

S U M A R

Mersul ideilor

INESA TOFĂNICĂ, EMIL HOROMNEA, ALIN CHELARIU, IFRS, Adoptarea IFRS în România și importanța dimensiunii auditorului	3
IOANA IRINA, Ce înseamnă automatizarea marketingului și cum o putem utiliza în afaceri?	11
MĂRCULESCU ILEANA-ANDRA, Decizia de consum la intersecția dintre economia standard și economia comportamentală	19

Probleme în actualitate

EDITH MIHAELA DOBRESCU, Dezvoltarea durabilă prin polii de creștere	33
PAUL LUCIAN , Disfuncționalități în plan social la nivel european.....	41
IOANA A. HORODNIC, COLIN C. WILLIAMS, ADRIAN V. HORODNIC, Sunt practicile competitorilor din sectorul informal o amenințare majoră pentru hoteluri și restaurante?	49
MIRELA STOICAN, ADINA LIANA CAMARDA, CORINA CARMEN VIȘAN, NELLY FILIP, CULAI DASCĂLU, ALINA MIHAELA IONAȘCU, CRISTINEL ȘONEA, LEONARD STOICAN, Implicațiile formării capitalului uman în creșterea calității serviciilor agroturistice în Regiunea Sud- Est a României	61

Puncte de vedere

VIOREL-FLORIN GÎLCĂ, Ciclul economic în contextul dezvoltării durabile	73
OTILIA MANTA, Provocări actuale în finanțele rurale.....	85
OLGA SMOLEŃSKA, Factorii de dezvoltare a ofertei fermelor agroturistice din Polonia. Studiu de caz: Regiunea Wielkopolska	97
EMILIAN M. DOBRESCU, Necesitatea unui nou model educativ	109

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C O N T E N T S

The progress of ideas

INESA TOFĂNICĂ, EMIL HOROMNEA, ALIN CHELARIU, IFRS adoption in Romania and the importance of auditor size	3
IOANA IRINA, What is marketing automation and how could it be used for business?.....	11
MĂRCULESCU ILEANA-ANDRA, The consumption decision at the crossroads between standard economics and behavioural economics.....	19

Present-day topics

EDITH MIHAELA DOBRESCU, Sustainable development through growth poles....	33
PAUL LUCIAN, Social malfunctions at the European level.....	41
IOANA A. HORODNIC, COLIN C. WILLIAMS, ADRIAN V. HORODNIC, Are practices of competitors in the informal sector a major threat for hotels and restaurants?	49
MIRELA STOICAN, ADINA LIANA CAMARDA, CORINA CARMEN VIȘAN, NELLY FILIP, CULAI DASCĂLU, ALINA MIHAELA IONAȘCU, CRISTINEL ȘONEA, LEONARD STOICAN, Implications of improving the quality of training human services agritourists in South Eastern Romania.....	61

Points of view

VIOREL-FLORIN GÎLCĂ, The economic cycle and sustainable development ...	73
OTILIA MANTA, Current challenges in rural finance.....	85
OLGA SMOLEŃSKA, Development factors of the agritourism farm offer in Poland – Wielkopolska region case study	97
EMILIAN M. DOBRESCU, La nécessité d’un nouveau modèle éducatif	109

IFRS ADOPTION IN ROMANIA AND THE IMPORTANCE OF AUDITOR SIZE

Abstract: *The recent accounting regulations in Romania have made mandatory the use of IFRS in the individual financial statements of the companies listed on stock exchange. The aim of this study is to see to what extent the figures in the statements have been influenced by this new enforcement. We have studied the companies affected by this regulation and publicly traded on the Bucharest Stock Exchange. Our findings showed that, on average, Romanian companies did not comply with IFRS practices, as they prefer the practices that do not differ from national regulation. Moreover, the study has shown that the companies audited by a Big 4 have adopted practices closer to the Anglo Saxon accounting system.*

Key words: *IFRS implementation, individual statements, Romania, auditor.*

1. Introduction

Romania has adhered to the European Union in 2007. As a member state, it had to apply its accounting Directives and Regulations. According to Nobes' accounting systems classification [1998], Romania exhibits the characteristics of the class B system, i.e. the continental European system. Romanian accounting harmonisation has been realised in many stages over time. One of the latest laws (but not least) considering this subject was the Order of the Ministry of Finance (OMFP) nr. 1286/2012. According to this OMFP, Romanian companies traded on stock exchange are obliged to use International Financial Reporting Standards (IFRS) when completing their individual financial accounts. They have to implement IFRS from 2013 onwards.

2. The effect of IFRS application in Romania

We can find a big amount of studies concerning the effect of IFRS adoption. For instance, Jermakowicz [2004] has analyzed the process of IFRS adoption in

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Belgium. This country has also a continental European accounting system, just like Romania's one. She has analyzed three companies that had implemented IFRS for the first time in 2003. The author of the study concluded that efforts undertaken by companies to adopt IFRS in accounting practices have been translated into a significant impact on reported net earnings values.

Jermakowicz and Gornik-Tomaszewski [2006] have analyzed the process of IFRS adoption at the European Union level and concluded that many companies have adopted these standards even before the 2002 Regulation has been issued. The questionnaires' answers have revealed the fact that the majority of respondents have adopted IFRS not just for consolidated financial statements, but still, they would have not been implemented them if they were not required by law. Moreover, the process is burdensome and costly and the companies are not expecting to cut the price of equity.

Weißberger, Stahl and Vorstius [2004] have analyzed the reasons why German companies preferred IFRS to the detriment of German GAAP (Generally Accepted Accounting Practices). Among the reasons we can find: the gaining of a higher status on financial markets, the internationalization of investors, and the creation of important supplementary information. However, after the actual implementation of IFRS, companies have reported that none of the above was met.

Niskanen, Kasanen and Kinnunen [2000] considered that financial reporting under IFRS in Finland has not made a significant difference for the 18 companies studied in the period 1984–1992, so the data reported by these companies is not radically different.

So can be said about Spain, as concluded by Callao et al. [2010]. The authors did not find a significant improvement in financial statements. Carini et al. [2011] state that Italian companies are reluctant to the application of IFRS, because they have to recalculate the taxes. Istrate [2014] studied the effect of IFRS on reported net earnings of Romanian companies showing a negative effect of IFRS implementation. Daske et al. [2013] admit that many companies apparently adopt IFRS, but, in fact, this does not produce major changes in accounting practices.

In addition to studying the impact of transition to IFRS on accounting figures, it is useful to assess auditor's influence on these figures.

DeAngelo [1981] and Watts and Zimmerman [1986] suggest that large audit firms provide audit service of superior quality compared to small audit firms, as they are more independent. Caramnis and Lennox [2008] analyzed Greece's example and concluded that the Big 5 firms spend more time on audit action compared to other firms. Moreover, they found a direct correlation between the time spent on auditing and earnings' management. Thus, companies audited by non-Big 5 firms have evidence of result's manipulation. Tsalavoutas and Evans [2010] have studied the impact of IFRS on Greek companies and found significant differences in the case of companies audited by the Big 4 compared to those audited by non-Big 4 firms.

Ionaşcu et al. [2014] and Munteanu [2011] state that in Romania accounting practitioners are open and optimistic regarding the application of IFRS, being aware of their benefits. In order to study the impact of IFRS enforcement on individual financial statements, we have studied the entities listed on the stock exchange, taking into account the changes in equity after IFRS application and studying the impact of auditor's size on these figures.

3. Methodology

In order to study the impact of IFRS implementation in Romania, we have used Gray's index. In 1980 Gray proposed a "conservatism" index, which measured the impact of new accounting standards. The index has the following formula:

$$I_C = 1 - \frac{R_A - R_P}{|R_A|}$$

Where I_C is the conservatism index, R_A is the *adjusted result on IFRS*, R_P is the *published result according to national standards*.

This index measures the differences between the result calculated according to national accounting standards and the result calculated according to IFRS. The values obtained by the index can be explained as follows:

- If $I_C > 0$ than we can state that the companies have adopted accounting practices different from the national ones;
- An index $I_C < 0$ shows the conservatism of the companies, as a proof that the companies prefer the practices that do not differ from the national ones.

Gray suggests that an index superior to 1.50 is characteristic to the very optimistic companies, and an index inferior to 0.50 is for the very conservative companies. Other three subgroups can be identified:

- The pessimistic subgroup, where $I_C < 0.95$;
- The optimistic subgroup, where $I_C > 1.05$;
- The neutral subgroup, where I_C takes values between 0.95 and 1.05.

In order to appreciate the effect of IFRS adoption on equity, we have used the data from 2011 financial statements, where we could gather also information regarding companies' auditor.

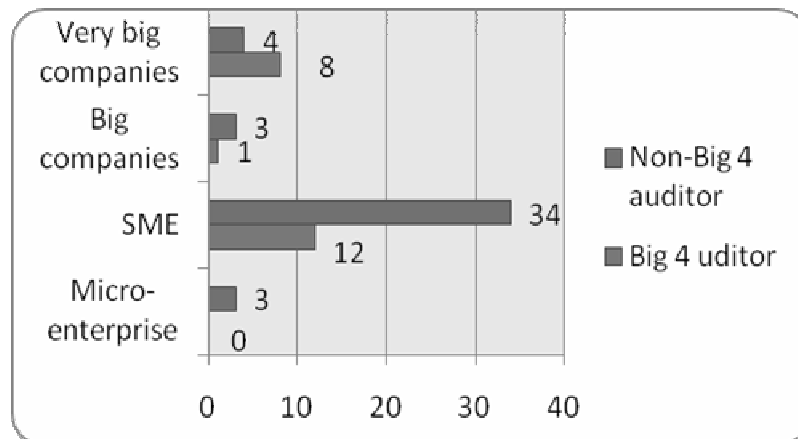
In our study we have used the following formula:

$$I_C = 1 - \frac{E_{IFRS} - E_{RAS}}{|E_{RAS}|}$$

where E_{IFRS} is the equity calculated according to IFRS regulation, and E_{RAS} is the equity calculated according to Romanian regulation. We have used this formula as the scope of this study is to compare IFRS figures with those completed according to national rules. This formula was also used by Haller et al. [2009], Hellman [2011], and Istrate [2014].

The data was gathered from the Bucharest Stock Exchange site, namely www.bvb.ro. Starting from the total number of listed companies (83), we have excluded from the study financial intermediaries (as they are the subject of different regulations), unlisted companies, firms with the financial year different from the fiscal one, and companies for which it was impossible to gather data for 2011. In the end, we had a sample consisted of 65 companies.

