

Rural tourism development and financing in Romania: A supply-side analysis

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Abstract: For more than a century, and almost everywhere in the world, rural areas suffered a steady decline, due to the decrease of the real income from the agricultural activities, the lack of serious economic alternatives, and demographic issues. Rural tourism could contribute to the rural sustainable development through small local businesses valorising the natural, cultural and ethnographic resources. However, most of them need the financial support from private creditors (banks). The survey-based research conducted among banks' representatives has identified several strengths of small rural ventures, such as the small scale and the associated risks, the endurance to external shocks, the openness to market opportunities, as well as some of their weaknesses: e.g. a poor management experience, seasonality etc. We have also identified the actions necessary to be performed by these firms to attract financial resources from the banks' side, i.e. the diversification of income sources, the association and the adherence to recognized brands and maintaining a reasonable leverage ratio. It was found that the bank's size does not matter, but the nature of the bank's capital does: the private domestic banks are more willing to finance such businesses. The banks' involvement in co-financing the EU projects could be a way to foster and strengthen the rural businesses.

Key words: bank lending, financing constraints, rural development, rural tourism businesses

Rural development represents at present an issue of great importance, both as the research theme and the practical concern, especially to identify and promote economic and social policies to ensure the "economic convergence" of rural areas with urban areas, and to empower the rural population. This problem is considerably more important for the Central and Eastern European developing countries, where (according to the Eurostat Regional Yearbook 2013) more than 39% of the population lives in the predominantly rural areas (compared to the 22.3% of the EU average), and where there are consistent discrepancies concerning the level of the development, consumption, investment etc. compared with the urban areas. Nevertheless, sustainable rural development cannot be achieved in the absence of sustainable businesses, especially in other activities and sectors than agriculture (given, as mentioned, the large proportion of the population living in rural areas and the large contribution

of agriculture to the GDP formation) (Jeníček 2011). Among them, undoubtedly, rural tourism meets the conditions of sustainable non-agricultural activities and adequately addresses the considerable potential of natural and cultural touristic resources in the region.

Unfortunately, the ventures operating in rural areas, and particularly in tourism, face, overall, higher difficulties in accessing finances compared to similar urban businesses. They get less competitive financing offers; there are few suppliers of funds and thus fewer financial products and services adequate to local particularities (Drabenstott and Meeker 1997). The rural-based ventures tend to rely mostly on small, local banks to finance their debts and often have a little choice when searching for alternative sources of the equity finance. In many cases, the gaps in financial markets in rural areas are "more an expression of a gap of the capacity and skills than a limited access to capital" (Drabenstott and Meeker 1997 or

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Drabenstott et al. 2003). In general terms, this kind of SMEs prefer to work with the small traditional banks and their relationship with the main (even the single one!) bank tends to be longer than in the urban-based SMEs case (Carrington and Zantoko 2008).

This paper is aiming at investigating (by using a survey-based research) the availability of the financing institutions to adequately finance the small rural businesses in tourism. The objectives of this paper are, primarily, to assess the degree and specific ways of the creditors' involvement in financing ventures operating in rural tourism, and to examine the correlation (if any) between the banks characteristics (e.g. size, ownership) and their availability to finance businesses in rural tourism. Secondly, we are interested to find out (from the supply side perspective) which are the main difficulties in the rural tourism financing and to what extent these difficulties can be mitigated.

RURAL TOURISM IN CENTRAL AND EASTERN EUROPE COUNTRIES: FACTS AND FIGURES

For over a century, industrialization, urbanization and globalization have exerted a tremendous pressure on the rural space by eroding the social,

economic and political importance of the rural areas. During the last decades, in the context of a constantly reducing weight of the rural population and the agricultural activities in GDP and employment, rural areas have to re-invent themselves and to re-shape their economic profile (Hron et al. 2009). Consequently, many rural areas which are endowed with the natural potential and/or cultural heritage, or simply presenting a non-altered traditional environment, begin to address the increasing needs of urban tourists. Rural tourism, as a form of sustainable tourism, reconciles the conflicting interests between the touristic flows, the destination and the local communities, minimizes the environmental and cultural ambience damages, optimizes the travellers' satisfaction, maximizes the long-term economic growth and balances the growth of tourism potential with the environmental conservation needs (UNWTO 2011 or Bednarikova and Doucha 2009). On the other hand, as the tourist potential of rural areas differs and also the level of the general development, investment, infrastructure and other factors determining tourist development vary, the result was the emergence and then the differentiated development of the rural tourism areas.

