

WAYS TO FINANCE SUSTAINABLE RURAL DEVELOPMENT FROM INTERNAL RESOURCES

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Abstract: *In the market economy, the funding of agriculture has an essential role in the development of the flow of economic activity in order to produce agricultural goods and services specific to this sector. In our country, during the transition period, the funding of agriculture was made from the own sources of agricultural enterprises and peasant households, support from the state budget, loans, non-reimbursable external funds, as well as from other sources. The fundamental objective of the Romanian agriculture must be the formation of the property and the consolidation of the private-family exploitation in small and medium farms of Western European type.*

Key words: *rural development, finance, internal resources*

INTRODUCTION

If we speak about sustainable development applied to rural area [1,2,11,12,14] it is necessary to take in consideration some priorities which must be applied to some particular field such as agriculture, forestry, in order to make them competitive. A special attention must be also paid to objectives such as innovation, environmental protection and climate change mitigation and adaptation [15].

The organization of lending for agriculture [4,7,13] was necessary primarily due to the large share of agriculture in the Romanian economy, as well as the fact that 83-87% of the active population worked in this branch. Also, agriculture was the basis of Romanian exports (60% of it). Farms needed a certain period of the year, for example, in the spring when the agricultural season begins, until the autumn, when the sale of products took place, significant cash capital, to pay wages and rents, and to cover other expenses. As a large part of the agricultural owners and tenants did not always have these working capitals, it was natural that with the beginning of the agricultural campaign they would have to resort to credits, known as exploitation credits [3,5,6,8,9,10]. Agriculture specialists also appreciate that the development of agricultural activities from the own sources of agricultural producers is practically impossible to achieve, which is why it is necessary to resort to bank loans.

In general, the ways (possibilities) of funding a business can be grouped into:

- A. Funding from personal income
 - Various programs and projects
 - Entrepreneur's investment;
 - Investments of partners (associates);
 - Investments of friends and relatives;
 - Shareholder investments.
- A. Credit funding
 - Bank loans;
 - Business incubators.

