LOCAL FINANCING – NEEDS AND PROBLEMS

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Abstract
The paper deals with one of the main difficulties in the rural development, i.e. the problem of financing. Analyzing the experience of the EU members in financing rural projects, the authors suggest definite ways for solving the problem.

Key words: rural development, financing ways.

Introduction
Financing is a form of partnership existing at various levels among different members. However, very often inadequacy is observed between supply and demand of financing. Financing of rural communities is problematic within whole Europe since traditional financial authorities are unwilling to finance new business form projects of small volume and low profitability. In order to perceive possible rural development opportunities it is important to learn innovative financing practices of rural regions of more experienced EU member countries.

In order to improve financing of rural development, there is always a need to find optimum balance between specific means, which simplify the methods of rendering support, and the necessity to ensure the competence of public fund regulation. A balance should also be maintained between the actions, which facilitate the access of support for more rural residents, and the necessity to ensure responsibility and control of the received support.

The goal of study is to recommend possible solutions for financing rural development. In order to achieve the goal the following tasks are set: a) to identify problems of financing rural development; b) to assess causes of financing problems and ways to eliminate them.

Methods
After the analysis of EU countries experience and the review of scientific papers, a problem was identified. Due to the specifics of rural community, incompatibility of supply and demand of financing possibilities occurs. Therefore, a detailed analysis of this problem and its causes is necessary. On the basis of EU countries experience and the findings of scientific research, the main causes which influence difficulties of rural financing were identified. Possible solutions are provided in the form of logical analysis and synthesis.

Results
Nowadays majority European countries indicate a priority of rural development. Not only financing objects are changing, but also there is a focus on the importance of support of alternative and innovative activities in rural areas. When financing forms are changing, new, untraditional rural development financing tools and tendencies are taken into practice. The importance of those financing tendencies
and means are emphasized by the EU Committee in 2006 in the Communicate. The Communicate emphasizes the importance of establishing business in rural areas and financing development by applying risk capital instruments, credits, credit guarantees and other means. (Communication …, 2006). The EU is planning to enhance their support for the means described above.

Since strong partnership between financing conveyors and receivers should be formed, financing is not just a mean of projects administration and implementing ideas. It is a main tool for new connections and decisions making in pursuit of local residents and authorities approach and enhancing social interaction and democracy.

However, many financing problems arise because of the specifics of rural development. Having analyzed the theoretical views presented by scientists and practicians, (Harris, 2000; Tunaitiene, 2006, Granger, 1998) the authors identified the main financing problems in rural areas: 1) conveyors of projects do not provide with satisfactory guarantee especially for small volume projects; 2) the goals of conveyors and creditors do not coincide; 3) low profitability of rural business projects; 4) administration costs are too high for small budget projects; 5) financing mechanisms are not applicable or too technical for target groups.

The conclusion was drawn that there is inadequacy between supply and demand of financing. The causes of this inadequacy might be found in both demand and supply fields: a) incapability to provide satisfactory volume project or guarantee in demand field; b) fear of failure, short-term benefit as the only criteria, lack of interest in some sphere etc. Such a problem as the coordination of supply and demand of financing, is especially actual for rural regions. Therefore, speaking about demand, it is mostly related with: 1) small volume projects; 2) separate conveyors of project (geographically separate, small or very little known business branches); 3) risky projects (uncertainty of project’s viability).

The supply of financing in rural areas is less favorable: a) the result of the tendency of bank merging is that decision making centers relocated to cities and towns and became distant to rural areas; b) wide choice of rural economics branches are still attracting high level of savings, but are unable to fund these projects (in most cases because of human resources problems); the return of rural regions savings (finance) to circulation is very poor (often lower than 25 %). Confronted with the restrictions, the initiators of rural projects very often find themselves isolated and experience many difficulties in relation with financing these projects. This problem is even more actual for particular groups: the youth and the unemployed.

The gap between financial supply and demand becomes an isolating element among rural as well as urban residents. Consequently, receiving credit might be perceived as a social right. Struggle against isolation is closely related with possibility to receive the credit. There is a lack of social cohesion in the locations where particular social groups constantly do not receive any credits (Slavickiene and others, 2006).

Assessment of the right to receive credit is a part of dual dynamics, which consists of already existing or newly set up national or European support programs and suitable approach practice at the local level. This ambivalent process rises an issue of different responsibility levels and various participants roles (public sector,
private sector and community), in the process of policymaking for rural regions financing. Possible solutions of the above mentioned problems are as follows: a) the government and local authorities have to take some means, which could help to find a balance between supply and demand; b) to establish intermediate structures, which should operate as missing chain between supply and demand.

On the basis of European countries practice, the authors determined principal ways bridging the gap between supply and demand of financing (Table 1).

### Table 1: Ways of Bridging the Gap between Supply and Demand of Financing

<table>
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<tr>
<th>Causes of the gap between demand and supply of financing</th>
<th>Ways of the gap reduction</th>
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<td>Demand adjustment to supply needs</td>
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<td>Human resources problem, when creditors and receivers of financing do not know each other</td>
<td>Information spread and establishment of institutions coordinating financing</td>
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<td>Lack of confidence in partners</td>
<td>Support for preparation of project and application for financing</td>
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<tr>
<td>Absence of financial input or not satisfactory it’s proportion of benefit receiver</td>
<td>Establishment of local investment funds, interchange investment funds</td>
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<td>Not satisfactory guarantees for projects applicants</td>
<td>Guarantee funds</td>
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<tr>
<td>Too high costs of projects administration</td>
<td>Governmental or local authorities support with a partially coverage of administrating costs</td>
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<tr>
<td>Bigger returns from investment in other fields</td>
<td>Implementation of ethical goals in rural development</td>
</tr>
</tbody>
</table>

Source: Tunaitiene-Jautakaitė and others, Fuchs, 2006.

In summary, some possible solutions to the analyzed problems are the following: 1) financing projects in rural areas is very important to popularize financial system on the basis of mutual relations; 2) more attention to decentralization of financing should be paid; financing instruments should be adjusted to the development of particular regions to ensure close cooperation in various life spheres; 3) both public and private financial means should be concentrated for local development; 4) local partnership, which ensures technical support for support receivers, should be enhanced; 4) to focus on ethical principals.
Conclusions

1. Due to rural specifics, the gap between demand and supply of financing often occurs. In order to solve this problem, the following solutions were provided: to adjust supply requirements to demand, to adjust demand requirements to supply, adjust demand and supply requirements with the help of in-between structures.

2. In order to improve financing possibilities in rural development, it is recommended to popularize the system of financing which functions on the basis of mutual assistance, to focus on the decentralization of financing, to concentrate both public and private finance for local development, to enhance local partnership and focus on the implementation of ethical principals.

References


МЕСТНОЕ ФИНАНСИРОВАНИЕ: ПОТРЕБНОСТИ И ПРОБЛЕМЫ

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Аннотация

В статье анализируется одна из главнейшей трудностей для сельского развития – проблема финансирования. Авторы, анализируя опыт стран Евросоюза по финансированию проектов села, предлагают возможные способы решения этой проблемы.

Ключевые слова: развитие села, способы финансирования.