Some figures are relevant: according to the European Commission (Eurostat 2013), the rural tourism infrastructure is not equally distributed across the

Table 1. The share and the total number of bed-places in hotels, campsites and other collective accommodation establishments in the selected countries, by the urban–rural typology (2011)

Country	Total bed-places			
	total number	% in total number of bed-places in regions...		
		predominantly urban regions	intermediate regions	predominantly rural regions
EU-27	27 962 220	25.3	42.5	32.2
Bulgaria	276 621	4.6	76.1	19.3
Czech Republic	449 068	23.8	41.4	34.8
Hungary	311 441	14.9	25.5	59.6
Poland	610 111	18.9	53.5	27.6
Romania	287 153	7.6	61.1	31.3
Slovenia	91 729	0.0	64.3	35.7
Slovakia	127 525	14.9	41.7	43.4
Estonia	50 084	34.4	7.5	58.1
Latvia	34 657	62.5	16.3	21.2
Lithuania	36 230	30.7	40.4	28.9

Sources: EC (2012), Eurostat (2013)

EU area. For the EU-27 as a whole, the share of the available bed-places is lower in the predominantly rural regions (i.e. representing 26.5% in the total accommodation capacity) than in the predominantly urban and intermediate regions (i.e. 73.5% of the total). On the other hand, the distribution of bed-places among the EU-27 Member States reveals that some countries report a higher share of the “rural” bed-places (in the total accommodation capacity) than their share of bed-places at national level, highlighting the importance of rural tourism in these countries (Eurostat 2013). This is the case of France (which holds about one quarter of the total number of the European rural tourism bed-places), Germany, Austria and Greece (for EU-27) or Poland (for the Central and Eastern Europe). Table 1 highlights the urban-rural differences in the terms of bed-places in the Central and Eastern Europe (CEE), in comparison with the EU-27 average.

In the EU agricultural holdings (economic entities which obtain supplementary incomes from other gainful activities than agriculture), the share of rural tourism in their total revenues is considerable. Related to the EU-27 average of 12.5%, there are countries reporting consistently more revenues from rural tourism, e.g. the United Kingdom (26.5% rural tourism revenue), Italy (23.5%) and France (18%). On the opposite, there are Cyprus and Malta with 0%, Bulgaria with 0.8% and Romania with 1%. At the CEE level, the best results are registered by Poland (8.8% of the total revenue coming from rural tourism), Hungary, Slovakia and Latvia (approx. 7% each) (Eurostat 2013).

Romanian rural areas, despite their favourable natural resources, report only a modest contribution to the national employment and GDP, compared to their potential. According to the official statistics, in 2012, the touristic and agro-touristic boarding houses held together about 17% of the total accommodation capacity (Statistical Yearbook 2012). The real figure could be at least 30% higher, considering that the important accommodation facilities from rural areas are undeclared or under-estimated in the terms of available rooms. Developing rural tourism is also a solution to the demographic, economic and social problems faced by the Romanian rural areas, and thus public and private efforts should be more focused on achieving this goal in a sustainable way. However, as in case of all SMEs, the survival and the expansion of the ventures operating in rural tourism still face numerous restrictions and uncertainties,

constraints and obstacles, especially related to the access to the financing resources.

AN OVERVIEW OF THE LITERATURE ON THE FINANCING CONSTRAINTS IN RURAL TOURISM

Currently, the access of firms to financing sources could be achieved in two ways (sources): through the internal financing, mainly from the owner contribution and retained earnings (profits), or through the external financing: funds attracted from the family, friends and the capital market sources (e.g. banks, financial companies and equity investors). According to Demirguc-Kunt et al. (2008), in developing countries, the firms – in order to cover their needs for survival or even growth – use external financing in a significant proportion: 40% for large companies and about 20–30% for SMEs; however, a much lower percentage of the productive investment needs are covered from the external sources (e.g. banks): about 30% for large companies and less than 15% for small firms. The SMEs’ access to finance is particularly more difficult, due to several constraints and failures coming both from the government institutions and from the market: (a) environmental factors (i.e. the macroeconomic instability, the role of public sector, the level of development of the financial system, a poor enforcement of contracts or ineffective bankruptcy laws etc.); (b) supply side factors (i.e. informational asymmetries, high transaction costs, weak property rights, the efficiency of the banking sector, physical barriers accessing funds and the lack of exit opportunities for investments); and (c) demand side factors (deriving from the own limitations of the firms, such as the management skills, a low willingness to access certain types of finance and improper corporate practices) (Sinha and Fiestas 2011). In the following part, we will focus on those constraints which occur more frequently in the rural tourism activities.