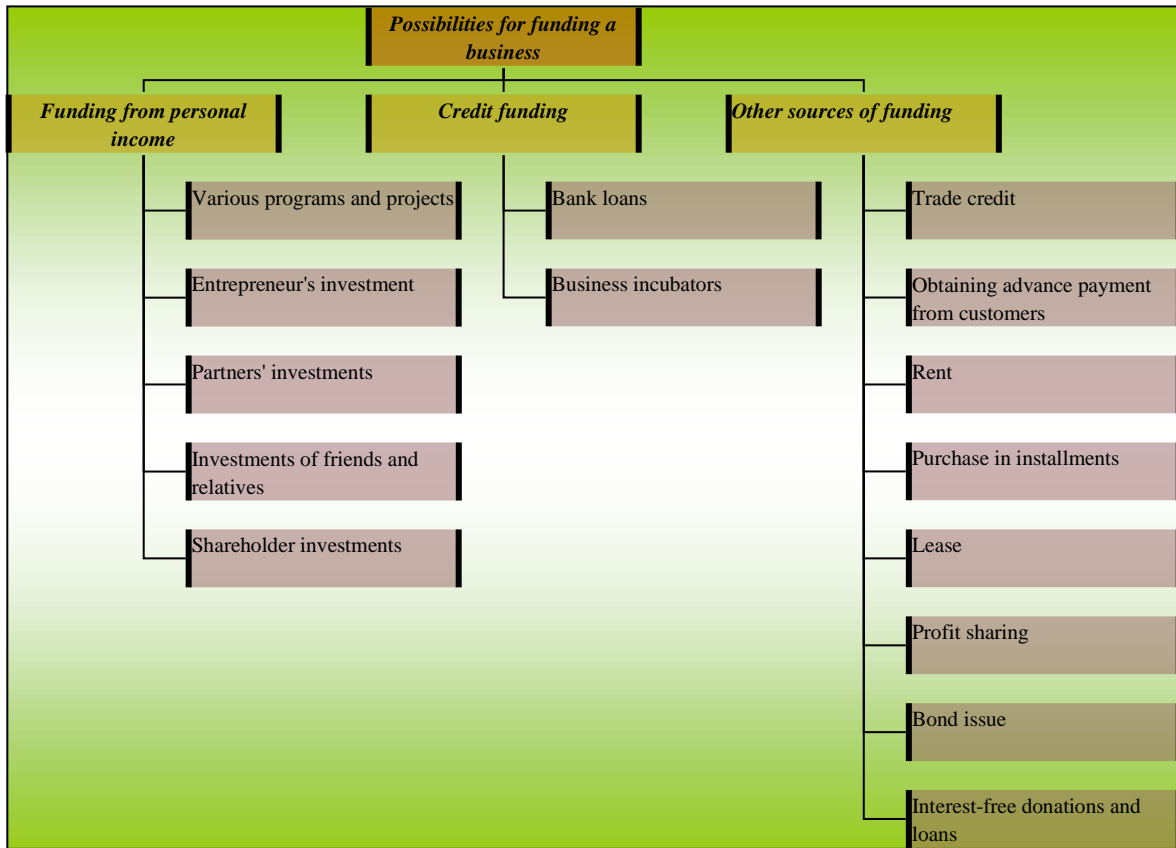


Figure 1. General possibilities of funding a business

B. Other sources of funding

- Commercial credit;
- Obtaining advance payment from customers;
- Rental;
- Purchase in installments;
- Leasing;
- Profit sharing;
- Issuance of bonds;
- Interest-free donations and loans.

MATERIALS AND METHODS

The purpose of this paper is to make an x-ray of the issue of finance sustainable rural development from internal resources. In order to achieve the established desideratum several discussions about:

- Funding from personal income
- Credit funding
- Other sources of funding.

As a methodology, the analysis of several sources of information, the selection of information and the presentation of some representative aspects were used.

RESEARCH RESULTS

The ways of internal funding of agriculture and rural development are:

A. Funding from personal income. In this situation, the money needed to finance the business comes from the personal savings of the entrepreneur, potential partners, relatives and/or shareholders. Capital is called venture capital because these funds can be

lost in the event of a business failure. The main advantage of this method of funding is the fact that the funds used do not have to be reimbursed, the participants in the capital formation recovering their investments from the company's benefits. But the most important disadvantage is that investors have to be consulted when making decisions, thus reducing the degree of independence of the entrepreneur.

- Entrepreneur's investment. It is the most frequently used source of funding, being influenced by the originality and efficiency of the idea, the available savings, the nature and value of its personal assets that can become assets of the company or that can be mortgaged to obtain a loan. Regardless of the form of ownership adopted, the owner must provide at least half of the initial capital required due to the fact that an investor will not be able to persuade to invest if he sees that the owner does not participate with substantial funds in the business and a low-income entrepreneur does not the guarantee of sufficient motivation to fight for the success of the business. Moreover, the greater the entrepreneur's investment is, the greater his power to control the business will be, and the greater his rights will be also.

- Investments of partners (associates). They are a source of funding a business, with the motivation of either a common idea from which the business starts, or the need to ensure sufficient start-up capital. Depending on the size of the funds invested and their rights and responsibilities, the partners can be general partners (with joint and several liability and unlimited liability to the company's creditors) and limited liability partners, who are liable only up to the level of their contribution.

- Investments of friends and relatives. It is one of the most widely used sources of funding for small and medium-sized enterprises, based on special interpersonal connections. But it involves a number of specific problems such as: the possibility of unwanted interventions and interferences in the company's operational problems, business policy, etc., from relatives who have invested; or the possibility of deteriorating relationships with relatives who have invested in the business if the company fails, if the entrepreneur was not fair in terms of risk presentation.

- Shareholders' investments. Shareholder investments, called public investments, are the source of funding that provides the strongest capital infusion for a business. Launching a business publicly, by issuing and selling shares, is a complex operation.

The joint stock company is considered one of the inventions that brought prosperity, offering the advantage of attracting the money of the population and their efficient use through investments in large volume businesses. Shareholders, those who buy the shares, are the owners of the part of the company they bought in the form of shares. They can sell these shares at the set price, depending on demand and supply, on the stock exchange, thus recovering the money invested. In addition, they receive dividends, meaning parts of their total profit depending on the number of shares held.

B. *Credit funding*. It is a way of funding that is meant to complete the capital necessary to start the business and carry out the current activity. Although the use of loans is often unavoidable, it is advisable for the entrepreneur to use them as rarely as possible, as it limits the entrepreneur's margin of freedom through the terms of the credit agreement, the amount of interest, creditors' participation in the management of the company, supervision decisions etc.

- Bank loans are the following types of loans to small and medium-sized enterprises:

- treasury loans;
- commercial credits;
- investment loans;
- export credits.

The constitutive elements of the bank loan are:

- credit;
- the interest rate;
- credit rate;
- grace period.
- repayment period.

