlords, who are given loans up to half the value of estates by mortgaging them.

In fact, the land credit institution serve as an intermediary between landlords and capitalists who lent their bank asks some of the funds placed in so-called writs issued or guaranteed by the new institution.

A time analysis of rural land credit activity demonstrates that, at the time, this institution was one of the most viable forms of financial support for those who were the Romanian landowners class. This appreciation is the positive activity rural land credit institution of those times. The downside is that this institution could not financially support the vast majority of small landowners and even those who will later form the so-called class “chiaburimi” in villages.

Returning, however, the activity of the institution credit rural land should be noted that an important moment in the evolution of rural credit is the reorganization of this institution in 1924 when extending not only the lending, but categories of owners, who had access to this credit. This opening would open the way to attract rural credit system within certain categories of farmers who, over time, would lead to economic stratification of rural society.

By 1945, the pyramid will find great landowners and lessees who will manage their wealth, followed at great distance from those who, later, will be categorized as “kulaks” villages.

The strongest and most respectable social class in rural areas will be the middle peasants. Around the outbreak of collectivization process, they represented an economic force capable of imposing Romania on Europe’s agricultural market by products of exceptional quality. It was not to be, because the 1945 land reform and collectivization process triggering especially defeated the aspirations of the general welfare of the rural community.

Going back in history and analyzing policy of financial support for agriculture it should be noted that the great turning point occurred with the advent of popular banks and credit societies and rural or agricultural associations. These institutions have experienced the most widespread in Romania and had a decisive role in supporting and developing small owners. The truth is that germs cooperatives in financial support agricultural owners emerge and develop. In fact, occur in 1881 with the advent of county agricultural credit houses, they have an important role in lending, especially the lessees of land.

If you were to draw a first positive conclusion, by the end of the first war the basis of financial support for small producers has been to the 3,000 popular banks and 500 cooperative land lease, the latter supporting the operation of the 5 million hectares of farmland.

Massive intervention of the National Bank in organizing and supporting agricultural credit in Romania occurs especially in the interwar period. This mutation

has resulted in the creation of agricultural credit institutions, cooperative reorganization, especially in setting monetary fund of banks serving agricultural or farming interests. Support materialized by providing credit institutions amounts of market interventions in the recovery of agricultural products, particularly cereals, construction of silos, upgrading methods of cultivation and production technologies. In this regard, they were made available by cheap loans, with interest of 2–4% and by requiring them to charge in turn an interest rate of no more than 2–5%.

The size of credit to support agriculture represents up to 40% of the total National Bank portfolio. The rationale behind this massive support was from the reality that, at that time, agriculture represents the main branch of the national economy. Moreover, in 1934, by law enforcement agricultural debt conversion, debt to those who received loans from the Bank's portfolio was reduced by 60% as a result of their takeover by the Romanian state. This financial support of the National Bank to support agriculture deserves a little comment.

The first conclusion is that the leadership of the National Bank was outstanding professionals, trained in the school of erudite scholars of those times. People with extraordinary influence in the world of those times. We regard Cantacuzino family representatives, Brătianu, Ghica, Sturdza and many others. In the face of such celebrity, policy makers were a common front in the great goal of advancement of a social class doomed to destitution.

If I had to explain, I will just stop at the evocation of the great scientist Gheorghe Ionescu-Sisesti, a scholar who demonstrates with data and facts that Romania without a developed agriculture is unlikely to ascend the economic market of Europe.

Praise of my addresses those who a century worked hard, especially with the power of mind in the realization of structures and financial institutions that allowed Romania to measure on an equal footing with all that was best in European agriculture and the world of those times.

Returning closer to the policies of financial support for those in command of the economy, I believe it would be an act of great courage to emit some positive considerations. I'm trying to do this saying from the beginning that after the first period of control imposed by the soviets, including in the banking system gradually agriculture was more a factor of progress.