When referring to companies' auditors (figure 1), we can observe that the majority of them have opted for a non-Big 4 auditor. This comes naturally if we think about the price asked by Big 4 auditors for their services. Many companies cannot afford to pay such a big amount of money. We can see that only the majority of the very big companies' category has opted for a Big 4 auditor operating in Romania, such as KPMG, Deloitte, PricewaterhouseCoopers or Ernst & Young.



Source: Authors' representation.

Figure 1. Companies' auditors.

When studying the importance of the auditor in IFRS transition, we used **Stata** software to realize the regression analysis of Gray's index on equity.

4. Results and discussions

In what follows, we present the results of the index and its regression based on the type of auditor (Big 4 *versus* non-Big 4).

Table 1

Gray's index on equity

Gray's index		<i>Ic</i> = 1.05
Gray's index, classified by subgroups		Number of companies
I	0.5	1
II	0.5–0.74	2
III	0.75–0.94	6
<i>Pessimistic (<0.95)</i>		<i>9 (14%)</i>
IV	0.95–0.99	7
V	1	18
VI	1.01–1.05	13
<i>Neutral (0.95–1.05)</i>		<i>38 (58%)</i>
VII	1.06–1.25	12
VIII	1.26–1.5	2
IX	1.5	4
<i>Optimistic (> 1.05)</i>		<i>18 (28%)</i>
Total		65 (100%)

Source: Authors' calculations.

As we can see in the table 1, Gray's general index takes the value 1.05. This proves that on average Romanian companies that applied for the first time IFRS in individual financial statements have been *neutral* in what concerns the application of IFRS. This means that the firms were reluctant in applying different accounting practices than the national ones. 14% of the companies were *pessimistic*, and other 18% were optimistic in applying IFRS. The majority of the companies (58%) were *neutral*, so they applied the same accounting practices be it before or after IFRS implementation. We can find one very pessimistic company, with an index below 0.5 and four very optimistic companies, with an index above 1.5.

We have also realized index's regression on auditor's type. The results are presented as follows.

Table 2

Results of the regression

Source	SS	df	MS			
Model	.210726796	1	.210726796	Number of obs	=	65
Residual	5.57061144	63	.088422404	F (1, 63)	=	2.38
Total	5.78133824	64	.09033341	Prob > F	=	0.100
				R-squared	=	0.0364
				Adj R-squared	=	0.0212
				Root MSE	=	.29736
ic	Coef.	Std. Err.	t	P> t	[95 % Conf. Interval]	
auditor1	.1217533	.0788682	1.54	0.100	-.2793587	.0358522
auditor2	0	(omitted)				
cons	1.093182	.0448286	24.39	0.000	1.003599	1.182765

The results (significant at 10%) reveal a direct and positive relationship between index's values and the auditor type. In this way, the companies with a Big 4 auditor have an index 0.12 points higher compared to the companies with other auditors. The absolute value is not so big, but if we consider the possible values of the index, the findings make sense and are relevant for the study of IFRS impact on Romanian companies' financial statements.

5. Conclusions

The study proves that Romanian companies are on average neutral in what concerns the application of IFRS. They have chosen not to apply different accounting practices from the national regulations. This can be explained by the strong relationship between accounting and fiscality, as the practitioners do not want to retreat financial statements for state's use. Another cause of these poor results is the weak Romanian accounting profession. Moreover, many companies do not held the financial resources in order to train accounting professionals in the IFRS spirit.

Another finding of the study is that companies with an auditor from the Big 4 group have a higher index. This group of auditors has a big expertise in applying IFRS, as they are present worldwide. It must be also stated that the auditor often offers consultancy for the client on IFRS matters.

The flexibility of IFRS has led the majority of Romanian companies to adopt practices that do not differ from the national regulation. Still, Romania has undertaken important steps towards accounting convergence and this cannot be neglected, as it represents an important step towards international accounting approach.

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WHAT IS MARKETING AUTOMATION AND HOW COULD IT BE USED FOR BUSINESS?

Abstract:

Key words:

History. Definitions. Providers

Many people that ever had contact with marketing automation define it as a complex of automatized processes that are able to cover what marketing department can do. Fortunately, “marketing’s enigma is that even if it exists since the oldest human activities, it is still perceived as one of the latest economical disciplines”² and “marketing practice did not develop until it was clear that pushing goods on the market was not so efficient as it is the focus on obtaining satisfaction objective”³. In reality, marketing automation means much more so an overview of its history would help in understanding how ideas came and created this great concept.

Most feel that marketing automation first burst into the scene when Unica company was founded in 1992. However, this was merely scratching the surface because most businesses were not present online and the Internet was still in relative infancy. Seven years later, Eloqua appeared with new solutions and its success inspired many competitors to enter the market, such as Pardot, Infusionsoft, Marketo. With the increasing penetration of Broadband Internet between 2004 and 2009, more marketing automation tools began to be built or migrated to the cloud. So, we likewise saw the birth of many cloud-based tools such as Ontraport (2006), Hubspot (2006) and Act-On (2008)⁴.

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² Baker, M., _____, Third Edition, Butter Worth Heinemann, Oxford, 1994, p. 3.

³ Baker, M., _____, Editura Societatea Științifică și Tehnică S.A. București, 1997, p. 127.

⁴ <http://www.marketingautomationinsider.com/marketing-automation-history-timeline>, accessed on 13.04.2016.

After year 2000, marketing automation industry began to grow exponentially from a \$225 million industry to a \$1.65 billion industry in just five years. In the four years between 2010 and 2014, there was over \$5.5 billion worth of acquisitions made in the marketing automation industry. The largest of which was Salesforce's acquisition of ExactTarget for \$2.5 billion, after ExactTarget acquired Pardot for \$95 million.

Early systems were focused primarily around emails and emailing. Starting from the assumption that direct marketing is an assembly of concepts, techniques and marketing tools, resulted in a directly targeted approach, personalized and interactive for the consumer, aiming to generate measurable reactions⁵, it could be said that marketing automation was built from direct marketing principles. Meanwhile, data bases management was in its best decade and so, marketing automation was wanted to provide a good management of customers, measure their actions on the companies' marketing actions and to increase efficiency.

Marketing automation tools were built using the characteristics of direct marketing⁶: action (reaction by immediate action), measurability (efforts can be measured by the number of responses received until the proper purchase), flexibility (its complexity, allowing it to be used as a support actions for advertising/sales promotion/ independent asset), versatility (the implementation of a variety of messages, letters, shapes, images, according to legal regulations), selectivity (a very precise segmentation, specific), personalization (individualization of messages sent to customers), confidentiality (the content of messages that are received by customer segments known only by company in question – not competition – and receiving personal messages), persuasion and efficiency (by reducing waste of money, time and energy). The marketing automation tools of today have become significantly more powerful. American Express, Intel, LinkedIn and many others now use marketing automation to send tens of millions of personalized emails, text messages, direct mail, and social adverts to their users

A general definition of marketing automation is hard to capture in just few words, the best way to understand the concept is to survey the biggest providers. Some descriptive and comprehensive definitions could be found bellow:

- “Marketing automation is a category of technology that allows companies to streamline, automate, and measure marketing tasks and workflows, so they can increase operational efficiency and grow revenue faster”⁷
- “At its best, marketing automation is software and tactics that allow companies to buy and sell like Amazon – that is, to nurture prospects with highly personalized, useful content that helps convert prospects to customers and turn customers into delighted customers. This type of marketing automation

⁵ Vegheș, C.,

Uranus, București, 2003, p. 37.

⁶ Zaiț, A.,

, Ed. Economică, București, 2000, p. 23–25.

⁷ <https://www.marketo.com/marketing-automation/>, accessed on 15.04.2016.

typically generates significant new revenue for companies, and provides an excellent return on the investment required”⁸

- “Marketing Automation is a subset of customer relationship management (CRM) that focuses on the definition, scheduling, segmentation and tracking of marketing campaigns. The use of marketing automation makes processes that would otherwise have been performed manually much more efficient and makes new processes possible”⁹
- “Marketing automation is the use of software and Web-based services to execute, manage and automate marketing tasks and processes. It replaces manual and repetitive marketing processes with purpose-built software and applications geared toward performance.”¹⁰

Providers of marketing automation solutions are many on the market and they are increasingly targeting niches within niches. Currently, there are two broad categories of marketing automation tools: small business tools, and enterprise tools. As more competitors have entered the space, it could be seen more targeted tools aimed at specific sectors within the small business market. With the exception of a few leaders, like Marketo, Hubspot, Pardot and Eloqua, many tools will have to pick their corner of the market. B2B companies are taking great advantage of marketing automation software by integrating it with their existing CRM system. This helps combine and streamline both marketing and sales efforts, and creates better visibility for both teams.

Marketing Automation Features and Uses

The most important purpose of marketing automation systems was to manage emails. Nowadays, emailing campaigns can manage billions of unique contacts and can qualify them after their engagements. All starts when a contact enters an emailing campaign and receives an email. Depending on the engagement or non-engagement on that email, it gets qualified for another email. Normally the first email contains general information about company or products (depending on campaigns’ purpose) and depending on what a contact clicks on from that email, it gets niched. For example, if the first email contains information about printers, computers and tablets and a contact clicks only on computers link from email, then this click will be caught by marketing automation system and the contact will be sent to another emailing campaign which has the purpose of presenting computers offer. Each click from the email can be quantified in marketing automation systems; the feedback received could be sent to company and analyzed.

⁸ <http://www.hubspot.com/products/marketing-automation>, accessed on 15.04.2016.

⁹ <http://marketingautomationtimes.com>, accessed on 13.04.2016.

¹⁰ <https://www.techopedia.com/definition/15586/marketing-automation>, accessed on 14.04.2016.

Contacts are created in marketing automation platforms by submitting forms. One of the most appreciated methods to gather data from people is to offer them something in exchange – a document, a video, training, etc. “The success key is to promise customer a benefit”¹¹.

In a similar manner, the companies’ websites can be integrated with marketing automation systems and every action a person performs gets stored in its profile. The continuous loop on customers’ actions helps marketers understand their needs or curiosities. Sometimes from a click to a sale is just a step if the system is correctly configured based on previous experiences and deep understanding of customer’s actions. Campaigns are all automatized, meaning that once built in several decisions steps and activated, the contacts will follow the created path; campaigns can be linked one to another in order to satisfy different types of customers. Emails can be sent based on actions, time intervals or a range of other parameters and can include customized auto-responders. Email content can be configured dynamically – driven by prospect data fields and/or sales representatives’ assignments. Social sharing (ex: LinkedIn, Facebook, Twitter) and integration with preferred email programs (ex: Outlook, Apple Mail, Gmail, Mozilla Thunderbird and Chrome) are included.

