

THE ROLE OF MICROFINANCE IN SUSTAINABLE RURAL DEVELOPMENT

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Abstract

More increasingly we are concerned about a real problem, that of economic and social gap between the welfare of the rural population in developed European countries and in Romania. This has always been a big problem, but never the number of those in poverty was so great like today - about 5.6 million people. The article is based on this reality and attempts to synthesize the ideas of those who are at the forefront of rural society and who are able to save the Romanian village of this state of decline. Once integrated in the EU, the Romanian authorities should present new principles and rules in order to adjust the Romanian legislation with EU legislation. Social inclusion and financial progress are the results of digitization trend of the financial sector, with a major impact on financial and non-banking institutions. Creating new distribution models (networks of external agents, banks without branch network), the emergence of new opportunities for customer access and management of back-office are just some of the challenges that microfinance sector has passed through on a continue process of innovation and adaptation.

Key words: economic models, family farms, financial, microfinance, poverty, social inclusion

INTRODUCTION

Nowadays, 2.5 billion people all over the globe have no access to formal financial instruments. For Romania, the situation is like currently about 2.5 million rural households are not bankable. Innovative financial products can improve the lives and living standards by reducing risks, improving financial security and income, matching, to suit the specific needs of households involved in farming operations with a holistic approach to meet their needs, including technical assistance, supporting the value chain and providing market access to clients. In support of ideas and points of view expressed in this paper, it is considered necessary to draw up some questions and considerations of alignment innovations in microfinance to rural and Romanian agriculture to existing trends both, in the member states of the European Union and in emerging countries. **The first is whether the current level of development of rural microfinance in Romanian economy supports the new trends and objectives of the Common Agricultural Policy in the new stage of development?** The scientist and

representatives of Romanian farmers' opinion is that the current state of affairs of the Romanian agriculture should determine the influencing factors to promote a strategy with other priorities, including the development of the new integrated solutions for microfinance. It is about the restructuring and consolidation of agricultural holdings, a massive allocation of funds to ensure higher yields in crop production and especially in animal husbandry. The natural fertility of soil is one of the great opportunities to ensure the competitiveness of our products in the world markets, and of course on the Romanian market. Referring only to the determination of the major factors of rural development, the forefront priorities should be to ensure a fair level of living for rural population and poverty elimination that today comprising over 4.5 million people in the country. Absolute poverty affects particularly very rural area, where the food is produced. It seems incredible, but poverty pockets are located mainly in the most fertile agricultural areas of Romania, which is precisely where it operates most of landlords of Romania. Social studies and statistics show that today almost 40% of rural inhabitants are exposed to

ongoing famine. Specialists in rural areas continues to claim the need for a true national development strategy for agriculture. These should have as a starting point the main problems like: involution of investment process in rural area, the financial exclusion of the farmers.

Finalizing a strategy for economic development of rural areas must be based on the truth that, under the circumstances, a great chance to ensure food security of the nation lies in restoring production and trade in the area of family farms. In the context of the reality of activities in rural areas, the desideratum is a kin to help the development of models of microfinance to respond to these realities and to contribute to the current phenomenon of social inclusion and financial, as well as sustainable development of farms and support non-agricultural activities.

MATERIALS AND METHODS

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

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

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

- Integration of forms, methods and logic 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 institutions and national and international 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 national.

Our own contributions to the investigated issue are highlighted during the research work and theoretical and applicative significance value resulting from the conclusions and proposals that we have formulated and promoted. Also, the results of research were disseminated during 2015 within of the national and international scientific conferences and by articles published in scientific journals. The research results are presented using tables, figures and graphs. The theoretical information needed for the research were taken from literature and specialized works (books, studies, papers, articles etc) in the field of microfinance investigated, from Romania and abroad. Statistical information and concrete data on how microfinance works were taken from reports and statistics of institutes involved in microfinance in the country and abroad as well as from public bodies and private specialist.

RESULTS AND DISCUSSIONS

The Rural microfinance opportunities are a research topic of great interest internationally and especially nationally, in the current economic environment generated by the global economic crisis.

The construction of microfinance theories aims to establish correlations between the amount of financed entity (person authorized, rural household, farm - economic agent, etc.), financial structure and cost of capital procurement. Although some theories developed argue that microfinance optimal structure has a positive effect on the market value of the financed entity, there are also theories that claim that an elaborate financial structure has a neutral effect on the financed

entity. In this regard, this paper highlighted the relevance of theories on evolution and structure of the microfinance optimal legal entity (e.g. farm), respectively: traditional or classical theory; theory of compromise; agency theory; signal theory; the theory of hierarchical microfinance; modern theory on capital structure.