Beyond the great wrong to pull out the credit system of agricultural producers outside the socialist system organization, bank loans were granted mainly to political order. Proof that, especially after 1980, we have witnessed a process of financial spoliation of the majority of socialist agricultural units. About the few manufacturers are in front of socialist control system can emit few judgments, even for this account that weather statistics as just peripheral. The statistics on the financial support of private farmers or craftsmen in the villages involves many inaccuracies and that is why they do not want to elaborate on this topic.

Post-revolutionary reform landing

From the data we have available, that former communist Agricultural Bank in 1990 presents a confusing balances at least in terms of statistical reports. The new system of agricultural credit has started with a large financial balance. Post-revolutionary laws of restructuring of the agricultural system, however, led to the destabilization of agricultural lending system, ultimately resulting in the development and handing it to banks with foreign capital. Unfortunately, today in their portfolio, the share of loans for agri-food sector is worryingly shrinking. In fact, if we exclude the emblem displayed on the buildings of banks operating in Romania, it is currently difficult to define which is still the largest bank operating in the food sector in Romania.

A long time standard, including after 1990, privatization of Banca Agricola food sector in Romania has received financing lines at preferential rates which created the illusion of a lasting access to abundant and cheap loans. This preferential financing mechanism was redesigned in 1992.

For instance, only in 1992, the Agricultural Bank benefited from cheap credit lines, totaling 105 billion lei. Difficulties in the agricultural sector after the application of Law 18 forced authorities to continue preferential credit system to prevent the emergence of a major food crisis. Thus, compared with 1995, the total volume of agricultural loans totaled 1400 billion lei in the coming year totaled nearly 4000 billion. The truth is that in 1996, structural loans continued to hold 50 percent of the total refinancing. This policy would be complete bankruptcy of the first two banks – Albina and Bankoop, while Agricultural Bank was sold to foreigners at a price of mockery. The cost of the National Bank, respectively the Romanian state, to stop these bank losses exceeded 1000 billion ROL.

Possible models of a rural microcredit

Before entering the substance of the issue, it is worth specifying that microcredit makes nothing new nowadays. Groups and microcredit institutions have a historical past, being established at the beginning to provide services to people who did not have access to commercial banks. The reconstruction of this system of lending in Romania today, a first inspiration could come from lending models practiced over the years in the Romanian countryside. We regard the banking system that functioned with positive momentum in Romania during the Romanian village.

After a period of searching and calling some improvisations, I believe that we are at the stage where we are obliged to adopt decisions leading to the reestablishment of new principles of institutions to provide lending to local actors and sectors vital to the economic consolidation of settlements and welfare. We regard the establishment of banking institutions to finance economic entities with

legal personality: banks crediting legal entities and active individuals; banks to finance exclusively educational or health institutions. Capital required to set up such institutions should be ensured through government by financial contributions for which payment to be repaid in time. In this action more than 25 commercial banks operating in Romania and food companies are involved in lending could be involved.

In achieving this goal, to develop a national system of microcredit for the rural environment, it should be started from what was good in the credit system areas in Romania in the interwar period, especially from existing models today in some countries of the European Union.

In the current concept of the European Commission, microcredit is a loan not exceeding 25000 euros for micro entrepreneurship. It is worth mentioning that the European Microfinance Facility does not provide funds directly to contractors but also supports selected microcredit providers in the EU, providing them with guarantees. This is to minimize losses and increase the volume of funded microcredit. The impact of this loan is twofold: the economic impact – enabling the development of income generating activities; and the social impact – enabling a contribution to social inclusion and better financial inclusion of individuals. It stressed that the concept of community experts, microcredit is geared towards the specific needs of the beneficiary, with the ultimate aim being not profit, but customer wellbeing.

Under the current regulations, the main beneficiaries of microcredit producers groups or associations of SMEs individuals:

- Loans to a group of association: this is known as group lending solidarity and refers to a financial mechanism allowing more people access to microcredit through a mutual guarantee of the loan (a form of collateral collective) ;
- The individual SME loans: they are granted to a single SME or a single person that does not require collateral.