Some systems offer by default an A/B testing for campaigns. In case a campaign has to be launched, but marketers are not very sure on some details (ex: subject line), they can apply an A/B test that will split contacts in 3 groups: 2 small groups (ex: each one will have 10% from the total contacts that will be implied in the campaign) and one big group (for this example, 80%). Contacts from first two groups will receive earlier the two versions of emails (10% with first subject line and 10% with second subject line); the winner email will be considered the one that has more engagement (more opens, clicks) and will be sent to the remaining contacts.

Having a history of customer engagement helps in segmentation and targeting. Marketing automation systems offer various possibilities of niches creation, depending on customers’ engagement, emails sent/received, emails opened/not opened, customer’s characteristics, entered campaigns, previous sells, events participations, webinars seen, assets downloaded.

Even if marketing automation systems store the customers’ actions in relationship with the company, it was necessary to build a ‘resume’, so Lead Scoring models have been developed. In this manner, contacts could be classified. Conditions for each type of engagement are customizable, depending on business needs. Segmentation in marketing automation platforms is built from segmentation theory based on criteria¹²: geographical, socio-demographical, social, psychological, economical, customer behavior.

¹¹ Ogilvy, D.,

Editura Humanitas, 2009, Bucuresti, p. 22.

¹² Beane, T.P., Ennis, D.M.,

Recherche et Applications en Marketing, no. 3/1989.

email templates from the iPad, CRM, or web), Web Visit Alerts (real-time lead generation email alerts sent directly to sales when hot prospects visit company's website, containing visitor details like pages visited, length of visit and search terms used). Also, Eloqua offers closed-loop reporting and since "Eloqua Insight" is built on a Business Intelligence platform, Eloqua provides powerful reporting and dashboards that companies can customize to uniquely meet their reporting requirements and needs.

Marketing automation platforms offer indeed many possibilities for companies to build strong relationships with customers, integrating all existing interactions. Being oriented to cover consumers' needs on long term is the actual phase of marketing today, having the role to "determine needs, wishes and interests of targeted markets and to provide wanted satisfactions in a more efficient and operative way than competition, in a manner that protects and increase customer's and society's good"¹³.

Software costs and explanation

In the last years, marketing automation platform implemented new features and they become very stable and sales driving; this might explain their prices that are estimated around tens of thousands annually. When investigating which platform is more suitable for a business, it is said that price shouldn't be the most important factor in company's decision, given that it will be used for years and still has to be capable to sustain a bigger company.

The most important players of the market have different packets, depending on business needs. Below is an average of estimated costs:

Software Costs¹⁴

Platform	Marketo Standard	Pardot Enterprise	Eloqua
Base program cost	\$3,995 per month	\$2,000 per month	\$4,000 per month
Number of users	Unlimited	Unlimited	50
Number of emails sent per month	Unlimited	Unlimited	
Training cost	Included	Included	Included
Integration cost:			
CRM	\$200 per hour	\$200 per hour	Not published
CMS	\$200 per hour	\$200 per hour	Not published
Total Annual Cost:	\$47,940	\$27,600	\$50,000+

¹³ Kotler, Ph., Armstrong, G., 2005, p. 35–36.

, Ediția a III-a, Editura Teora, București,

¹⁴ <http://www.thesaleslion.com/marketo-vs-eloqua-pardot-review-compare>, accessed on 14.04.2016.

Even if costs are evaluated as high, the licenses are sold continuously. The same trend happened with other systems as well, such as integrated systems or CRMs. “Organizations have spent millions of dollars adopting salesforce automation (SFA) systems, and this trend continues to grow”¹⁵. The success key of this kind of business solutions seems to be the orientation to customer by teaching companies’ processes, workflows, procedures that were developed in time, by real time research. Practically, companies learn how to get standardized with a success formula and this is a secret for which many CEOs would pay.

Conclusions

Marketing automation has started its performance as an extension from direct marketing, but its abilities demonstrate nowadays that it might be a possibility for companies to build strong customer relationships. It is not a holy grail and is still too often seen as a way to automate marketing. While the possibility to automate often repetitive tasks is essential, the human, connected and customer-centric dimension is essential.

Softwares for marketing automation have several qualities that couldn’t be missed for a company that is still in doubts when referring to implementation: scalability (efficiency could always be optimized), reporting (closed-end reporting), alignment with sales team (providing qualify leads at the right time), communication in a personal way (personalized emails, events), running programs across multiple channels (multiple channels to communicate with different audiences).

The success of a marketing automation implementation does not – primarily – depend on the selected marketing automation software either and – again – certainly is not about just “automating”, if the automated workflows, interactions, offers, content, analytics, etc. are correctly built (depending on company’s needs). The shift from selling to buying, along with the advent of several new digital channels, used by consumers and B2B buyers, keeps impacting the marketing automation industry and the adoption of marketing automation by organizations.

There were 202 different marketing automation solutions on the market at the end of 2016 with a fast increasing in the last period. Statistics show that the industry is growing steadily, and it doesn’t seem to be slowing down any time soon. Companies are beginning to consider it a top priority. Many marketing specialist work in this domain, so my assumption is that in some years students will learn best practices in marketing automation in universities, as this places a very important role on companies.

¹⁵ Parthasarathy, M., Sohi, R., S

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MĂRCULESCU ILEANA-ANDRA¹

**THE CONSUMPTION DECISION AT THE CROSSROADS
BETWEEN STANDARD ECONOMICS AND BEHAVIOURAL
ECONOMICS**

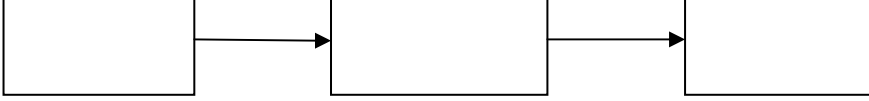
Abstract:

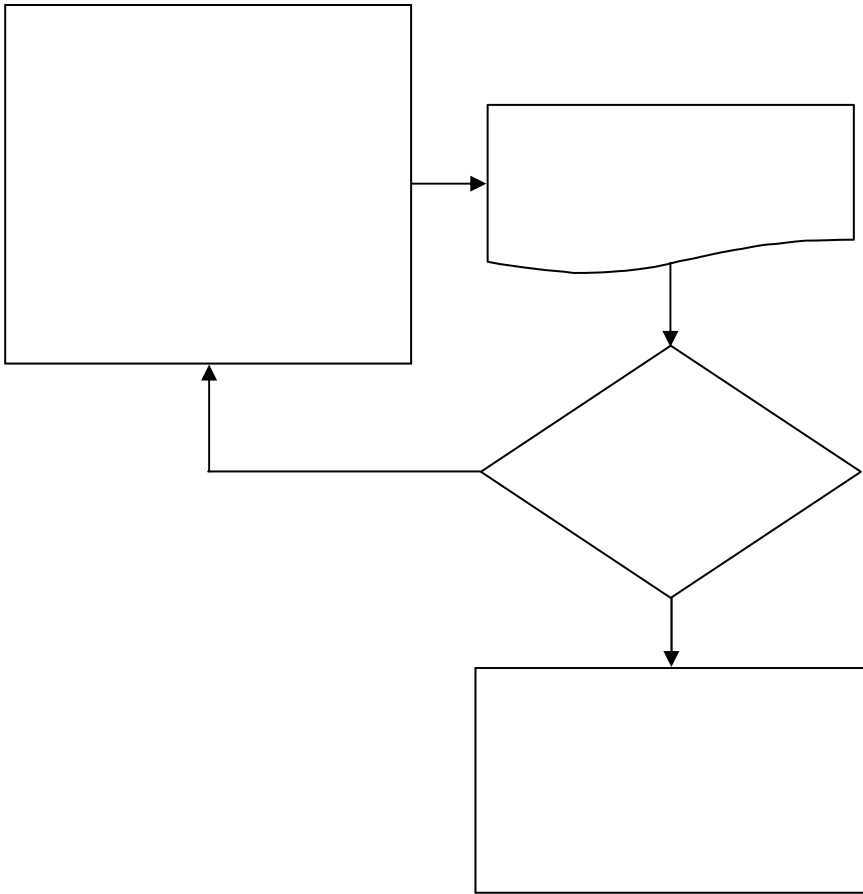
Key words:

Introduction

About the concept of consumption

The consumer and the “black box”





From standard economics to behavioural economics

Conclusions

References

TABLE DE EL MITH GH
G TH LE

t₁ t

Abstract: Propagation of growth and economic power at a global level demands for a collective management of the economic problems, this being, in the authors' opinion, the most reliable mechanism to approach the issues and challenges brought along by a global multipolar economy. The distribution of the economy growth starts to be a reality at a global level, so that the dominant economic influence of a single country is no longer a reality.

The growth of emergent economies turns to advantage the purports of a globalism which increasingly relies on growth and development poles. The global economy has never seen before such large-scale developments. Along the history of economy and economic thinking, the economic power paradigms have been designed and redesigned in terms of the rise and fall of the growth poles with the highest capacity to lead the global growth, and energize other countries with their international commercial and financial activity.

This paper aimed to highlight, in the economic integration process, the growth poles in the local and regional economies, as well as certain important economies seen as growth poles for the global economy.

Key words: sustainable development, world's economy, growth poles, a system of methodological analysis of growth poles (SMAGP), global economic governance, multipolarity, management.

JEL Classification: E60, F44, F62, G30, O10.

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SMAGP – the system of methodological analysis of the growth poles proposed

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PAUL LUCIAN¹

SOCIAL MALFUNCTIONS AT EUROPEAN LEVEL

Abstract: *For most countries, social policy is a use of political power on the economic system, with the purpose of achieving certain results based on other values than those determined by the forces of the free market; as such, it is deemed to be at the heart of the ideological rift between left and right wing politics.*

Initially, the European social model was based on the 'welfare' rule; the current European social model and future models are more complex, due to difficulties both at an European and at a national level. The greatest achievement of the European Economic Community refers to the fact that E.U citizens are entitled to freedom of employment and movement across the European Union. We note that often times, this freedom creates disturbances on the labor market. Free movement of labor from one area to another, from one country to another can generate imbalances in the unemployment rate.

Due to the enlargement integration process of the E.U., Central and Eastern Europe need to manage social disruptions between national social policies.

The European Union is going through a crisis because of the lack of credibility and confidence of European citizens in Community institutions, which led to the deepening division of European citizens on solving common European problems. As such, there is a tendency for some highly developed Member states to take a new approach towards globalization, given that euroscepticism and populism has increased among political parties; the crisis is deepened by the Syrian refugee crisis and terrorism threats.