If theoretically it is possible to achieve an optimal structure of microfinance, in practice this objective is difficult to achieve due to problems of quantifying the different variables which appears in the microfinance decision on medium and long terms. However, the theories presented on the optimal structure of microcredits offer some important lessons to entrepreneurs in rural areas.

First, they argue the opportunity to identify the factors influencing capital structure and, on this basis, developing a decision - target structure. Structure - can be a target capital borrowing rate range that changes over time while generating conditions change.

Secondly, entrepreneurs should aim for a specific capital structure consistent with the overall strategy of the financed entity (e.g. farm) on earnings growth, market position etc, and decisions of microfinance should be developed based on this structure.

In the third line, to establish a microfinance optimal structure is a complex process involving a combination of quantitative analysis with characteristic value judgments of each enterprise management areas.

The issue of microfinance company cannot be investigated scientifically without an adequate approach to the concept of cost of capital as the main variable information integration market microfinance among those who make capital available (investors) and those who need them (entrepreneurs and companies). The truth is there are not microfinance free resources. That is why a good knowledge of contractors of the cost of capital is a necessity [6].

To meet this need it was realized a quantification of the legal entity that manages a microfinance structure.

The microfinance activity at national or international level offers for businesses in

rural areas a limited range of microfinance solutions. For the microfinance decisions, rural entrepreneurs must have rigorous criteria, allowing choosing and combining these resources. Undoubtedly, the cost of microfinance is the main criterion in choosing the microfinance resources.

Without knowing this cost it can not be obtained the company's market value maximization. Also, the correct estimation of the cost of the capital is important in the process of adopting investment decisions by legal entity in rural areas (e.g. farm). Each of us is or was under the situation of being unable to access the credit necessary to meet unexpected expenses or trying to develop small businesses. The impossibility of accessing microfinance pushes people into poverty. How do we prevent the increase of poverty? The answer is found in the current microfinance policy directed especially to those who are financially excluded. But the access to credits, as they are too expensive, it could also contribute to indebtedness and impoverishment of individual levels. They have serious macroeconomic consequences, like the crisis of the year 2008. Therefore, poverty and social exclusion can be fuelled by the inability to access credits or access to inappropriate forms of financing. Such difficulties are undermining the economic growth and social cohesion. Instead, poverty and financial difficulties are supporting social exclusion. Low - income households are most likely to be unable to access appropriate financial services. Along with poverty, age, place of residence (rural or urban), gender are direct causes of financial exclusion. Combating it is a difficult task, being both a cause and a consequence of poverty and social exclusion [5]. In June 2010, the G20 summit in Toronto launched the Global Partnership for Financial Inclusion. United Nations, World Bank, International Monetary Fund and the International Labour Office have oriented their programs on the issues of financial inclusion as an essential condition for creating jobs and generating revenue [9]. Also, the European Commission, in cooperation with the European Investment Bank, have established programs such as

"Jasmine" and "Progress" to support microfinance institutions and for employment and social inclusion. More recently, in the *Europe 2020 strategy for smart, sustainable and inclusive growth* adopted in 2010, the European Commission to improve the microfinancing conditions. Therefore, microfinance is facing real challenges in order to contribute to the realization of the Strategy 2020. Will it be able to provide the expected impact in terms of financial and social inclusion? Impact assessment of microfinance requires awareness that "microfinance" is a generic term for a wide variety of products and services. It covers areas such as micro-credit, micro-economics, micro-guarantee and micro-insurance while in each of these subcategories services provided differ in their characteristics, cost, target audience and the institutional context in which they occur. The impact of microfinance service provider is only one aspect of its social performance. The concept of social performance involves to take into consideration factors such as:

- Purpose and goals of an organization;
- Its inputs (resources and procedures);
- Results;
- Impact.

Performance analysis of social service providers microfinance involves understanding and assessment of inputs from suppliers and their efficiency in order to achieve the purpose and objectives initially set [7]. Social Performance evaluations have two complementary objectives: providing an understanding of the processes implemented to promote their improvement where necessary and to demonstrate the effectiveness of action by measuring change impacts principal supplier to customers [7].