The challenge for the financial system

Earlier Romanian financial system will be forced to align funding and lending practices of countries with developed agriculture. Primarily used in European Community countries, but also in those areas of the world where agriculture has experienced a spectacular development, especially from the implementation of funding schemes and accessible credit to all farmers.

Aware of this chance, the *BUSINESS DEVELOPMENT ASSOCIATION (ADA)*, undertaken during the period April 2014–November 2015, a project with a total budget of 8,045,909, 66 lei, financed by the European Social Fund and the Romanian Government. The objective of the project was the continuous education of adults administrator officer, manager risk and financial intermediation as well as support of entrepreneurial skills, development of a unified, comprehensive,

functional and sustainable micro-enterprises specializing in micro-level for the common, 6 Regions. This project is designed as phased and has been designed to support individuals looking for a job, unemployed, managers and employees in rural areas. It is implemented in the North-East; South East; South-Muntenia; Northwest; West; Center; Bucharest-Ilfov, over a period of 20 months. The project was submitted to participants with practical skills. Proposed target group was made up of 1680 people from rural areas. Of these, 420 people received counseling / guidance, and 312 participated in training programs.

We believe that the pilot project represents a starting point in raising the level of financial literacy in rural environments, a pillar of strength in creating a funding mechanism adapted to the local rural population.

The actors who may be involved in a strategic program to support the system of microcredit to rural areas for involving Association Business Development (ADA), together with the National Union of Credit Unions of Employees in Romania (UNCARSR) – about 1 million members in the country and UTCAR (Territorial Union of Credit unions), with approximately 10000 members and the constitution of employers and trade unions at the enterprise specializing in microfinance in supporting economic growth, namely financial and social inclusion.

Through EU funds, we can create a mechanism of financial support, similar to JEREMIE – Joint European Resources for Micro to Medium Enterprises. This could be possible through COSME program and / or H2020, and through the European Investment Funds. In this context, it would be useful to support specific policies in Romania and development of mechanisms to create specialized institutions for SME financing and in particular the microcredit for rural SMEs, as follows:

- Initiation of financing vehicles as support from Investment Funds for SMEs in Romania in accordance with our laws and procedures of Community directives;
- Initiation of financial institutions that operate under the concept of the “ethical financing” concept which so far have been highly recognized by legislators in member states of the European Union (Italy is one of the EU member states who practices ethical financing. Consequence of the fact that at present, the biggest problem in financing projects is related to the relationship client-bank / financial institution, a relationship that currently suffers. We believe that funding ethic reflects the need of society for greater morality, equity, solidarity and affordability, financial literacy;
- Microfinance institutions: providing financial services to low-income customers who normally have no access to traditional banking services;
- Self-help initiatives / cooperatives / credit unions.

Social credit in the current social market economy

Microcredit-as defined by the EC, is under € 25,000 loan granted to support the development of microenterprises and self-employability. It has a double

impact: the economic one, as a means of creating income generating activities and a social one, as a means of social inclusion and therefore financial inclusion.

91.8% of businesses in the EU are micro level, comprising over 2/3 of the workforce. Micro and small enterprises are the engine of the European economy. However, creation and development of micro businesses in Europe is a cumbersome process.

People from disadvantaged groups facing particular difficulties for starting a small business or becoming self-employed (self-employed) as well as long-term unemployed, economically inactive young people, single parents (usually women), immigrants, the elderly (seniors) or disabled. In addition to administrative barriers, another major problem for them is access to finance.

Commercial banks are reluctant to grant small loans because the costs are large for administration while profit margins are small. This discourages banks to provide loans under € 25,000. Also, the self-employed and micro-entrepreneurs are considered too risky by banks, using the scoring method based on credit history and provide safeguards for securing the loan. Most times people from disadvantaged groups have no collateral and no business track record.