- The mortgage is a real estate type guarantee that does not imply the dispossession of the one who constitutes it from the good that is the object of the guarantee. Only the debtor's current assets can be mortgaged, not future ones. The mortgage of a property that belongs to several people can be done only with their consent. The goods that are the subject of the mortgage, in order to constitute a real guarantee, must meet the following conditions:

- to be in the civil circuit, meaning to be able to be sold and bought;
- not be affected by tasks;
- the ownership over these goods to be proved by documents registered in the real estate advertising registers at the notary's office;
- to insure these goods for the entire duration of the credit agreement, and for the rights come from the compensations to be assigned in favor of the bank.

- The pledge implies the guarantee of the credit by the debtor client in the form of a movable good (products, goods, receivables, shares). There are two forms in which the real guarantee is presented in the form of pledge: pledge with dispossession; known as a pledge, which involves the dispossession of the debtor's client by the movable property and the transfer of this property to the creditor in question (the bank); the pledge without dispossession which does not imply the dispossession of the goods that constitute the real guarantee of the debtor client.

C. Other sources of funding. Trade credit is a form of lending by which suppliers of goods or service providers lend to their own customers. Payment is made after receipt of the goods and is agreed by a sale-purchase contract. Entrepreneurs who do not have the money, but have the certainty that they will be able to sell the goods purchased on commercial credit or can procure financial resources from other sources within the established payment term can resort to commercial credit.

- Rent or location. The goods that can be rented are: buildings, machinery, equipment, spaces, land, halls, tools, etc., which are not consumed in the process of their use. The tenant is interested in obtaining a profit by deducting from the rent the taxes to the state and the expenses incurred under the contract (repairs, maintenance, spare parts, fuels, etc.), and the tenant is interested in obtaining the right to use the property without paying its value (especially if its value is very high).

- Purchase in installments is similar to granting commercial credit. The buyer obtains the right to use the good and will also obtain the property right after paying in periodic installments the total value. He initially pays an advance imposed by the suppliers, after which, according to the contract concluded between them, he will pay in installments, on set terms, the amount remaining unpaid, with any interest. Interest rates are set by negotiation, sometimes being at the level of market interest, but with the possibility of having lower values.

- Leasing is a particular form of renting and is practiced in the case of agricultural areas. The owner charges the user a sum of money or payment in kind for a period of at least 5 years. The rent can be set in a fixed amount, in percentage shares of the harvest obtained, in percentage shares of the profit obtained or in fixed quantities from the annual harvest. Depending on the agreement between the parties, the cash rent can be paid before or after the harvest.

- Profit sharing. The owners of buildings, spaces, machines and equipment, tools and other means of work may assign the right to use them in exchange for a percentage of the gross profit obtained by the user. This quota, which in fact represents the payment of the rent for the respective good, is included in the expenses so as to diminish the taxable profit. It is advantageous for the entrepreneur because, together with him, the owner participates in taking the risk. It is obvious that if the gross profit is zero, the entrepreneur will use those goods for free.

- The issue of bonds is equivalent to a loan from those who buy, on time, in exchange for an interest. The sale of bonds means the sale of documents that give the buyer the right to collect monthly or annual interest for the amount he paid on its purchase and to recover the amount of the bond on time, which is equivalent to repaying the loan. The value of the bonds can be recovered prematurely by selling them on the market.

- Interest-free donations and loans are less common forms of funding, but there may be organizations or charities that donate goods and money provided that the business initiated brings social benefits.

CONCLUSIONS

One of the most debated issues related to the recent enlargement of the European Union (EU) is the financing of the new Member States. The basic question is whether, after a period of growing regional disparities, a process of long-term "spatial economic convergence" will be launched.

Currently, Romanian agriculture is mainly subsistence, its commercial character is quite low. The causes of this condition are largely due to the refuge it provides for the redundant workforce in other sectors or for people who cannot find jobs in other fields. They are also one of the reasons why the competitiveness of Romanian agriculture is extremely low. Experience has shown that, in general, the competitiveness of agriculture cannot be achieved by itself, within the national economy there is a rather rigid historical relationship between the costs, wages and prices of different products and industries. In the current conditions of the Romanian economy, characterized by a low competitiveness and lack of functional structures, it is difficult to conceive that it will be possible to quickly reach a high performance and competitive agriculture.

For the recovery of the lost years in a system that thought differently economy, freedom and development, and for the affirmation in the European Union of a healthy, prosperous, educated, free and dignified nation, the European integration of Romania must be seen as a process that contributes to economic development, in order to participate efficiently and competitively on the internal market of the European Union, using intelligently all possible sources of financing.

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