Since the Treaty of Rome (1957) was signed, all the way to the Lisbon Treaty (2007), the European Union has made significant progress on the path of economic integration; as a novelty, as the Lisbon Treaty stipulated in art. 50, a member even choose to withdraw from the European Union.

Key words: *European citizens, unemployment, Schengen space, social protection, free movement of people.*

Introduction



Current status quo

Materials and method

Results and discussion

Conclusions

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ADRIAN V. HORODNIC³

ARE PRACTICES OF COMPETITORS IN THE INFORMAL SECTOR A MAJOR THREAT FOR HOTELS AND RESTAURANTS?

***Abstract:** This paper evaluates the perceived impacts of the informal economy on registered business in the “hotels and restaurants” sector and identifies the characteristics of firms that perceive informal practices as the biggest obstacle faced in their activity. Reporting data from the Business Environment and Enterprise Performance Surveys conducted by the World Bank and the European Bank for Reconstruction and Development in 11 countries in Eastern Europe in 2013, the finding is that registered firms in the “hotels and restaurant” sector perceive informal practices as a bigger obstacle in their activity compared with firms in other sectors. Medium sized companies are less likely to consider the informal sector as the biggest obstacle faced in their activity, whilst a lack of subsidies reduces the likelihood of considering the informal sector as the biggest obstacle for the firm. The implications of the findings are then explored.*

***Key words:** informal economy; tourism; small business; sharing economy; Eastern Europe.*

Introduction

There is large literature that explores and explains the nature of informal economy. Although initially associated with under-developed countries (Gilbert, 1998; Lewis, 1959), the past decades have revealed that the phenomenon is persistent even in developed or developing economies (ILO, 2013; Williams and Lansky, 2013). While some scholars argue that the informal economy can have positive effects in specific areas, the vast majority underlines the negative effects of its existence. Governments lose money which could otherwise be used for offering to its citizens better social protection, modernized infrastructure etc. Those working in the informal sector lose their entitlement to loans, pensions and social protection. Moreover, the quality of their working conditions cannot be controlled by the state nor the employers' imposed additional conditions. Another negative result of the informal economy is the lack of fair play for registered businesses. Thus, undeclared practices provide incentives for legitimate businesses to evade regulatory compliance due to unfair competition. The aim of this paper is to explore to what extent businesses in “hotels and restaurant” sector perceive the existence of the informal sector as an important obstacle in their activity, whether

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this particular sector perceives the informal practices as more threatening for their business compared with other sectors, and to identify which companies in the “hotels and restaurant” sector are more likely to perceive this sector as a threat.

To commence, therefore, a brief review of the informal economy and its particularities in tourism sector will be provided. Secondly, and to begin to evaluate if informal practices are perceived as a major threat by the business in “hotels and restaurants” sector, an enterprise survey conducted by the World Bank and the European Bank for Reconstruction and Development in 11 countries in Eastern Europe in 2013 will be outlined and thirdly, the results will be reported. In the final section the implications of the findings are explored.

Informality and the tourism sector

The informal economy includes any paid activity which is not declared to the authorities for tax, social security and/or labour law purposes (European Commission 2014; OECD 2012; Schneider 2013; Williams 2004; Williams and Windebank 1998). These activities are legal in all respects except that they are unregulated by the public authorities. If the activities differ to the formal economy in additional features, then they are rather a part of the ‘criminal economy’ (i.e. illegal trades such as drugs). The informal sector is often characterized by reduced entry requirements and small-scale operations (Guttentag, 2015; Neuwirth, 2011; Schneider et al., 2011).

Informality and tourism are in most studies investigated separately although extensively explored in the literature (Rădan-Gorska, 2013). Indeed, the results of an extensive review of the research on tourism small businesses reveals that almost all the literature ignores their informal activities (Thomas et al., 2011). Furthermore, the tourism informal sector is often omitted in tourism planning or policy (Sørensen and Babu, 2008; Timothy and Wall, 1997). Yet, analysing the tourism sector, different practices belonging to informal economy can be identified. These include unregistered companies as well as registered companies. To start with, not only unregistered companies participate in the informal sector but so too do those registered. Recent studies have revealed that a large number of companies operate without being totally formal or totally informal. For example, a survey of 300 small size companies in Pakistan shows that two third of companies are neither totally informal nor totally formal and instead, they display different levels of informality ranging from low level to high level of informality (Williams and Shahid, 2016; Williams et al, 2015). Registered companies in the tourism sector can participate in informal sector either by not declaring their full activity (i.e. the accurate number of nights rented or food supplied to their guests, lower prices for the accommodation) or by reducing their labour costs using so-called ‘envelope wages’. Using envelope wages, employers reduce their tax and social security payments and, therefore, labour costs by paying employees two wages: an official declared salary, which is detailed in a formal written contract, and an additional undeclared ‘envelope wage’ via a verbal unwritten

agreement. Such a verbal unwritten agreement to pay an additional undeclared (envelope) wage may simply deviate from the formal contract by stipulating that the employee will be paid more for their regular employment than is in the formal written contract. Yet, more usually, this verbal agreement attaches conditions to the employee receiving this additional salary, such as that they will not take their full entitlement to annual leave, that they will work more hours per week than is stipulated in the written formal contract (which might take the employee over the hours stipulated in any working hours directive or result in them being paid below the minimum hourly wage) or it may specify a different job content to that stated in the formal contract (Horodnic, 2016; Williams and Horodnic, 2016, Williams and Horodnic, 2015). Considering the tourism sector characterized by its seasonal nature, this kind of arrangement can easily be applied in full season when there is a high demand of tourism products and services. Thus, employees can work additional hours and thus, receive additional payments not declared to the authorities. Also, in this period it might be the case that employers supplement their workforce with wholly informal employees.

Besides these informal practises which might be carried by registered companies, the informal tourism sector also includes the unregistered entities carrying out economic activities. In the tourism sector, these are usually small-scale enterprises (i.e. small guesthouses, restaurants and shops). In many cases, these enterprises require small investments and are family or kinship based and operated (Gladstone, 2005; Wahnschafft, 1982). With technology development, in addition to these 'traditional' informal competitors, the registered companies have to compete against those entities operating in the so-called 'sharing economy'. The 'sharing economy' term was introduced in Oxford Dictionaries in 2015 and is defined as "an economic system in which assets or services are shared between private individuals, either for free or for a fee, typically by means of the Internet". The sharing economy concept developed new markets which traditionally were not seen as monetizable, offering to individuals new opportunities of generating income from their belongings (Heo, 2016). The sharing economy is also called collaborative consumption or the peer economy and refers to individual participation in sharing of private assets such as: renting, transport solution, bartering of goods and services etc. (Heo, 2016; Choi et al., 2015; Jull, 2015; Zekanović-Korona, 2014). In the tourism industry, this new concept has a significant impact since it has changed the way people travel (Heo, 2016; Guttentag, 2015). Although the sharing economy is not limited to the tourism sector, being present in multiple areas of social and economic activity, the tourism sector has been one of the sectors most affected (Jull, 2015). For example, Airbnb, one established peer-to-peer platform that offers accommodation, is seen as a possible source of disruption for the traditional accommodation sector (Pairolero, 2016; Guttentag, 2015). This platform had an extraordinarily high growth rate and, at the moment, books millions of room per night all over the globe (Salter, 2012). This business model is still in its development phase and therefore there are few estimates of its

impact on tourism sector (Heo, 2016). Yet, a recent study on the Texas market concludes that sharing economy is a successful competitor, gaining market share from traditional economy (Zervas et al., 2016). Furthermore, another recent study estimates that the revenues of five ‘sharing economy’ sectors, namely peer-to-peer finance, online staffing, peer-to-peer accommodation, car sharing and music and video streaming and five traditional ‘rental’ sectors, namely equipment rental, B&B and hostels, car rental, book rental and DVD rental, will be equal by the year of 2025 (PriceWaterhouseCoopers, 2014). With such a massive and rapidly growth it is no wonder that registered businesses (i.e. hotels and taxi companies holders) tend to see Uber and Airbnb as a threat, considering them as unfair competition since they suspect them as evading legal regulations (Heo, 2016; Jull, 2015). This is also the reason why, in some European cities, restrictive regulation has been adopted for short-term home rentals as well as inspections to properties were conducted to check if the law is respected (Jull, 2015). Sharing economy platforms have a high economic potential and currently represent a challenge. Therefore, European policies seek to ensure a balance between exploiting their potential and assuring regulatory protection (Goudin, 2016).

In sum, the registered companies in the tourism sector face a high competition from the informal sector. Along with the ‘traditional’ informal entities, technology leads to the emergence of a new category of competitors, those belonging to sharing economy. The following section will explore the perceived threaten of informal economy on registered businesses in tourism, most specifically the “hotels and restaurants” sector.

Data and methods

For analysing practices of competitors in the informal sector as an obstacle faced by hotels and restaurants in Eastern Europe, data is reported from the fifth round of the Business Environment and Enterprise Performance Survey (BEEPS V, 2013), conducted by the World Bank and the European Bank for Reconstruction and Development. Overall, the study involved 15,883 interviews conducted with firms in the manufacturing and services sectors in 30 developing countries, of which 3,716 were conducted in Eastern Europe. In each country, along with a common questionnaire, a stratified random sampling methodology was employed to ensure that the sample is representative at the national level of the nonagricultural private sector. For each country, the sample was stratified by sector of activity, establishment size, and location within the country. According to the Enterprise Surveys methodology, we here used weights to ensure that the sample was proportionate to the universe of the population in each country.

In the undertaken analysis, the dependent variable used is a dummy variable with recorded value 1 for firms in “hotels and restaurants” sector in Eastern Europe

which consider practices of competitors in the informal sector as biggest obstacle faced in their activity and with recorded value 0 otherwise.

