

ASPECTS OF RURAL FINANCE

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Abstract

The main objective of microcrediting in rural areas is to alleviate rural poverty in order to finance the farm and investments in non farm activities, the raise of the rural incomes, raise of the economic activity efficiency in rural areas. All these are leading to rural economic growth and raising the rural employment by businesses sustained with investment capital by the financial sector whose presence is becoming more pregnant. Another problem is the lack of finance on long term and the lack of the financing capacity of the microfinance institutions. The authorities must to develop an efficient system of warrant receipts, to strengthen the outreach, the efficiency and sustainability of the non financial institutions and helping the small entrepreneurs and small farmers in loan application and business plans. There is necessary the strengthening of the financial institution capabilities to serve the small clients, the expanding of the network in remote rural areas, financing in order to rise the rural sustainable activities, but also the growth of the efficiency and the attractiveness for foreign investors for new opportunities for all the financial institutions, and to assure the finance for economic activities on long term in competitive terms.

Key words: finance, credit, rural, employment

Several studies and an analysis of the rural financial sector conducted by Romanian authorities ascertained the poor performance of rural financial markets.

In the absence of sufficient investment capital, the Romanian rural economy had experienced difficulties in adjusting to the major policy reforms that had been taking place continuously since 1990. The rapid changes in macro-economic environment, including the exchange rate crisis in 1997 and the strong currency devaluation, forced rural households and businesses to adjust to the new circumstances and, at the same time, left them without adequate sources of financing and limited access to investment loans necessary to meet new market conditions. In fact, at that time only 20 percent of the households and rural enterprises used loans to finance their consumption, working capital and/or investments.

The highly bipolar farm structure in Romania drags down the country's agricultural performance. Some 40% of the agricultural land is concentrated into a few large and competitive farms. An equal share is spread among a large number of (semi-) subsistence holdings. Totaling 90% of the farms, these smaller units face considerable market failures, including a non-functioning land market, limited rural finance, scarce advisory services, and marketing of farm

products at prohibitive costs for their size. In particular, these holdings' access to rural finance remains difficult in large part because of the risks and high transaction costs perceived by commercial banks, a weak collateral base, and embryonic micro-finance institutions. A middle segment, of 5 to 50 hectare farms, is yet to be developed.

MATERIAL AND METHOD

As in many other transition economies, small private lenders operating in rural credit markets were the ones who lost the most during the transition period by not being able to keep up with the reforms and changes in the economic environment. Also, due to their limited resources and only local outreach, private lenders were not in a position to successfully compete with a government run Banca Agricola and its subsidized interest, and, at the same time, the state-controlled banking sector was neither able to meet the demand for long-term rural credit, having the average maturity of the sector's liabilities well below six months, nor in the possession of the technology to serve micro and Small & Medium Size Enterprise (SME) clients.

In addition, two sector issues were likely to emerge that needed to be addressed at the time. The first was the reduction of the bank branches network as a result of the expected privatization or

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divestiture of state banks, which in year 2000 owned around 87% of all bank branches. The second issue was the absence of an appropriate regulatory and supervisory framework for over 1,400 independent mutual financial intermediaries, a majority of which were operating in rural areas.

Studies conducted by Romanian authorities and World Bank revealed that rural financial markets had a poor performance on low supply of credit and unattractive conditions, a negative impact of the lack of credit on investment behavior and inefficient allocation of credit to enterprises with low or negative value-added.

There were identified a few objectives in order to surpass all these setbacks, such as the acceleration of the economic transformation in the rural economy by raising the capital investments in the sector, strengthening the role of private sector rural economy. The second objective can be fulfilled by improved financial access from rural household with entrepreneurial activities, improved financial access of the private enterprises, strengthening the presence of the private financial intermediaries, easing access to EU funds, alleviating rural poorness by farm financing and by outside farm investments for poor segments of the rural people with no credit access.

RESULTS AND DISCUSSIONS

Access to finance in rural areas still remains a problem to be solved, regarding investment capital especially primary agriculture, and remains difficult to be obtained from the banking sector. Concerning the private financial institutions there's a lack of both capacity and long term funding to meet the financial needs of the population. In order to create new opportunities for all the financial institutions and to assure long term financing in competitive terms it must be strength the ability of these financial institutions to serve micro clients and to extend the network into more and remote rural areas as well as to assure the creditworthiness and attractiveness to all the foreign investors. These problems are including risk matters (for example raising the collateral used such as warrants or improving the accessibility and the efficiency of the weather related insurance, acceptance of land title as collateral), technology (developing new and improved borrowing tools appropriated for agriculture), and strengthening of non-banking financial institutions (such as microfinance institutions and credit cooperatives).

Some projects developed by international financial institutions aimed to strength the non-banking financial institutions and to reinforce the microfinance institutions in Romania, while this industry is at its beginnings. In 2006, the National Bank of Romania took over the supervision of the non-banking financial institutions providing a legal

framework for existing microfinance providers to transform into non-banking financial institutions, which put MFIs in a better position to attract both local and foreign investors ready to provide them with long term debt and equity funding.

