

Social, economic and financial inclusion of the rural area

Otilia MANTA¹

Abstract: *The social and economic gap between the welfare of the rural population in developed European countries and that of Romania has always been great, but never like this. A great scholar of the nation said, years ago, that civilization of the Romanian people was born in the villages. A sociologist or economist of the past 50 years, paraphrasing the great Lucian Blaga, must painfully recognize that poverty was born but still perpetuated in the villages. Few were the moments of some welfare for the Romanian peasant during this period. This work is based on this reality and try to synthesize all the ideas of scientists, specialists and those who are at the head of the rural society, able to remove the Romanian village from this state of decline. Once we entered the EU community, willingly or not, the Romanian authorities of any political orientation would be required to submit new principles and rules governing the course of economic activity.*

Keywords: *social, inclusion, economic, financial, microfinance, poverty, economic models, family farms.*

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INTRODUCTION

In support of some ideas and points of view expressed in this paper it is necessary to present some questions and considerations related to the alignment of the Romanian rural area and agriculture development to the current trends of

¹ Ph.D. Student Manta P. Elena Otilia, The School of Advanced Studies of the Romanian Academy, Department of Economics, Sociology and Law email: otilia.manta@ince.ro; otilia.manta@rgic.ro

developed countries. The first is whether the current level of development of the Romanian rural economy is compatible with the new tendencies and objectives of the Common Agricultural Policy (CAP) in the new stage of development? It is about the CAP guidelines in order to achieve high technical performance as well as the rising costs for consumption and materials for providing increasing stocks of agricultural products which should give a new economic and social dimension to the rural community. The opinion of scientists and representatives of Romanian farmers is that the current state of facts of the agriculture should determine the experts to promote a strategy that will have other priorities. It is about the profound restructuring and consolidation of agricultural holdings; it is also about the allocation of some massive funds to ensure higher yields in crop production and especially in livestock. All these in order to ensure food security of the population and achieve massive export availabilities. The Romanian natural soil fertility doubled by healthy crops and livestock are two major opportunities to ensure the competitiveness of the Romanian products on the world market. Strictly speaking to the determination of the major factors of rural development, the forefront of priorities should be the ensuring of a fair level of life for rural population and the elimination of poverty which today affects over 4.5 million people in the country. An absolute poverty affects particularly the rural area, i.e. where the food is produced. It seems incredible, but the "poverty pockets" are located mainly in the most fertile agricultural areas of Romania, which is precisely where it operates most of the landlords in Romania. The social studies and statistics show that today almost 40% of people in rural areas are exposed to permanent hunger. By focusing on the issue of stressful poverty, it should be made clear however that this poverty comprises a limited part of the population. Notwithstanding the gloomy predictions of some analysts, specialists in rural areas continues to support the need for a genuine national development agrostrategy which have as a starting point the causes of the involution of investment process in rural areas and especially those that make farmers unable to accumulate financial resources or have access bank loans. The completion of a strategy of economic development of rural areas must be based on the truth that, in the given conditions, a great chance to ensure food security of the nation lies in restoring production and trade in the space of of family farms.

1. Models and concept of microfinance in the UE and Romania

To make an exhaustive presentation of the topic (social, economic and financial inclusion of the rural area), the study approaches both the history of this field in Romania, by historical works and statistics, by studies and reports produced at

national and European level. In Romania, the microfinance market is a concept at a starting point. In the general context of sustainable development, to achieve this objective, i.e. rural microfinance, implementation of economic models for aligning this area to the market economy principles and requirements, is essential.

The models must be adapted to the concrete and real needs of those who are living and working in rural areas. Being at the start of this research theme, it is obvious that such a challenge is both difficult and subject to the risk that some of the advanced ideas may not be in the accordance with the current financing policy of decision makers. Beyond these considerations, it is necessary to disclose that at the level of community states this dynamic market is still quite heterogeneous because of the institutional and legislative disparity and also because of very diversified microcredit providers.

In the EU, "microcredit is provided by financial institutions regulated by the Central Banks and those unregulated by the Central Bank, but covered by Community Directives, such as commercial banks, savings banks, cooperative banks and public banks. To these a number of non-banking institutions namely microfinance institutions, enterprises specialized in microfinance, foundations, credit unions, charities, NGOs and others" are added.¹ It should be underlined that the 2014-2020 Romanian rural development strategy, in the context of the 2020 Europe strategy is "a strategy of economic growth with objectives for a smart economy, sustainable and favorable to social inclusion" and the improvement of agricultural and non-agricultural SME's competitiveness from in countryside.