To evaluate the firms operating in “hotels and restaurants” sector which consider practices of competitors in the informal sector the biggest obstacle in their activity two categories of variables were selected. On the one hand, independent variables relating the general profile of the firm and, on the other hand, independent variables related with firm innovation capability were selected. These are the following:

- *Business size*: a categorical variable grouping hotels and restaurants by their business size with value 1 for micro and small (up to 19 permanent full-time employees), value 2 for medium (20 to 99 permanent full-time employees), and value 3 for large (more than 99 permanent full-time employees).
- *Main clients*: a categorical variable for the main clients to which the establishment sold its main product or service with value 1 for local (clients from the same municipality where establishment is located), value 2 for national (clients from the country where establishment is located), and value 3 for international (clients outside country where establishment is located).
- *Subsidies*: a dummy variable with recorded value 0 for firms receiving over the last three years subsidies from the national, regional or local governments or European Union sources and with recorded value 1 otherwise.
- *Checking or savings account*: a dummy variable with recorded value 0 for managers/ owners/ directors who answered ‘yes’ to the question: ‘At this time, does this establishment have a checking or savings account?’ and with recorded value 1 otherwise.
- *Line of credit or loan*: a dummy variable with recorded value 0 for managers/ owners/ directors who answered ‘yes’ to the question: ‘At this time, does this establishment have a line of credit or a loan from a financial institution?’ and with recorded value 1 otherwise.
- *Females amongst the owners*: a dummy variable with recorded value 0 for firms having females amongst the owners and with recorded value 1 for firms not having females amongst the owners.
- *New or significantly improved products or services*: a dummy variable with recorded value 0 for firms introducing during the last three years new or significantly improved products or services and with recorded value 1 otherwise.
- *New or significantly improved organizational or management practices or structures*: a dummy variable with recorded value 0 for firms introducing during the last three years new or significantly improved organizational or management practices or structures and with recorded value 1 otherwise.

To report the findings, firstly a descriptive analysis is provided. Secondly, as the dependent variable is a dummy, we employed a logistic regression analysis to explore the firms whose managers/ owners/ directors consider practices of competitors in the informal sector the biggest obstacle in their activity.

Results

Out of a total of 3,716 interviews conducted with firms in the manufacturing and services sectors in 11 East European countries, 138 are included in “hotels and restaurants” sector. Of these, 18.42 per cent compete against unregistered or informal firms in Eastern Europe. Nevertheless, as Table 1 displays, the phenomenon is not evenly distributed across countries.

Table 1

Hotels and restaurants in Eastern Europe competing against unregistered or informal firms
(%, by country)

Country	Hotels and restaurants (%)
Bulgaria	41
Croatia	40
Czech Republic	13
Estonia	11
Hungary	8
Latvia	16
Lithuania	17
Poland	38
Slovakia	25
Slovenia	15
Romania	11

n = 138

Source: own calculations based on Enterprise Surveys (Business Environment and Enterprise Performance Surveys, BEEPS, 2013) conducted by the World Bank and the European Bank for Reconstruction and Development.

The percentage of firms in “hotels and restaurants” sector is higher in Bulgaria (41 per cent of firms), Croatia (40 per cent), Poland (38 per cent), and lower in Hungary (8 per cent) and Romania (10 per cent). As such, the competition between formal and unregistered or informal firms operating in “hotels and restaurants” sector it is not mandatory to be more common in less affluent countries in Eastern Europe. For instance, according to Table 1, in two countries with similar levels of GDP per capita⁴, namely Hungary with Croatia, very different percentages were reported of firms competing against unregistered or informal firms: 8 per cent compared with 40 per cent.

To find to what degree are practices of competitors in the informal sector an obstacle for hotels and restaurants, Table 2 reports the cross-national variations. This reveals again the uneven distribution of the perceived level of threaten across countries in Eastern Europe.

⁴ GDP per capita based on purchasing power parity (\$): Hungary – 24,037.2 / Kazakhstan – 23,213.9 / 21,441.8 (World Bank, 2013).

As expected, in countries with the lowest level of competition between formal and unregistered or informal firms operating, informal practices are not seen as an important obstacle. For instance, no hotel or restaurant in Hungary reported informal competitors as a major or severe obstacle. However, 16 per cent of firms in Lithuania found informality as a major or severe obstacle.

Table 2

Practices of informal competitors: obstacle to current operations in “hotels and restaurants” sector in Eastern Europe (% , by country)

n = 138

Country	DK, Refusal, DA (%)*	No obstacle (%)	Obstacle (%):			
			Minor	Moderate	Major	Severe
<i>Eastern Europe</i>	6	53	7	13	18	3
Bulgaria	23	16	8	23	30	0
Croatia	0	55	22	8	15	0
Czech Republic	14	16	0	31	39	0
Estonia	0	75	14	11	0	0
Hungary	9	83	8	0	0	0
Latvia	0	41	34	4	21	0
Lithuania	0	83	0	1	0	16
Poland	3	84	0	13	0	0
Slovakia	0	54	25	21	0	0
Slovenia	0	70	23	7	0	0
Romania	6	32	0	14	39	9

*Notes: Don't know, Refusal, Does not apply.

Source: own calculations based on Enterprise Surveys (Business Environment and Enterprise Performance Surveys, BEEPS, 2013) conducted by the World Bank and the European Bank for Reconstruction and Development.

When examining the results in Table 2, however, more firms in other countries find informality as a major or severe obstacle: Romania (48 per cent), Czech Republic (39 per cent), Bulgaria (30 per cent), and Latvia (21 per cent). Therefore, in 4 out of 11 countries in Eastern Europe, the percentage of firms in “hotels and restaurants” sector reporting practices of informal competitors as a major or severe obstacle for their activity is above the mean (18 per cent).

Analysing these descriptive statistics therefore, the tentative finding is that a large share of firms in “hotels and restaurants” sector in Eastern Europe are competing against unregistered or informal firms (18.42 per cent) and are seeing the informal competitors as a major or severe obstacle for their activity (18 per cent).

Continuing to examine the descriptive findings, Table 3 displays a rank between obstacles faced by firms in “hotels and restaurants” sector. Not only are the tax rates frequently rated as the biggest obstacle faced by firms, but so too are practices of competitors in the informal sector. Regardless of whether we analyse all sectors or only “hotels and restaurants” sector, the practices of informal

competitors seems to be the biggest obstacle faced by more than 10 per cent of firms. Nevertheless, a closer investigation reveals that registered firms in the “hotels and restaurants” sector perceived the informal sector as a bigger obstacle in their activity compared with all firms (11.79 per cent compared with 10.83 per cent). Therefore, even informality ranks the second biggest obstacle faced by all companies, the informal practices of competitors are considered more of a threat by the firms in the “hotels and restaurants” sector.

Table 3

Biggest obstacle faced by firms in Eastern Europe and Central Asia:
all sectors vs. the “hotels and restaurants” sector (% and rank)

Biggest obstacle faced	<i>n</i> = 3,716		<i>n</i> = 138	
	All sectors		“Hotels and restaurants” sector	
	%	Rank	%	Rank
<i>Practices of competitors in the informal sector</i>	10.83	2	11.79	2
Access to finance	10.82	3	8.61	3
Access to land	1.98	10	2.76	8
Business licensing and permits	1.64	13	0	15
Corruption	3.70	8	5.81	5
Courts	1.49	14	0.06	14
Crime, theft and disorder	1.71	11	0.83	12
Customs and trade regulations	1.26	15	1.41	10
Electricity	1.69	12	1.12	11
Inadequately educated workforce	4.65	6	2.91	7
Labor regulations	4.33	7	2.25	9
Political instability	8.79	4	7.08	4
Tax administration	5.03	5	4.64	6
Tax rates	25.51	1	25.29	1
Transport	2.15	9	0.28	13
Don’t know; Refusal, Does not apply	14.42	–	25.16	–

Source: own calculations based on Enterprise Surveys (Business Environment and Enterprise Performance Surveys, BEEPS, 2013) conducted by the World Bank and the European Bank for Reconstruction and Development.

To analyse the characteristics of the firms operating in “hotels and restaurants” sector which consider practices of competitors in the informal sector the biggest obstacle in their activity, an additive model is used. The first stage specification examines the general profile of the firms while the second stage specification adds variables related with firms’ innovation capability. Table 4 reports the results.

Model 1 in Table 4 shows that, compared with micro and small businesses (with less than 19 employees), the medium-sized ones are less likely to consider

the practices of competitors in the informal sector as the biggest obstacle faced in their activity.

Table 4

Logistic regressions of the propensity to consider *practices of competitors in the informal sector* as biggest obstacle by hotels and restaurants in Eastern Europe

Variables	Model 1	Model 2
Business size (micro and small <=19)		
Medium: >= 20 and <= 99	-4.484*** (1.270)	-4.431*** (1.247)
Large: >= 100	1.091 (1.237)	0.693 (1.279)
Main clients (Local)		
National	-0.426 (0.923)	-0.717 (0.690)
International	-1.659 (1.690)	-1.565 (1.696)
Subsidies (Yes)		
No	-1.674* (0.855)	-1.456* (0.747)
Checking or savings account (Yes)		
No	-1.732 (1.207)	-1.900 (1.236)
Line of credit or loan (Yes)		
No	0.533 (0.736)	0.757 (0.700)
Females amongst the owners (Yes)		
No	-0.529 (0.864)	-0.506 (0.883)
New or significantly improved products or services (Yes)		
No		-1.057 (0.779)
New or significantly improved organizational or management practices or structures (Yes)		
No		-0.154 (0.816)
Constant	-0.509 (0.945)	0.129 (1.039)
Observations	3,710	3,709
Subpopulation	132	131
Prob > F	0.0049	0.0041
<i>Notes:</i>		
Significant at *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$ (standard errors in parentheses).		
All coefficients are compared to the benchmark category, shown in brackets.		
Sample size is lower due to missing data.		

Source: own calculations based on Enterprise Surveys (Business Environment and Enterprise Performance Surveys, BEEPS, 2013) conducted by the World Bank and the European Bank for Reconstruction and Development.

The lack of subsidies reduces the likelihood to consider practices in the informal sector as the biggest obstacle for hotels and restaurants. This can be explained through the lack of pressure associated with meeting certain criteria to benefit from subsidies. No significant association is identified, however, with the nature of the clients, checking or saving accounts, gender of owner or the existence of a line of credit or a loan. When model two adds variables related with firm innovation capability, there are no major changes on the firm characteristics associated with the likelihood to perceive the threaten of the informal competitors as the most important impediment in their activity. Again, no significant association is identified with the ability of improving the organizational or management practices or structures.

Conclusions

It is well known that the informal sector represents an obstacle for legitimate businesses due to unfair competition. This paper has revealed that companies in the “hotels and restaurants” sector perceive informality as a severe threat. Although only few papers have investigated the tourism sector and informality together and even more surprisingly informality has been neglected in tourism planning or policy (Thomas et al., 2011; Sørensen and Babu, 2008; Timothy and Wall, 1997), currently, with technology developments and the rise of the sharing economy, tourism informality represents a major challenge for policy makers. At the European level, the regulation policies for the sharing economy have several gaps and policy makers have tried to find a balance between exploiting their potential and assuring regulatory protection (Goudin, 2016). Considering that the sharing economy business model is still in its development phase, its impact and success cannot be yet estimated on a large scale. Indeed, this depends on the policies adopted with respect to this sector and needs further investigation.