The macroeconomic instability, the a fiscal system and policies or state interventions (Boyd et al. 2001; Honohan 2003), a high inflation, the exchange rate fluctuations, the high interest rate and shorter loan maturities make the firms’ access to finance more difficult and more expensive (Demirguc-Kunt et al. 2008). The rural (particularly agricultural) sector “benefits” from the public involvement through the establishment and capitalization of banks and development agencies or strategic infrastructure projects.

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While positive at first glance, these interventions create a preferential access to public funds and bank loans for certain categories of companies, usually the large companies. The overlapping between the state institutions and banks (private or not) regarding the SMEs financing will distort the market mechanisms and competition and will reduce the incentives for the private sector to participate in the markets (RAM Consultancy Services 2005; Demirguc-Kunt et al. 2008).

The informational asymmetry reduces the access to lending, due to the fact that the information about entrepreneurial ventures is not easily accessible to lenders. The lack of the relevant historical record of the credit relation and risk profile, the few data and knowledge about customers and suppliers, the precarious and unprofessionally prepared financial statement etc., create a high risk perception from the banks' side, consequently limiting the access to finance, increasing costs and tightening the additional credit conditions (i.e. collateral, covenants, monitoring), which will end off in discouraging the firms to borrow.

Financial institutions (mainly the banks) are sometimes reluctant to lend to the SMEs due to the high costs per customer, risks and impossibility to recover these costs through the economies of scale or by widening relationships with those clients (Degryse and Van Cayseele 2000). Like corporate financing, the SMEs (including rural tourism ventures) are requested to supply detailed business plans, documentation and risk scenarios, and commitments in legal forms, together with a long credit approval period. While often the repayment period is shorter, the financial and time costs to obtain a credit can be substantial, relative to the size of the enterprise, and hinder the SMEs from the banking financing (RAM Consultancy Services 2005).

In most cases, the firms cannot meet the banks' requirements for the loan collateral due to the insufficient assets, not only because of their small size or due to the early stages of development, but also because the entrepreneurs/owners are reluctant to reinvest profits in their company (RAM Consultancy Services 2005).

Physical restrictions (e.g. location) also affect the access to finance. In most of the developing countries, banking concentration in major urban areas contrasts with the banks' absence in rural areas (Sinha and Fiestas 2011), especially in the mono-agricultural and isolated communities, where the physical ele-

ment, i.e. the distance, can act as a limiting factor in searching and finding the appropriate funding (Beck et al. 2007). Poor financial and managerial skills, a low educational level, the impossibility to acquire the additional knowledge, the disinterest in financial matters or in the modern methods of monitoring, planning and management could easily make the difference between successful or stagnant businesses, between growth, survival, or even failure.

The unwillingness to enter into credit relations or to attract equity investors, even the fear of the complications which may arise (e.g. taxes, complicated and frequent reports) also explain why some cautious entrepreneurs may choose to remain with small business, to protect their ownership, as they perceive the benefits of economic growth to be offset by the costs (the legal system, the corruption of public officials) (Cressy and Olofsson 1997).

Financial constraints are higher for the start-ups and small firms, while large firms, especially foreign-owned, with a significant history and record, seem to face fewer difficulties to access capital (Beck et al. 2005; Carreira and Silva 2010). Financial constraints are particularly experienced by firms operating in agriculture, due to specific sectoral risks and the long history of public sector intervention (World Bank 2008). Moreover, SMEs from information and communication technology (ICT), leisure tourism (including rural tourism), innovative sectors etc. may feel discriminated, due to financing risks or asset specificity.

SMEs particular profile in rural areas is based on a series of distinctive characteristics of the rural environment. Thus, the small size of local markets (including the labour markets and occupations), associated with low population densities and low incomes per capita or household, can impose constraints on rapidly growing of SMEs (Smallbone 2009). Furthermore, the availability of business premises, transport and communications infrastructure (Barkema and Drabenstott 2000), and the access to information, advice and business services and finance (Smallbone 2009) augment the picture of rural businesses. SMEs located in rural areas are more stable, use fewer employees and their financial performance is weaker than for urban-based SMEs (Carrington and Zantoko 2008).