The scientific approach starts from the fact that the Romanian rural area, i.e. a total of 2.7 million peasant households, which together account for more than 5 million hectares or 34 percent of the agricultural area of the country is outside the current system of agricultural financing.

They are added 2 million people in rural areas without any plot of land, without a job, who live in extreme poverty. Transferring these European ideas in the Romanian context and correlating it with the statistic economic situation in Romania, we should note that through the creation of economic models of microfinance and in accordance with current regulatory framework, and that it would support the sustainable development of this considerable potential that we identified in rural Romania.

¹ European Microfinance Network, President Jorge Ramirez, June 2014.

This professional approach aims to set up a lending network in the rural area similar to those that operated in Romania until 1948, starting from the observation that, at present, in rural area, a number of 2.7 million farms, which together hold more than 5 million hectares do not benefit from any financial support from the Romanian state or from the EU. To them we must add 2 million without land and a job, living in terrible poverty. According to the latest statistics, rural poverty includes 5 million people whose source of income is the little patch of land in the backyard of the house. But this category is not the subject of this study. We discuss first about the small producers that make up the peasantry class, name it the middle, and which by a financial boost has the chance to align themselves to the farms and agricultural structures prevailing in developed countries. As a first step, it should take into account to attract to this system of microcredit the peasants organized in small family farms.

More precisely, the farms which range between 10 and 50 ha. They manage 90% of viable farms and together hold more than 1 million hectares. In terms of solvency, the experience of the last 100 years of lending popular banks, is proof that ordinary peasant was always the right partner. Setting out these expressions we should have in mind the constraints we face. First, those related to the will and the involvement of financial and agricultural decision makers.

Therefore it is good to attract farming organizations and rural local power in this process. For a microcrediting system in rural areas, we have to face the latest mutations on the Romanian banking market. For the first time in the last 10 years we are witnessing a decline in the volume of bank net assets and of bank loans. The truth is that the economy, notably agriculture cannot function without credit. Since the European Union carried out large investment programs in rural Romania, especially in the food sector, the potential beneficiaries still are obliged to appeal to massive loans. This opportunity is just one that plead for the establishment of new microfinance institutions in rural areas.

2. Arguments for rural microfinancing

The reality is that in the Romanian rural area, i.e. a number of 2.7 million homesteads which together hold more than 5 million hectares or 34 percent of farming land, is outside of the current financing system of agriculture. They can be added to another 2 million people in the rural area with no plot of land and without a job, living in terrible poverty. In fact, 5 million people living in rural areas without a reliable source of subsistence. For these households it is unlikely that they will soon find means to connect to the market economy circuit. But, in

Romanian village there is another category of viable producers. It consists of about 60,000 households that form the so-called family farms.

Table: The Romanian family farm structure in 2014

Class size of the farm (ha)	No. of farms (ths)	% from total no. of the farms	Surface (thousand ha)	% from total surface
family farms				
10-20	36	60.0	486	32.5
20-30	9	15.0	215	14.4
30-40	5	8.3	163	10.9
40-50	4	6.7	178	11.9
10-50	(54)	(90.0)	(1,042)	(69.7)
50-60	2	3.2	100	6.7
60-70	1	1.7	96	6.4
70-80	1	1.7	90	6.0
80-90	1	1.6	83	5.6
90-100	1	1.7	82	5.5
50-100	(6)	(10.0)	(452)	(30.3)
Total	60	1.6	1,494	10.2

Source: APIA, INS, 2014.

3. Microcrediting for the rural community between claims and reality

Over this difficult process of financial support to those who are struggling today to provide some prosperity to rural entrepreneurs, I will try not only to respond to this dilemma, but rather to highlight possible new mechanisms for revitalizing the social and economic life of the Romanian village. In the reference year 2015, i.e. after two and a half decades of capitalist market economy, in the banking environment in the rural community there is no a lending institution to financially support local community development.

An analysis of this issue reveals that existing leverages of the business environment support in rural areas is done through government financial allocations and by the bank loans to which few have access. The one who assumes the risk of getting an overview of the analysis of the functioning of the credit system in the rural areas would have, from the very beginning, some disappointment today that the officials have not the power to contest them. The

only hope is that somehow the system itself works, but not to the benefit of the majority of rural population, but only to large farms, organized as commercial agricultural companies, landowners or processors.