In this regard, the impact assessment of microfinance service providers is not only a way to ensure ongoing funding, but a tool to help the organization to learn and perform better by designing products and processes that proves more suitable for both in terms of customers and suppliers [3],[2],[4]. Improving the impact of organizations can be done by collecting data internally on a regular and reliable method, but not necessarily in a "scientific manner". What matters is that the

results are meaningful and credible assessment in order to take the relevant decisions. To prove the impact of an organization requires a methodology that not only meets domestic needs, but also has an external standard of credibility. This "change" in the methodology of implementation was also supported by two factors. The first is that foreign donors were often more interested in evidence of the impact their financial support for microfinance organizations rather than to contribute to the learning process and improve it [8],[2]. The second factor is that most of the information needed to assess the social performance of an organization are easily accessible internally while impact assessment requires the collection of information by engaging discussions with potential customers and non-customers (i.e., counterfactual). Data collection is a particularly difficult task for staff is not ready for such research tasks.

Quantitative impact evaluation methods

Quantitative impact assessment methods are implemented in order to quantify the degree of change due to a microfinance program. They should be implemented once there is a certain understanding of the nature of the impacts to be measured. Methods of assessing quantitative analysis can be classified into three main groups depending on the type of methods used. The first group of methods are so called "non-experimental" methods. These methods are considered the worst design assessment. The second group consists of "quasi-experimental" methods, which provides an counterfactual approach from customers whose access to the program is retained. Finally, the third group consists of "experimental" methods. This involves the random selection of a treatment group who will benefit from the program and a control group or comparison that will not benefit from the program. Randomness should ensure that the two groups are absolutely similar, in average, and therefore, that their only differences are given by taking advantage of the program or not. Evaluation of the impact of microfinance is not a simple activity. There is a variety of different approaches each with relevant targets for different purposes.

The impact of microfinance in Europe

In Europe it is difficult to offer some conclusions as there are impact assessment studies. Despite these reservations, the available literature in the developed countries provides some valuable insights.

Agricultural credit: past and present

A leap in time 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 in the Romanian villages. The pace of change is evident in some sectors, especially in large companies, where the yield of crops gradually approaching to those made by countries that joined the EU in 2nd and 3rd wave.

Rural credit structure

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. The institutions establish a new law that was promulgated by royal decree. Under this law, the only access to rural credit was available for 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 that time, this institution was one of the most viable forms of financial support for those who were the landowners class Romanian. This appreciation is the positive activity of the Rural Land Credit institution of those times. The downside is that this institution could not (nor have such) to financially support the vast majority of small landowners and even those who will later form the so-called middle class in villages. However, regarding the activity of the Credit Rural Land institution, it 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 fact would open the way to attract rural credit system

within certain categories of farmers who, over time, will lead to economic stratification of rural society.

The strongest and most respectable social class in rural areas will be the middle peasants. Around 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 to be so, because the 1945 land reform and collectivization process triggering especially have to defeat the aspirations of the general welfare of the rural community. Going back in history and analyzing the policy of financial support for agriculture it should be noted that the great turning point occurred with the advent of popular banks. These institutions have experienced the most widespread in Romania and had a decisive role in supporting and developing small owners. A massive intervention of the National Bank in organizing and supporting agricultural credit in Romania occurs especially in the interwar period. This change was materialized in the creation of agricultural credit institutions, cooperative reorganization, especially in setting monetary fund of banks serving agricultural or farming interests. The support was 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 to banks cheap loans, with interest of 2-4% and by requiring them to charge in its turn an interest rate of no more than 2-5%. The size of credit to support agriculture represents up to 40% of the total portfolio of the National Bank. The rationale behind this massive support was from the reality that, at that time, agriculture represented the main branch of the national economy. Moreover, in 1934, by law enforcement agricultural debt conversion, the 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 agriculture deserves a little comment. The first conclusion is that the leadership of the

National Bank was represented by outstanding professionals, trained in the school of erudite scholars of those times.

The great scientist Gheorghe Ionescu - Sisesti demonstrated with data and facts that Romania without a developed agriculture is unlikely to impose on 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. Beyond the great wrong to pull out the credit system for agricultural producers outside the organization socialist system, bank loans were granted mainly to political order. Proof and that, especially after 1980, we have witnessed a process of financial spoliation of the majority socialist agricultural units.

Post-revolutionary lending reform

The new system of agricultural credit has started with a large financial balance. The post-revolutionary laws restructuring 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 agro-food sector is shrinking worrying. In fact, if we exclude the emblem displayed on buildings 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 the privatization of Banca Agricola, the 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, Agricultural Bank benefited from cheap credit lines, totalling 105 billion. Difficulties in the agricultural sector after the application of the Land Law 18 forced the authorities to continue preferential credit system to prevent the emergence of a major food crisis. Thus, compared to 1995, the total volume of

agricultural loans totalled 1,400 billion lei in the coming year totalled nearly 4,000 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 1,000 billion ROL.