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IMPLICATIONS OF IMPROVING THE QUALITY OF TRAINING HUMAN SERVICES AGRITOURISTS IN SOUTH EASTERN ROMANIA

Abstract: Reforms the last decades have changed practically all spheres of life and the activity of the rural population. National trend recorded demand growth of rural tourism has led to some organizational problems, reflected in shortage of qualified staff. A handy solution was offered the allocation by the European Social Fund, funds to train and retrain the trades, tourism and agrotourism.

This research aims to identify the effects generated by investment in staff training, which is reflected in the quality of services offered by agritourism.

Key words: agritourism, human capital, quality of tourism services.

JEL: R11, J24, Z3, O15.

1. Introduction

The approach of this topic comes in a time when human capital is the head element in achieving a responsible business in rural areas.

Clearly, in the last few years all European institutions and bodies have advocated the development of tourism in general and, particularly, tourism in rural areas.

The rural tourism development in the EU and beyond, has two basic coordinates: offering a specific tourism product to a particular area and developing

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an European level network to provide greater accessibility of rural tourism products. [10, pp. 5]. These two coordinates are closely related with the quality item, believed to be a means of tourism development in rural areas as defined by the EU Council Decision 92/421. But the quality, as an independent process, can not be tackled without direct correlation with his decisive factor constituted by human capital. Its value, capacities, skills and abilities are defining elements that directly contribute to shaping a remarkable mechanism, quality-rural tourism and responsibility, because quality and human capital are not sufficient for the completion of “well done” work . The consciousness of human capital, related to the care of future generations, must be the starting point in any business.

The reforms of the past few decades have, practically, changed all spheres of life and the activity of the population. The increasingly stronger trend of free time distribution in order to pursue leisure activities in rural areas, has led to a paradigm namely quality in rural tourism. Numerous studies have tried to solve this paradigm more or less, but most of them agreed on the need for corroboration of human capital potential with tourism potential, working together at the realization of a “cunning piece of work.”

The ability of entrepreneurs from rural tourism, reported in a complex of principles has led to quality management. It actually involves a long-term strategy, which leads to a continuous improvement of products’ quality and rural tourism services, fortified with management’s ability to meet and exceed the needs of tourists, facilitating the increase of productivity and profits.

In the current conditions, in Romania, the concept of quality, conceived only as an adaptation to the standard, must be resized in order to adapt to customer needs and expectations. the South-East of Romania turns out to be a relatively attractive touristic region, of European and even international interest, the varied tourism potential being the starting point for the multiplication of tourism activities and diversification of tourism products. The agritourism is a valuable element for this area so that tourism can become an important economic sector. Although the development strategies highlight the existence of a valuable untapped tourism potential, or only partially exploited, there are no specific measures for in-depth development of forms of tourism appropriate for this potential.

One of the urgent problems faced by the tourism sector in general is human capital. Its implications in achieving some quality parameters leads to the idea that it is actually, beside the natural potential, the key to success in a profitable tourist activity which aims, at a superior level, to meet the tourists’ requirements

At the South East Region level of competence in the tourism sector it is low, due to lack of updated quality standards and adequate standards of training and development. Even if there are regional educational institutions that provide training in tourism and alimentation, staff training in the hospitality industry is poorly developed, with direct implications on the quality of services offered to tourists.

In addition to these resources of occupational there is a series of training programs at EU level which aim to provide performant human capital in all areas. This way, Human Capital Operational Programme (POCU) establishes the investment priorities, the specific objectives and the actions undertaken by Romania in the field of human resources, thus continuing investment made through the European Social Fund in 2007–2013 and also contributing to the overall objective of the Agreement Partnership (AP 2014–2020) – and at the same time, to the European Structural and Investment Funds in Romania, namely to reduce economic and social development disparities between Romania and EU Member States. [14].

2. Theoretical fundamentals

Research on human capital aimed both the concept itself and the measurement of the level of investment in human capital and the link among these ones and economic growth. Adam Smith was the pioneer of roads in this area, defining among the capital elements, the “useful” human skills and knowledge [11, pp. 12].

Even if A. Smith in “The Wealth of Nations – Inquiry into the Nature and its causes” already emphasized the importance of human capital as a determinant of economic growth, there is no doubt that in the last fifty years – economic theory has remarkably improved its understanding on the human capital role in economic development.

The relationship of human capital-economic growth initiated by Robert M. Solow (1957) [9] which was then developed by Edward Denison (1967) [4] and James Maddison gives greater importance to the residual factors (technical progress, education, health) in explaining the performance of economic growth. In long term, this growth is only possible if there is limitless growth of human capital [8].

From studies carried out by the Group of Chicago (1960–1961), coordinated by T. Schultz – have emerged the effects the human capital has on the productivity, this defining human capital as “that productive force of the man which is due to his vocational trainig, to education system and his health”. [11, pp. 16].

From the microeconomic perspective, Gary Becker is considered the father of contemporary economic literature of human capital. Becker’s studies’ purpose is the analysis of social investment decisions in human capital and their individual and family implications. The aimed topics are, among other things, the relationship between the individual request for education and providing educated labor, the variety of the income, which could be explained by differences between human capital components, such as education, experience, migration or health and the link between them and the work productivity.

Subsequently, the evolution of human capital theory based on the ideas of Jacob Mincer, who developed the “human capital model” according to which the observed gains mainly depend on the “human capital” built into a person, turns to demonstrate the role that the investment in human capital gains in productivity growth. The investment in human capital gained new values, human capital theory

paying particular attention to economic efficiency of education and health investment. Nancy Birdsall, Thomas Pinckney and Richard Sabot have studied the relation between economic growth and education in countries with abundant natural resources. The conclusion reached is that these countries spend less on education than other countries. The effects of education are reflected in increased productivity, in the facilitation of the technological progress or technological information purchase and the increase of salaries [11, pp. 20].

Also, for OECD countries, studies have been surveyed by researchers such as Nancy Birdsall [3, pp. 20], Angel de la Fuente [1, pp. 10–11], S. Scarpeta [2] and their conclusions boil down to the fact that education level is, potentially, a decisive-key to economic growth.

In the modern world, dominated by flexibility and competitiveness, the investment study in human capital and accumulation, has become a major area of research. So, after the “human capital revolution” in 1960–1970, researchers like Groot and Maaseen van den Brinks (2000) focused their studies on the needs of education and the determinants of human capital investment.

2.1. Theoretical Foundations on human capital in tourism

In specialized literature, there is a consensus that education and training are important for any business to ensure success in a competitive environment. Especially the tourism and hospitality industry, if the quality of service continues to be the most important differentiating characteristic of the company, the investments in human capital are the foundation of a successful business.

The tourism industry is recognized as one of the most prominent engines of economic development and one of the most important sectors of global economic growth, with 9% of world GDP. [13] This sector represents a key element in reducing poverty and disparities at regional level.

The characteristics of tourism, given in the first place by the direct interference with the tourists, make this field a particular element study on human capital. If specialty literature has particularly established the correlations between human capital, productivity, economic growth for directly productive sectors, for the services, the analysis was confined to a simplistic approach, from the perspective of the whole, without making a pertinent analysis of all its components. However, for the touristic activity it can successfully be applied the substitution principle, the relationship between educated labor and other production factors, the demand for education, the role of education, the political implications or the relationship between migration phenomenon and qualifications. Due to the importance of personal services in the tourism sector, it results the need to study the relationship between service quality and education of employees. Maxwell, M. MacRae, Adam and A. MacVicar [7 pp. 735–744.] in 2001, and also Fleetwood [5] in 2002, concluded that only a properly educated workforce might be able to support the high level of the service, the efficiency and their professionalism, ensuring, this way, the customer's

satisfaction and the profitability of the business. In the past decades the concern of the specialists in the field was directed towards a range of topics such as curriculum planning, assessment, training needs etc. In Table 1 there is a synthesis of the evolution of the main approaches to tourism human capital.

Table 1

Summary of tourism human capital approaches

Nr. crt.	The essence of the approaches	Writer
1	Content of the curriculum	Formica (1996); Airey and Johnson (1999);
2	The relationship between education and training and the importance of training at work for promotion	Finegold and al. (2000); Ladkin (2002)
3	Training needs	Sheldon and Gee (1987); McColl-Kennedy and White (1997); Formica and McCleary (2000); Aktas and al. (2001); Beeton and Graetz (2001); Agut and Grau (2002)
4	Quantification of the incidence of training among workers and companies	Kelliher and Johnson (1997); ILO (2001); Ramos et al. 2004)
5	Evaluation of formal education and training at work	Chung (2000); Churchward and Riley (2002); Collins (2002) Hocutt and Stone (1998); Pizam (1999); Jameson (2000); Davies and al. (2001)
6	The Government's involvement in the process of increasing the stock of human capital in tourism industry	Pollock and Ritchie (1990); Esichaikul and Baum (1998); Light and Dumbraveanu (1999); Pizam (1999)

Source: Author processing after Javier Rey Maquieira, Vicente Ramos and Maria Tugores, Implications of human capital in tourism analysis, International handbook on the economics of tourism, [6].

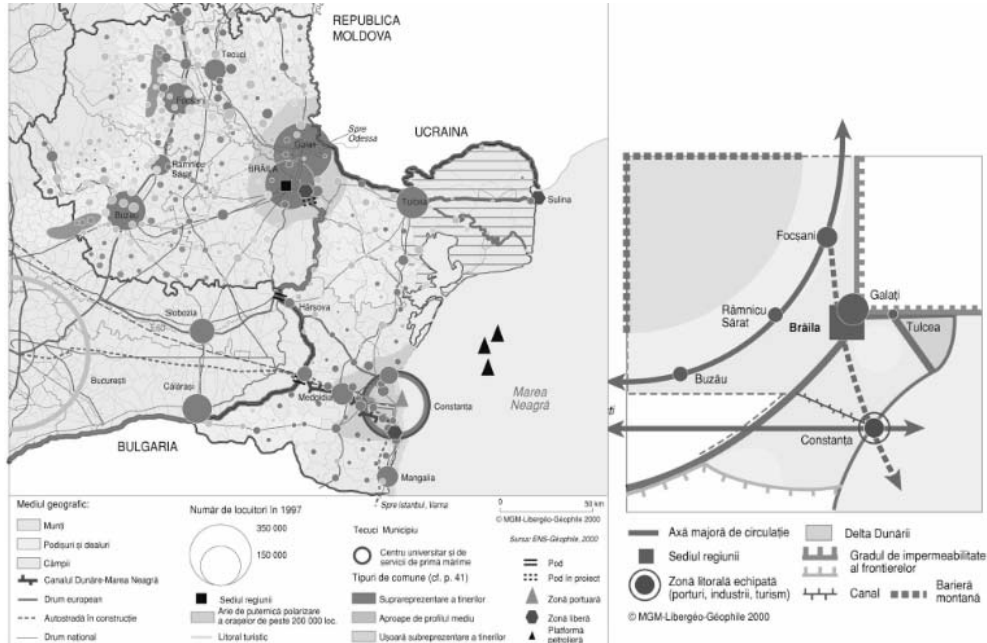
Generalizing the basic approaches of human capital in tourism we can say that this is the measure of the individual's capacities and qualities, formed from the investments, which, used effectively, according to the specific tourism activity, will increase labor productivity and incomes.