In the twenty years of existence, this institution was the most loyal bond between the representatives of the rural community oriented to bank loans and the few who had the courage to lend agri-food system, the real productive activity in agriculture. It is true that exposure of commercial banks on rural sector entails a risk of eviction from the beneficiaries. The truth is that, thanks mainly to practices that aimed corruption or insufficient training of officials within the banking system, loan size without coverage even led to bankruptcy of banks. The most telling example is the Albina Bank, which bankruptcy forced the Romanian authorities to pay millions of dollars in debt. Theoretically, the rural population's access to bank loans is permissible to all who wish to invest. Practically, the statistics indicate that more than 85% of the working population in rural areas has no access to rural lending. In most cases, the support of rural producers is achieved by European subsidies, less domestic. Although their size is not insignificant, they cover mostly part of direct production expenditures, including investment and do not support a development perspective.

Saying that, the conclusion is that, in the given conditions, *the only solution to the economic recovery of the Romanian village is the establishment of a credit system accessible to the entire working population. From the perspective of such a goal, supporting of the financial and banking businesses in rural areas are currently the main challenge for both, government authorities and, especially, the banking sector.*

4. Possible patterns for the rural microcrediting

Before entering in the substance of the matter, it is appropriate to mention that microcredit is not something new in our days. The groups and microcrediting institutions have historical backgrounds and aim to provide services to people who had no access to commercial banks.

According to some studies, the main element of the rural class progress anchored in the development of the market economy was the microfinance in rural area. After four and a half decades in which financial system has been under atypical principles of market economy, in post-revolutionary Romania, the microfinance companies first appeared in 1992, but their contribution to crediting production units or services in rural areas was insignificant. The financial support of the agricultural sector was achieved only through the work of the Rural Credit Guarantee Fund.

In reconstruction of this lending system in today Romania, first inspiration could come from those lending models practiced over the years in the Romanian countryside, meaning the banking system that functioned with positive results in the stage of a boom of the Romanian village.

After a period of searching and calling for some improvisation, we are in a situation where we are obliged to approach decisions leading to the reestablishment of new principles of crediting institutions to ensure local stakeholders and economic sectors vital to strengthen the settlements and welfare population. It is about establishment of banking institutions that would finance economic units with legal personality: banks in rural areas to active crediting legal entities and individuals: banks to finance education or health institution exclusively.

The capital required to set up such institutions should be ensured through government financial contributions for which payment to be repaid in time. In this action may also attract the 25 commercial banks which are operating in Romania and are involved in lending agri-food companies. In achieving this national system of the rural microcredit should be started from what was good in the rural credit system in the Romania during the interwar period, but especially from today existing patterns in some EU countries.

5. Microfinance for rural area - small loans for some productive business

According "Lending a hand: how direct-to-farmer finance providers reach smallholders", a study by Laura Goldman, Serena Guarnaschelli, and Dean Segell (2014, Dalberg Global Development Advisors) "the vast majority of smallholder farmers are financially underserved. Providing these smallholders with access to appropriately structured financial products and services can help bridge the smallholder finance gap and, in turn, combat extreme poverty by supporting the people who live in households that depend on agriculture for their livelihood". It is also available for Romanian rural area where:

- In a whole, agriculture is underfinanced: only more than 4% of all loans are for agriculture. These loans are only for some of the big landlords having special relations with the banking system.
- For the most part, reliable source of funding are the European subsidies. Unfortunately, in the Romanian village there are 2.7 million households that hold together 5 million hectares that do not get any financing from the Romanian state or from the EU.

- A financial measures which could lead to the removal of the economic poverty can represent a fundamental change in rural credit system.

Two are the elements that urge us to hold that the Romanian agriculture as a whole, seems to have overcome the embarrassing situation of a country farm with a reference potential in Europe, which could not secure the food security of 20 million people. From this point of view, the year 2015 seems to be more than promising. It is for the first time since the Revolution when authorities reported achieving a surplus in food balance. That, provided the big chains with foreign capital do not seem to be loyal partners of the local authorities who are responsible to ensure food security of the population. It is an encouraging signal to be judged in the light of the good weather conditions farmers have had in the past two years.