Possible models of 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 lending system 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, 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 vital sectors 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 financial contributions for which payment to be repaid in time. Also, in this action may be involved the 25 commercial banks operating in Romania and food companies involved in lending.

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 the existing models today in some countries of the European Union. In the

current concept of the European Commission, microcredit is a loan not exceeding 25,000 euro for micro and 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 to minimize losses and increase the volume funded microcredit. The impact of this loan is twofold: the economic impact - enabling the development of income generating activities; 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 is not profit, but customer wellbeing. The destination of microcredit - as rules current 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 the loan (a form of collateral collective) ;
- The individual SME loans: they are granted a single SME or a single person that does not require collateral.

The challenge for the financial system

Sooner or later, the 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.

The big challenge for the financial system

Aware of this chance Business Development Association (ADA) within the Romanian Group for Investments and Consultancy (RGIC) completed at the end of 2015 a project with a total budget of 8,045,909.66 lei [1]. The project objective was the development of uniform, comprehensive, functional and sustainable micro-enterprises specialized in microfinance in 25 communes in six regions.

It was intended 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, for a period of 17 months. In this project there were submitted to participant's practical skills. The proposed target group was made up of approx. 1,830 rural people. Of these, 1,830 people receive counselling/guidance, and 312 will participate in training programs. The pilot project represents a starting point in implementing a new system of financing / co-financing in rural areas. Our approach is to expand the project in the country, being able to create a network of 150 financial services to rural microenterprises. The actors who may be involved in a strategic program to support the system of microcredit to rural areas for involving ADA of the Romanian Group for Investments and Consultancy (RGIC) IFN SA, together with the National Union of Credit unions of Employees in Romania (UNCARSR) - about 1 million members in the country and UTCAR (Union Territorial Credit unions), with approximately 10,000 members and the constitution to the employers and trade unions to enterprise specialized in microfinance in supporting economic growth, namely financial and social inclusion. Through national and EU funds can create a mechanism financial support, similar 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 currently in formation. In this context, it would be useful to support and develop specific policies in Romania the mechanisms for the creation of specialized institutions for SME financing and in particular SMEs through microcredit for rural:

- Initiation of financing means as Investment Funds to support SMEs in Romania in accordance with our laws and procedures of Community directives;
- Initiation of financial institutions that operate under the concept of "ethical finance" which so far have been highly recognized by legislators of the European Union member states. Due to the fact that at present, the

biggest problem is projects financing related to client-bank /financial institution relationship that currently suffer. We believe that ethical finance company reflects the need for a greater morality, equity, solidarity and financial accessibility;

-Microfinance institutions: providing financial services to low-income customers who normally do not have access to traditional banking services Is;

-Self-help initiatives / cooperatives / credit unions.

CONCLUSIONS

Rural areas, as reported by the EU Rural Review, are estimated to generate 48% of the gross value of the EU economy and 56% of total employment in the Member States. A typique future is the presence of the rural economy small and medium enterprises (SMEs), many of which are micro-enterprises with a high percentage of self-employment jobs. As in all fields, the agriculture policies give decisive significance fair allocation of investment to agricultural production and productivity. Supporting these policies gives new models of microfinance adapted to the current environment of structuring the farm to the needs of small farmers; given that at present in Romania have over 2,500,000 small semi-subsistence farms, contributing directly and indirectly to sustainable development of the Romanian village. After a period of searching and waiting, we are obliged to approach the decisions that lead to the restoration of new principles and creating new institutions to provide loans for actors and local sectors vital to the economic consolidation of settlements and human welfare. It is about the creation of specialized microfinance institutions to finance economic entities with legal personality: non-banking financial institutions in rural areas to support crediting legal entities and individuals active: institutions that conduct microfinance institution specialized education in rural areas. The capital required to establish such institutions should be ensured through government financial contributions for the

payment to be repaid in time. Another very important aspect is to create innovative models of microfinance and continuous training of human capital involved in providing financial services in rural areas and in the financial education of those accessing microcredit. To achieve this goal of establishing a rural microfinance innovative and coherent it would be desirable to start with what was good in the areas of the credit system in Romania in the interwar period, especially the innovative models today's existing in some EU countries and creating our own innovative models of microcredit.

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