3. Study into the human capital formation in rural tourism of the South East Romania

3.1. Analysis of tourist traffic in Southeast Region

The South east Region belongs to physical-geographical province of Eastern Europe and is located in the south-eastern Romania, covering 35 762 km² or 15% of the total area of the country, being the second largest of the 8 regions of Romania. This region contains almost all forms of relief: Meadow of the Danube, The Baragan Plain in the center and the Covurlui Plain in the north, the Dobrogea Plateau in the east and south. In terms of administration, the South East Region comprises six administrative counties: Braila, Buzau, Constanta, Galati, Tulcea and

Vrancea. The settlements are structured as 11 cities, 24 towns and 355 localities with 1,447 villages. [12]



Source: http://www.adrse.ro/Documente/Planificare/Masterplan/Masterplan_10.08.2010.pdf.

Figure 1. The geographic location South East Region.

The rich heritage of natural and cultural resources was the precondition for the development of tourism industry in the region. The degree of diversification is high and includes coastal, mountain, cruise tourism, rural and ecological tourism, cultural and religious tourism, which still presents different levels of development.

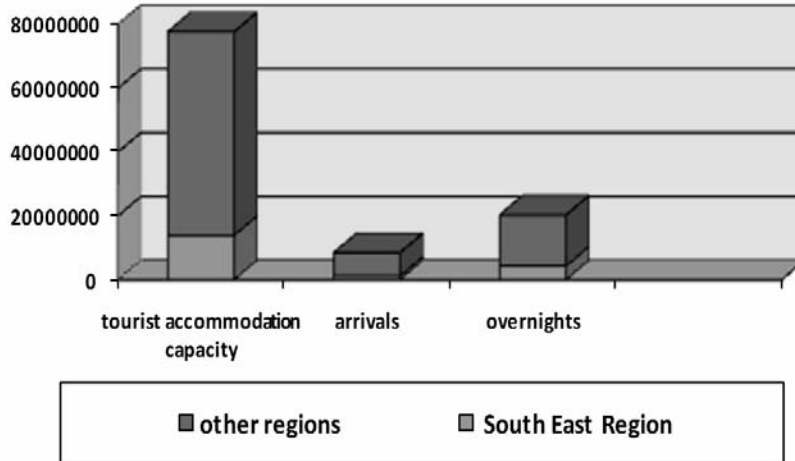
The tourism resources for this region are given in the first place by the the Black Sea, comprising 13 resorts along 70 km of coastline. Another area is the Danube Delta, which represents a scientific attraction and a high tourism potential. The region also benefits from a special spa (Techirghiol Lake, Eforie Nord) with mud that has similar properties with the one from the Dead Sea.

Regarding agritourism, Braila, Tulcea, Vrancea and Buzau counties present significant potential, given both the nature (The Muddy Volcanoes at Berca, the caves of Bozioru, Focul Viu at Andreiasu) and the local customs and traditions, which are still being preserved.

The cultural and historical heritage of the region is characterized by Getics, Roman, Greek and Byzantine cities and monasteries, mostly concentrated in the counties of Tulcea and Constanța.

In Romania, the South-East region is in a position of excellence, confirmed by the national tourism market indicators. In 2014 the region was the first in the country

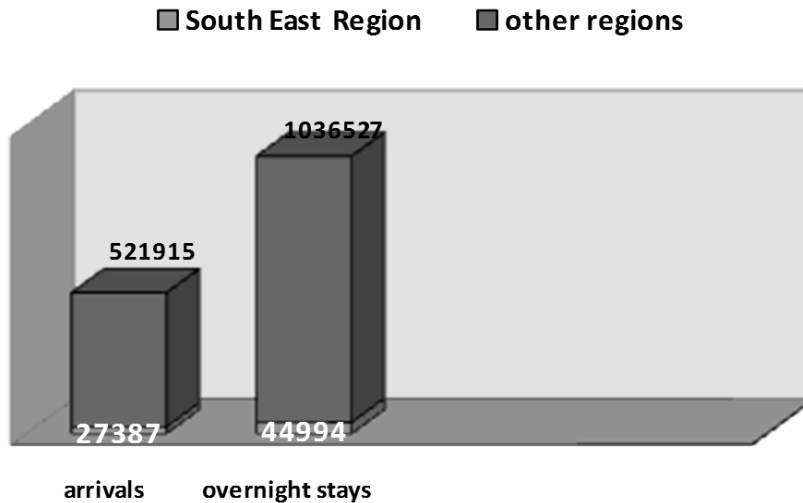
in terms of operating accommodation capacity. The number of arrivals and overnight stays have positioned it as second, being surpassed only by Central Region.



Source: Calculations based on NSI data.

Figure 2. Reception capacity in operation, arrivals and overnight stays, in comparison to the national level (2014).

Regarding rural tourism in this region can not talk about the same positive situation. Even though there are rural areas with particularly valuable touristic potential in the region, they are not sufficiently capitalized.



Source: Calculations based on NSI data.

Figure 3. Number of arrivals and overnight stays in agro hostels, in comparison to the national level 2014.

Major disparities appear within the region, Buzau and Vrancea counties recording the highest values for arrivals and overnight stays, while at the opposite pole Constanta and Galati, the last one having no arrival registered in 2014 in agro hostels. Compared to other regions of the country the number of arrivals in the South East region agro hostels represents only 4.98%, while the number of overnight stays is only 4.16%.

The problems that the region faces are given by basic accommodation, which are very often low-quality, the infrastructure, which is, most of it, outdated, the poor qualification of the staff and the inadequate touristic promotion.

3.2. Training of tourism staff in the South East Region as a solution to quality increase of the services

The staff qualifications of rural tourism activity, in the South East region, is one of the causes of a tourist activity, which, most often, does not fall into lines of quality that economic agents should provide to tourists. The lack of quality only engages a real vicious circle which leads to the decrease of tourists number and to business, mostly unprofitable.

The human capital development and increase competitiveness of rural tourism, by providing access to vocational training and social integration, should be a constant concern of both tourism agents and the local community.

The current legislation requires that the tourism services industry, the working staff must have qualifications to work in that field. According to the Order 65/2013, all restaurant employees, hotels' kitchen and reception are required to have qualifications. Thus, the employees must be 100% qualified, no matter how many stars the unity has.

In the rural tourism activity's case, the agro hostels' management is the administrator's duty, who, according to the law, must have skills gained from a Level 2 training course, conducted in schools or vocational training.

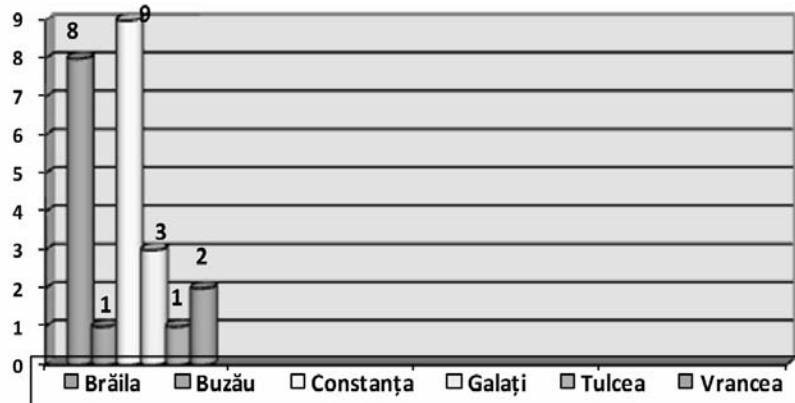
The volume and quality of rural tourism essentially depend upon the manning, the number of workers and their skill level, therefore, it is essential that the pensions have qualified staff.

For the South East Region, by HRD 2007–2013, there were 24 projects that were developed, which generally aimed exactly the human capital development and the increase of the rural tourism competitiveness, through training courses.

These projects had in view the vocational skills development and diversification of inactive people from rural areas, people from rural areas looking for a job, unemployed young people and people employed in subsistence agriculture and rural tourism. All these projects also specifically aimed the skills development in tourism, as this sector represents an area of interest on labor absorption.

Within the projects were conducted courses for Worker boarding house – COR code 514911; Touristic pension administrator COR code 512113; Manager in tourism activity – COR code 122 501; Receptionist COR code 422202; Bartender

COR code 512301; Cook – COR code 512201; Confectioner – COR code 741202; Pastry chef – COR code 741203; Hotel maid COR code 514201; Waiter – COR code 512302.



Source: Calculations based on SMIS data regarding the status of the contracted projects.

Figure 4. Vocational training projects in rural counties contracted in South East Region counties.

One of the projects with significant impact was the one implemented during May 2014 – November 2015 by the Association DORA D’Istria in partnership with SC Abeona LLC, SC Training in Tourism Management – FMT LLC and S.C. Pro Expert S.R.L, entitled “We are pro! Equal Opportunities”, funded by European Social Fund through the Operational Programme of Human Resources Development 2007–2013.

The project concerned, as an area of implementation, the Central, North-West, North-East, West, South-Muntenia, South-East, Bucharest-Ilfov regions.

The project’s objectives were:

- the facilitation of equal access and the increase of job opportunity/ maintenance in the employment marker for at least 1,120 women and people belonging to vulnerable groups, through participation in vocational training programs and promotion/strengthening of equal opportunities/gender or non-discrimination principle in the Centre, the Bucharest-Ilfov, North East, West, North West, South East, South Muntenia regions;

- the informing, awareness and sensitizing the staff of local/central governments and civil society organizations on the need to apply the principles of equality/gender in the labor market and society;

- the improvement of access to employment of at least 804 people in the target group through training/retraining;

- the facilitation of equal access, mobility and equal opportunities in the labor market of the target group by participating in training programs – career development, starting a business or ICT for minimum 195 women.