A financial incompatibility that calls for reflection

A first question that arises: the current structure of Romanian rural economy can sustain an accelerated pace of development designed to reduce performance gap that separates us from developed Europe? The most optimistic answer may be yes. One of the conditions would be rethinking the system of financial support for the rural economy and especially subsistence households. The battle is not simple and cannot be resolved immediately. At the present time, in the rural area there are a number of unfunded 2.7 million households that own 5 million hectares. They are added to 1 million subsistence and semi-subsistence holding 3 million hectares and whose financing is based mainly on EU subsidies. The 2014-2020 financial mechanism still supports the financing of the agricultural holdings, but it is hard to believe it will work long term. The duty of which lead the destinies of the Romanian village is to promote the weeks that remained actions of financial support of rural areas.

The approach of the institution I lead, as well as of those who embrace and have confidence in the chances of achieving a national system of rural credit, it has as main objective the establishment of microcredit network, in the beginning, and to provide small loans to economic agents who seek to develop some productive or commercial business.

6. The new strategy models in Romanian microfinance in the rural area.

It was founded last year at the initiative of the GRUPUL ROMÂN PENTRU INVESTIȚII ȘI CONSULTANȚĂ (RGIC) and the Business Development

Association (ADA). By objectives that it has set as well as by the target group, the project "Microcrediting, a fundamental component of entrepreneurship in the rural area" (ID 135 486), respond to some goals and fundamental concepts. The fact that the project provides vocational training for future specialists in the rural microcredit shows global thinking (microcredit is a worldwide concept in vogue today) and local action (Romanian rural area). Also, achievement of the indicators assumed in the project (training of 312 students, the establishment of 19 microcredit enterprises in rural areas) represent the pillars that defines the project sustainability and thus long-term perspective.

In the new strategy for the microfinance fields is to start with the first value this means human resources (to do the training support in the microfinance area), the second is to identify the good financial resources to finance the rural area (this means with good financial conditions for financing), to create the institution network close to the farms and rural area (material capital).

In actual European systems I believe the best model is to create the institution with the financial, economic and social inclusion in rural area and this means sustainable development, best financial solution for activities and best condition of the life in rural area.

7. Conclusions and considerations on the importance of research theme

I confess that personal concerns on issues related to the financial and social inclusion of agricultural units, especially of smallholders dates back from the time when I started developing some investments and support services in rural areas. The abolition the national system of rural public consultancy services accredit the idea that somewhere, maybe "on top", there are forces interested to abandon those who were about to start small businesses.

In most cases the potential investors or the farmers were connected to the system of market economy only by small grants, European and/or national, granted per area or per animal. The loans were and are also today more than 93% of the rural population. Faced with this situation, we concluded that the only way to connect Romanian villages to the free market economy circuit is the setting up and the generalization of models or specialized micro companies that can ensure the rural households access to financial resources, especially through microfinance institutions.

Motive force has come mainly from rural the microcredit patterns from developed countries, especially from the emerging concerns at the highest governmental

and international institutions. Although Romania has already now clear and concrete measures to support the approximately 830,000 smallholders, there is always plenty to do:

- Supporting and revitalization on a small scale farming requires a comprehensive platform for political and development initiatives that are tailored the needs of farmers with family farms;
- To keep the long tradition of farming family friendly policies and regulations are necessary for the environment;
- Improving the access to land, water, markets and loans - as well as legislation relating to property and land use - creates a solid foundation for productivity, solid ground on which farmers can and will invest in the future of their farms;
- Public investment in rural infrastructure, public services, training and education can provide to small farmers the help they need to be competitive in a market increasingly globalized;
- Encouraging the women and youth to take part in farming will guarantee the long term viability of family farming.

The realization and foundation of the national microcredit starts from studies and scientific works of the most awarded personalities in Romania, whose work examines with great probity fundamental problems of Romanian sustainable development in rural areas. A few of these studies and themes are: *Romania's national agricultural project after two and a half decades of "reform, restructuring and adjustments"; Security and the nation's food balance; The main challenges of the countryside; The restrictive factors of Romanian agri-food economy performance: agro disintegration, disruption between agricultural production and food processing, agro-food chains unfairness in the operation, subsistence and semi-subsistence farms domination, promoting forms of financial support that stimulate productive performance; Evolutions in the post-revolutionary agrarian structure; Conception errors in the settlement of agriculture on market economy principles; The characteristics and the current structure of rural environment; Government policies for agriculture financing; Approach for a new philosophy of development of the Romanian rural areas; 10 years in the development of food sector and Romanian rural area is mainly supported by EU funds: what could be the consequences?*

It is my belief that sooner or later the Romanian financial system will be forced to line up to the practices of microfinance in countries with developed agriculture. Primarily, those 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 financing and lending systems accessible to all farmers.

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