Another important element that positively influenced the impact of the programs conducted in the country in this field was the implementation of the National Rural development program, which allowed Romania to access EU funds of nearly EUR8 billion by 2013. The measures included in the National Rural Development Program are aimed at increasing the competitiveness of the agricultural sector, improving the rural environment, and improving the quality of life and diversification of the rural economy.

The National Rural Development Program will thus further pursue the deployed rural finance projects objective of accelerating the economic transformation of the rural economy. The implementation of the National Rural Development Program requires significant counterpart funds, which will be secured mainly from commercial bank loans.

The crumbling of agricultural lands makes agriculture in most of the rural households, to be a subsistence activity and not a profit generating activity. Approximately 21% of the households are oriented towards trading the agricultural products obtained. Nonetheless, the agricultural activities represent a source of income for only 12% of the households.

The main sources of cash incomes continue to be represented by pensions, salaries and social benefits.

The non-agricultural activities carried out by households provide them with an average monthly income almost 6 times higher than the one obtained from agriculture, yet only about 4-5% from the households in the villages carry out such activities.

The small businesses of rural households have a much reduced influence on the occupation of labor force outside the household, both the agricultural and the nonagricultural ones being based on the labor force provided by the household members. The access on the labor force market is relatively reduced, only approximately one quarter of the population is hired, mainly in non-agricultural fields and having occupations of "blue collars". Moreover, the regular disparities in the access on the labor market register very high levels: approximately 65% from the occupied labor force is represented by men, while 85% from the non-remunerated workers are women.

The development of non-agricultural entrepreneurship could be a solution both for the degree of occupation of labor force and implicitly

of household incomes, as well as it regards the formalization of economic relations in the rural environment. As the majority of non-agricultural entrepreneurs have started their business based on their own financial resources or on informal loans, the availability of individuals to start a business referring to formal credit instruments is relatively reduced, and the funding programs aimed at the creation of income generating activities in the rural environment should put a special emphasis on consulting services for potential entrepreneurs.

Because of a relatively high competition on local markets as main sales markets, so the enterprises are obtaining low profit rates, the investment potential and development of these rural enterprises is quite low and they are experiencing high credit access constraints.

The researchers are registering that the firms applying for credit are those with higher turnovers and those that are activating in the field of agriculture and construction, indicating a limited access to financial markets for small companies.

The rural companies are facing with the lack of collateral mainly when they are applying for a credit so the banks are rejecting their requests. And a small number of the company that are fulfilling the banks conditions would need, in fact, a larger amount of credit.

At the rural household level, the microcredit activity resulted in a little diversification of economic activity due to an insufficient level of financing. For a highly diversification, rural household claimed a greater amount of money necessary for starting investments.

Nevertheless, most beneficiaries with an income generating activity have manifested their interest in starting either a complementary agricultural activity, or a non-agricultural activity to support them in case of agricultural losses.

Because the profit from economic activity was reinvested, there were made no savings. Saving considerable amounts of money is regarded as a desideratum, however, taken into account that most households are in course of development, reinvesting the profit is the only viable strategy at present. In certain cases, the economic activities performed bring losses at the household level, due to certain external factors.

In certain amounts of money are available at the right moment this fact determined a decrease in production expenses. Thus, in

agriculture, due to the advance payment of agricultural works, the debtors have been able to avoid the payment of interest related to the works carried out with credit money or to avoid any non-profitable contracts. However, one may not talk about negotiation due to the inflexibility and poor development of the agricultural market. The economy of rural households, mostly agricultural, continues to be based on informal relations and practices. Most acquisitions are made in the absence of justifying documents, and the participation of agricultural entrepreneurs to the fiscal system by paying taxes and fees is reduced.

The government should take into consideration the risk-mitigation issue such as weather conditions in order to develop the insuring system to continue to build an efficient system of warrant receipts. Another direction of priority is the outreach strengthening, the efficiency and the sustainability of the non banking financial institutions such as microfinance institutions, microcredit cooperatives and savings houses. Thus, is intended to concentrate on institutional capacity and new efficient techniques developing.

CONCLUSIONS

The development of non-agricultural entrepreneurship could be a solution both for the degree of occupation of labor force and implicitly of household incomes, as well as it regards the formalization of economic relations in the rural environment. As the majority of non-agricultural entrepreneurs have started their business based on their own financial resources or on informal loans, the availability of individuals to start a business referring to formal credit instruments is relatively reduced, and the funding programs aimed at the development of income generating activities in the rural environment should put a special emphasis on consulting services for potential entrepreneurs.

The access and participation of households from the rural environment on the financial market is limited.

Being based mainly on the local markets as sales markets and facing a relatively high competition with effects of decrease of the profit rate, the potential of investments and of company development in the rural environment is relatively low.

The constraints related to the access to credit are very high, a small number of the rural enterprises apply to bank credits, and from them more are rejected by banks (especially due to the lack of collaterals) and a small number of those

that succeed in obtaining a credit would need in fact a larger credit.

The data also reveals the fact that companies applying for credits are especially those with high turnovers and those acting in the field of agriculture and constructions, indicating a limited access on the financial market for small companies.

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