In terms of Romania – EU comparisons, we notice that, apart from some minor differences, these factors act relatively similar. The difference between Romania (and other CEE countries) and the rest of the EU countries seems to reside in the behaviour

and involvement of local authorities and institutions: education and training, supporting market institutions and banking system, accessing the financial support (i.e. EU grants) etc. (Piasecki and Rogut 2004; Smallbone and Welter 2006).

RESEARCH METHODOLOGY

To address our objectives of investigating creditors' involvement, the availability and constraints in financing ventures operating in rural tourism, we designed and implement a survey-based research from the supply-side perspective (i.e. creditors, especially banks). The research was carried out as a part of a wider project investigating the relevant issues on the importance of the relationship between SMEs acting in rural tourism and banks, specific sectoral financing issues (tourism business risks, peculiarities able to affect the credit policy), the most adequate type of banks for the SMEs in tourism etc.

The questionnaire contained 18 questions, divided into three main themes: the importance of relationship banking, supply and demand for funding, and rural tourism financing issues. The majority of questions have multiple-scale responses, two were open questions, and, finally, two questions concerned the information about the respondents.

The questionnaire was administered during January–March 2012. Data collection focused on gathering information especially from the bank managers, the SMEs risk managers and the SMEs relationship managers from different banks in Romania. We took into consideration that the staff holding these managerial positions has specific training, job responsibilities, a direct or intermediated contact with loan requests and applications, and consequently they could provide the relevant answers. We could, thus, avoid the common or general and unrelated opinions from other bank employees without experience or specific responsibilities in the SMEs financing. Most of the respondents (i.e. 85%) were employed in bank units located in the North-Western Region of Romania, and the rest (i.e. 15%) in the Centre Region and Western Region. The large majority of the respondents (i.e. 80%) work in the branches and the rest of 20% in the banks' head offices. As a result of the survey, the primary dataset consisted of 67 responses from the managers working in 20 banks (out of the total of 42 banks existing in Romania at the date of performing the survey). After removing

the questionnaires containing errors, the resulted valid sample consisted of 64 responses.

Given that the majority of responses (i.e. 85%) were collected from the North-West Region of Romania, and the rest from the Centre and West Region, we check the issue of their representativeness. Indeed, there are no special features, different economic laws or regulations for this area, or special behaviours or practices coming from the banks and government agencies related to the SMEs or rural business, compared to other regions of Romania, or anything else that could influence the representativeness of the results.

In order to specifically address our research objectives, we focused on the following five research questions (RQ):

RQ1. Are the banks interested in/effectively involved in financing the rural tourism businesses, in a similar extent with businesses operating in other sectors?

RQ2. Do banks consider the financing rural-based tourism ventures as relatively riskier than the businesses operating in other sectors?

RQ3. Do the banks' size and origin significantly influence their involvement in financing the rural tourism ventures?

RQ4. Which are the most important risk factors in financing the rural tourism SMEs?

RQ5. Which are the characteristics of the tourism business proved to be adequate to ensure a more probable reimburse of loans?

RESULTS AND DISCUSSION

RQ1. Are the banks interested in/effectively involved in financing the rural tourism businesses, in a similar extent with businesses operating in other sectors?

Starting from: (1) the common typology of tourist activities practiced in rural areas, i.e. in the touristic and agro-touristic boarding houses; (2) the types of financing: working capital, investment financing and co-financing projects with the European funds etc., we found the following results: from the 64 valid responses, there were 62 respondents (i.e. 97%) indicating that the bank they represent has been involved in financing the rural tourism business. In the terms of the type of financing, we noticed that the working capital loans are the least accessed, mentioned only by 23 bank's representatives (i.e. 36%), probably due to the banking requirements and the firms' managers' opinion that operating activities can be supported from the

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current incomes. Instead, the appeal for the bank support in investment projects (such as construction or modernization, equipment and facilities purchasing), projects that are difficult to be covered only by the distributed profits and the shareholders contribution is mentioned by 38 banks’ representatives (i.e. 59%). Finally, the involvement of the banks in financing projects implemented with the EU funds is most often mentioned, respectively by 56 banks’ representatives (i.e. 88%). There are some explanations for this last situation: the existence of an already checked and approved business and project, the existence of a collateral and a certain repayment source, especially in the case when the bank co-financing is covered by the repayment instalments from implementing agencies, and, last but not least, an acceptable degree of utilization of these funds (considerably higher than the national average). Aggregately, 20 responses indicate the bank involvement in only one form of financing (whichever), 29 responses indicate the involvement of banks in two different forms, and 13 responses indicate the involvement in all three forms of financing the rural tourism activity.