Moreover, the financial crisis and economic downturn became more expensive in debt financing and the wave of regulations (especially Basel II reform) have made a more difficult access to financing. Banks are gradually retiring from local and mutual economy as a result of increasingly stringent banking regulations. Therefore, the EU has made a priority of small and micro enterprises, through its internal policies, regional and employment. Europe 2020 Small Business Act aims to improve regulation and access to finance for small firms by single market act and the new structural funds programs.

Microcredit is operational by 2007 JASMINE technical assistance program followed the European Progress Microfinance Facility 2009, providing 200 million European microfinance institutions in the form of loans, guarantees and equity. Financial engineering were introduced recently as the preferred strategy for use of structural funds by member states.

Conclusions and considerations regarding the importance of microfinance

I confess that personal concerns on issues related to financial and social inclusion of SMEs in rural areas, especially small farmers dates back to the when I started to develop some investments and support services in rural areas. In most cases, potential investors and farmers were connected to the market economy system only through small grants, European and / or national granted per area or per animal. Starting from the “main priorities and measures for the development of the regions selected from the political strategies for Regional Development Fund, integrated into the structure of the priority objectives and measures appropriate

contained in the National Development Plan”² and linking with microfinance measures in the context of the European economy nowadays, I believe that the topic through research conducted within the proposed ITS framework, helps developing a model to support microfinance in rural Romanian area.

Global measures taken by world leaders at the Summit in Seoul in November 11–12, 2010³, Namely those with direct impact on balanced growth and corporate social responsibility increasingly makes us say more world leaders are creating models for those concerned with social and financial inclusion of the poor. Also in this summit they discussed topics related to the reform of international financial institutions, strengthening the global financial safety and mechanisms, in a separate session of the new G20 agenda on development.

In carrying out this work I start from studies and scientific works of the most awarded personalities in Romania whose work examines with great probity the fundamental problems of Romanian Sustainable Development in rural areas.

I will announce a few of these studies and themes: Romania’s national agricultural project after decades, a view of two and a half “reform, restructuring and adjustments” security and the nation’s food balance; The main challenges of the countryside; The performance restrictive factors of Romanian agri-food economy: agro disintegration, disruption between agricultural production and food processing, agro-food chains inaccuracies in operation, subsistence and semi-subsistence farms domination, forms of financial support promoting that stimulated productive performance; developments in post-revolutionary agrarian structure; Conception errors in agricultural settlement on the principles of market economy; The current structure of characteristics and rural areas; The Governmental Policies agricultural support; Initiative for a new philosophy of Romanian rural development; 10 years when the food sector and development of Romanian rural area was mainly supported by EU funds: what could be the ensuing consequences?

Sooner or later, the Romanian financial system will align and be forced to the practices of microfinance in countries with a developed agriculture system, to address new innovative models in microfinance through modern means at the current time. After a period of searching and calling some improvisation, I believe that we are at the stage where we are obliged to approach and decisions leading to the reestablishment of new principles of institutions to provide lending to local actors and sectors vital to the economic consolidation of settlements and human welfare. It is about the establishment of the microfinance institutions specialized units to economic bottom with legal personality: Non-bank financial institutions in rural areas, which credit the intension and individual’s assets: microfinance

² Prof. Emilian M.Dobrescu, 2014 European Economics course.

³ G20 Seoul Summit, 11–12 November 2010. The European Union is a full member of the G20, together with 19 other Countries: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, United Kingdom and United States.

institutions that only educational and health institutions or rural areas. The capital required to set up political institutions should be ensured through government financial contributions for which payment is repaid in time.

Another extremely important in microfinance is creating innovative models of continuous training of human capital given, involved in providing financial services in rural areas in the financial and education of those who accessed microcredit. At the European level and global decision makers currently trying to accomplish programme for microcredit financing in rural areas, and decisions that may concerns directly influence the development of activities in rural areas through access to microcredit areas. To achieve this goal of setting innovative and coherent microfinance rural environment we should start from what was good in the lending system areas in Romania in the interwar period, especially from innovative models existing today in some countries of the European Union and creating our own innovative models of microfinance.

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