Regarding how the banks perceive the risks associated with the (rural) tourism businesses (RQ2). Do banks consider financing the rural-based tourism ventures as relatively riskier than the businesses operating in other sectors?, the results indicate 4 cases of the banks’ representatives who ‘strongly agree’ with this statement, 26 ‘agree’, 19 were neutral, 13 ‘disagree’, and 3 ‘strongly disagree’. With the weighted average of 3.3 (calculated as the average of responses ranging from 1 – strongly disagreement, to 5 – strongly agreement), the rural tourism businesses seem to be considered by the banks as slightly riskier than the businesses in other sectors. However, the perceived risk is lower than the risk expected for the entire tourism sector. There are two possible explanations. On the one hand, the rural tourism activity was less affected by the crisis, due to the re-orientation of the touristic flows from

Table 2. Banks’ perception on the risks of financing the rural tourism businesses (calculated as the weighted average of the responses ranging from 1– strongly disagreement, to 5 – strongly agreement)

Average	Banks, by ownership			Banks, by size	
	foreign	domestic private	state	top 10 banks	small banks
3.26	3.23	3.1	3.8	3.19	3.32

Source: authors’ calculations based on the dataset

the expensive (i.e. foreign destination) to more affordable (i.e. national) destinations, and from the classic resorts to the less expensive guest houses in rural areas. On the other hand, most of the respondents indicate that they co-financed the European projects implementation, which involved reasonable amounts of money and a lower risk of default.

Regarding the ownership or the bank size (RQ3. Do banks’ size and origin significantly influence their involvement in financing the rural tourism ventures?) the score recorded by the foreign owned banks (i.e. the subsidiaries of multinational banks in Romania, which represented about 83% of the Romanian banking system assets in 2011) is the closest to the average (i.e. 3.23), while the private domestic banks (with a score of 3.1) are less likely to consider rural tourism as a sector with higher risks than other sectors. On the contrary, for the state-owned banks, rural businesses are considered quite risky, with the score of 3.8, significantly far beyond the average of 3.3. Analyzing the banks’ perceptions by their size, we found no significant differences; both banks from the top 10 by size (with the score of 3.19), and small banks (with 3.32) are about as close to the average.

Another relevant issue concerns the most important risk factors taken into consideration in the financing of the SMEs operating in tourism (RQ4). The results are synthesized in Figure 1.

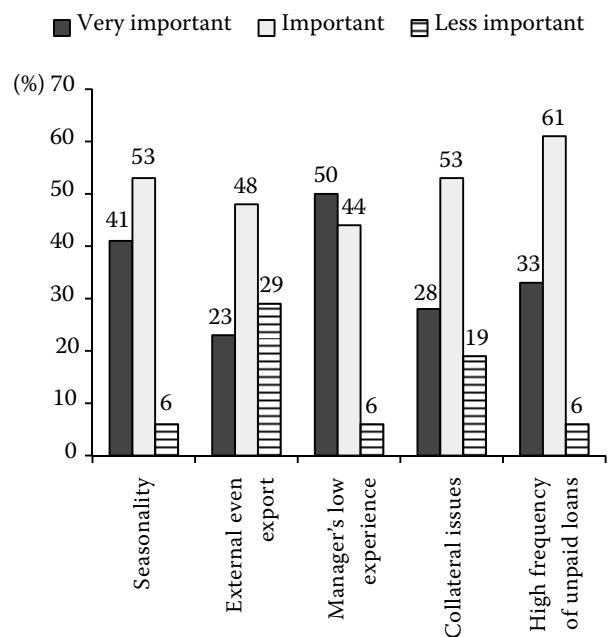


Figure 1. The most important risk factors in financing the tourism businesses

Source: authors’ construction based on the dataset

Table 3. Opinions regarding the importance of the appropriate business characteristics which enable the loan reimbursement

	Low indebtedness level	Affiliation to a well-known brand, association	Diversification of activities, alternative sources of income	Very prudent investment policy
Very important	25	31	28	16
Important	36	30	36	41
Less important	3	3	0	7

Source: authors' calculations based on the dataset

As revealed, the low experience of the managers and the high seasonality (implicitly the seasonality of the cash-flow) appear to be the risk factors with the highest score of importance (50% and 41%, respectively). On the contrary, bankers do not perceive very serious threats in the impact of the external events, difficult to control, based on the premise that most of these events affect the rural tourism firms in a reduced manner. It is quite surprisingly a relatively low score attributed to the collateral problems (i.e. 28%), which can be explained by the quite frequent involvement in co-financing the European projects, where the associated risks are limited and the specific collateral requirements are diminished.

Finally, we surveyed the banks representatives regarding their opinion on the repayment possibilities, and more specifically which are the characteristics of the tourism business proved to be more adequate to enable the loan reimbursing (RQ5).

Data from Table 3 reveal that the banks rate as very important the “diversification of activities and alternative sources of income” and “maintaining a low indebtedness level”. These opinions are predictable, as they come from the creditors' side, but they are also appropriate to the nature of the rural tourism business, where the risk of concentration on a sole touristic activity is consistent, and the excessive investments could be fatal to small businesses, in the case of low and unstable tourist flows. Obviously, the affiliation to a recognized brand and joining the reservation systems could provide flows which are relatively stable over time and could generate a sufficient cash-flow. A positive aspect is the fact that the banks do not encourage an excessively prudent investment policy, aware that the valorisation of the opportunities and the diversification of activities (and of income sources) could be achieved only with adequate facilities, and with a reasonable amount of specialized assets.

CONCLUSIONS AND POLICY IMPLICATIONS

Rural tourism could be both a chance for the rural areas' revival and a possible solution to the problems affecting them. Moreover, for a sustainable development of rural tourism, beneficial for the local communities, it is also necessary that the businesses be local and capitalize also the favourable nature-based resources and the cultural heritage (i.e. traditions, history and local specificities). Consistent with other researches, we found that the supply of funding for rural businesses is somewhat weaker and less competitive compared to the urban-based businesses. Financing small businesses operating in rural tourism is provided by two main sources, i.e. the government programs and banks. We found that the banks could support and supplement the necessary funds, both in the case of independent investments and in the case of accessing the public sources (e.g. EU funds). Although considered as slightly riskier than other sectors, the rural tourism businesses could be a good opportunity for the banks, under certain conditions. Therefore, the SMEs should make rational and intelligent investments, they should diversify their income-generating activities and increase the experience and responsibility of management. Our study confirmed, however, that a certain caution of the lenders cannot be attributed only to the relatively small size of the business, of the collateral or to the financial performance, but also to the quality of management and (in) ability to transform the existing opportunities into viable plans. On the other hand, partially refuting the previous researches, we found that, far from the agglomeration and overlapping between the private funding and the government intervention, the banks are involved and complement the funding opportunities offered by the public support programs.

We found that the domestic private banks have a greater willingness and propensity to finance rural

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businesses, and the logical relation between the nature of the capital of these banks and the local, inland specificities of these businesses should not be ignored when designing the future economic policies. Rural tourism businesses still need a genuine, adequate support especially for the SMEs, besides the classical corporate investments and large-scale public projects in the tourism infrastructure development. However, our research shows that even if there are some differences between the types of banks willing to get involved in the rural tourism businesses, such differences are not as consistent as they were outlined in the literature or in empirical studies conducted in other countries. The existence of profitable businesses, the company's capacity to mitigate risks and to generate a diversified growth are targeted by any bank regardless its size, capital or location.

Policies to support the rural businesses should be regional in goals and systematic in approach, avoiding focus only on the short-term effects. Most rural communities have a reduced critical mass of economic initiatives and, therefore, they can afford a very small margin of error. The moderate interest of banks in the rural-based tourism businesses has to be boosted through better synergies and complementarities with the public assistance programs, in particular through the access to the EU funds for rural tourism. In the long run, these could lead to a diversification of the funding supply from all banks in the market. We found that some of the perceived business risks and the loans repayment capacity are fuelled by external factors, which are less influenced by the administrative action (e.g. seasonality, external events). As a conclusion, the policies to support the rural tourism business should be focused on improving other aspects which could help strengthening the rural tourism businesses, such as developing managerial skills, supporting the association and cooperation between firms, providing loan guarantees, identifying opportunities for the diversification of income sources. The authorities should avoid the fragmentation of programs, the overlapping of different supporting policies. Finally, a considerable attention should be given to simplifying the programs assisting the rural business development.

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