The target group proposed by the project was a minimum of 1220 persons structured as follows:

- Women – 1108
- Managers of local and central authorities – 10
- Staff of local public central and local authorities – 60
- Staff of civil society organizations – 15
- Staff of social partners – 15
- Other vulnerable groups – 12

The trades for which training courses were organized within the project are divided into skill level 1, 2 and 3 as follows:

➤ Level 1 qualification: Pastry chef, trade worker, aesthetics and human body hygiene worker, animal husbandry worker, **maid**, knitwear worker – clothing

➤ Level 2 qualification: confectioner – pastry chef, **touristic guest house administrator**

➤ Skill level 3: **conference, congresses, fairs and exhibitions organizer**

In the same project, initiation/specialization course were organized, namely: Entrepreneurial Skills (entrepreneurship), Learning Skills (career development), PC Skills (ICT).

We notice that the project addressed the qualifications of several fields, suitable for the main target group – women, among which is found tourism field, expanding towards the **agro-tourism**. These qualifications are: **maid, guest house administrator, conferences, congresses, fairs and exhibitions organizer**.

In South East Region, the counties where the project was implemented were: **Constanța, Tulcea, Galați and Vrancea**. In these counties courses were conducted for the following qualifications: guest house administrator, maid and conferences, congresses, fairs and exhibitions organizer.

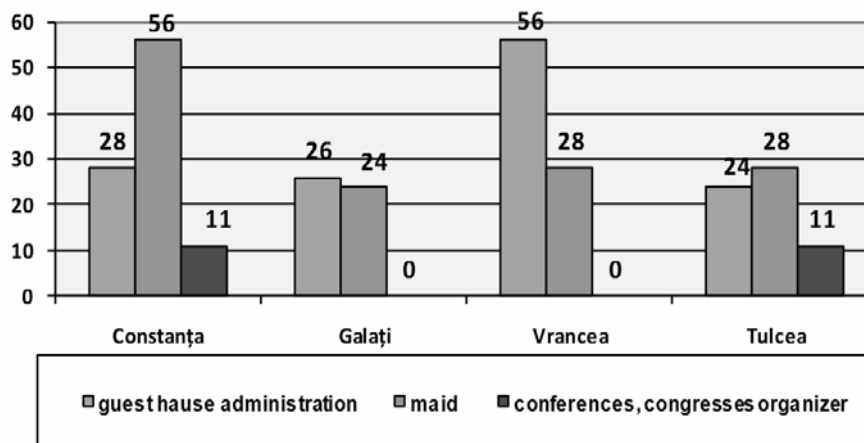


Figure 5. The structure of the county qualifications within the project “We are Pro! Equal Opportunities”.

It must be mentioned that 80% of the participants in these trainings come from rural areas and a total of 28 people were already employed in agro hostels, but with no qualification.

In the implementation of the project, contracts have been signed with agro hostels in the areas of the students' provenience, which was a defining element in the insertion of the graduates in these units. Within these counties a total of 15 people were employed as economic agents, where they had the possibility of an internship. Overall, results after the end of the project led to the conclusion that both rural tourism agents and the local community, represented by trained people, have realized the true value of an educated staff and, even more, staff that has been formed at the workplace.

4. Conclusions

The investment in human capital in Romanian rural tourism is, in the context of the present sustainable development efforts, an action that requires an ABSOLUTE imperative.

The importance of investing in human capital formation and its evaluation is, beyond the action with obvious practical, beneficial endings, an action of national interest.

Future research will go towards the assesion of the training programs, deeply aiming the performance variables: increasing salaries, evaluation of companies performaces, turnover and the absenteeism.

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THE ECONOMIC CYCLE AND SUSTAINABLE DEVELOPMENT

***Abstract:** In the context of promoting a reduction of people's environmental footprint, of addressing the gap between generations, individuals and nations and maintaining economic efficiency, reaching the goals of sustainable development is only possible with a change in people's mindsets and with communities capable of using resources rationally and effectively and uncover the economic potential of economies, ensuring prosperity, environment protection and social cohesion. The complexity of the phenomenon as a basis for economic fluctuations in the macro-system warrants the intensive research activities of the main schools of economic thought in order to explain the economic cycle, to subsequently become in itself a foundation of the sustainable development process.*

***Key words:** sustainable development, economic cycle, financial crisis, bio-economy, resources.*

1. Introduction. The crisis of resources and the context of sustainable development emergence

The concept of sustainable development was first stated in 1987 in the Brundtland report, then promoted at the World Conference for Sustainable Development organized by the United Nations in 1992 in Rio de Janeiro².

In response to the emergence of environment issues and the crisis of natural resources, the 1972 Environment conference of Stockholm first recognized at global level that human activities damage the environment and jeopardize the future of the Earth. The important issues of sustainable development are: integrative approach, the principle "Think globally – act locally!" the long term vision on development.

The concept of sustainable development can be characterized by three defining central pillars, i.e. economic, social and environment. Two additional transversal pillars have been introduced:

– **education**, both in the specialized field and the transdisciplinary field, "long life learning", which is based on EU life long learning programmes for cooperation in the field of education and vocational training in order to boost exchanges, cooperation and mobility between the education and vocational training programmes;

¹ PhD.

² "Sustainable development is the development process addressing the current needs without endangering the capacity of future generations to fulfil their own needs. [...] In order to achieve sustainable development, environmental protection shall constitute an integral part of the development process and cannot be considered in isolation from it." (Source: the Declaration of Environment and Development, Rio de Janeiro, 1992.)

– **entrepreneurship**, which puts into practice new, innovative ideas. Supporting this entrepreneurial behaviours requires the initiation of training from the early training stages, the role of the human capital for the economy being paramount.

Development is sustainable when it is based on both economic and social and environment objectives. Moreover, sustainable development is a fundamental objective of the European Union³.

The 7 priority axes of the EU Strategy for Sustainable Development, as reviewed in 2006, are the following: climatic changes and energy, sustainable transport, preservation and management of natural resources, sustainable consumption and production, public health, social inclusion, demography and migration, global poverty and the challenges of sustainable development.

1.1. The concept of integrated sustainable development

The concept of integrated economic development is a natural theoretical and conceptual addition to the two initial concepts of sustainable economic development and human development, being considered an attempt to summarize and integrate social, economic and environmental policies. From a not too far perspective, the integrated economic development can become an authentic framework for approaching the surrounding realities and relationships between human society and the environment.

In the future, this concept prepares a balancing between the legitimate social and economic needs of people and of the environment. The main indicators of sustainable development, and implicitly of the integrated economic development, are grouped into three large categories and have a relatively equal weight in terms of significance. These indicators include:

- Economic indicators, such as: the technological endowment, the production of goods, purchasing power, income from salaries and other alternative sources etc.
- Environment indicators, i.e. natural capital (natural resources)
- Social indicators related to human capital, such as: educational level, human development ratios, quality of life ratios, etc.

1.2. Integrated urban sustainable development. The 2014–2020 Cohesion Policy

Cities are the true engines of the European economy, which can be considered as key centres for innovation and creativity within the EU. Around 68%

³ Sustainable development has become an EU-wide goal with its inclusion in the Maastricht Treaty in 1997. 2001 saw the adoption of the Gothenburg Sustainable Development Strategy, supplemented with an external dimension in 2002 in Barcelona, and the reviewed EU Sustainable Development Strategy of 2006.

of the EU population lives in a metropolitan region, and these regions account for 67% of the EU's GDP. However, this is also the venue of permanent issues such as unemployment, segregation and poverty.

The European Commission's proposals on the 2014–2020 cohesion policy aim to stimulate integrated urban policies in order to drive sustainable urban development to consolidate the role of cities in the framework of the cohesion policy. These proposals are:

a) integrated investment strategies with a stronger strategic and holistic character: as a basic principle, the European Fund for Regional Development (EFRD) should support sustainable urban development by means of strategies addressing economic, climatic, and social and environment challenges.

b) earmarking of funding for integrated sustainable urban development: at least 5% of the EFRD resources assigned to each Member State will be invested in integrated actions for sustainable urban development, implemented via the Integrated Territorial Investment Tool (ITI), managed and applied by cities.

c) the urban development platform: on the basis of a list of cities, prepared by the member States under the partnership agreement, the Commission will establish an urban development platform including 300 European cities, which will encourage European-wide exchanges between cities and the Commission on urban development, mainly aimed at political issues⁴.

d) innovative actions in urban areas: in order to encourage new and innovative solutions in terms of sustainable urban development, EFRD can encourage, at the initiative of the Commission, innovative actions limited to a ceiling of 0.2% of the total EFRD contribution⁵.

e) a stronger emphasis on strategic urban development: based on the guidelines of the Common Strategic Framework, (CSF), partnership contracts should establish ways to ensure an integrated approach on CSF funds for the sustainable development of urban areas⁶.

f) improved tools for integrated actions: Integrated Territorial Investments (ITI) represent a new method of implementation, which provides a funding package from several priority axes of one or several multidimensional and intersectoral intervention programmes⁷.

g) increased opportunities on approaching urban challenges targeted by investment priorities: four of the thematic objectives to be supported by the CSF funds to contribute to the Europe 2020 strategy for smart, sustainable and inclusive growth contain appropriate investment priorities specific to urban areas⁸.

⁴ Article 8 of the proposed Regulation for an European Fund for Regional Development.

⁵ Article 9 of the proposed Regulation for an European Fund for Regional Development.

⁶ Articles 11, 14 and 87 of the proposed Regulation establishing common provisions on the funding of the 2014–2020 Common Strategic Framework.

⁷ Article 99 of the proposed Regulation establishing common provisions on the funding of the 2014–2020 Common Strategic Framework.

⁸ Articles 5 and 7(1) of the proposed Regulation on the European Regional Development Fund, art. 3 of the proposed Regulation on a European Social Fund.

h) financial tools: Member States are encouraged to extensively use the financial tools to support sustainable urban development⁹.

i) networking: under the European territorial cooperation objective (CTE), the exchange and learning program designed for cities will continue to provide them with networking opportunities for the development and exchange of good practices in terms of urban development.

2. Technical and methodological approaches

One of the most important works on the topic of sustainable development in terms of the documentation it provides, or, even more, of general mobilization towards saving civilization is a book by Lester Brown, “Plan B 4.0”. The author began researching and documenting global issues as early as 1984, with a compendium called “State of the World”. In 2000, the author initiated the series of Plans B (which stop at 4), an initiative which cyclically updates solutions to a global crisis in a reviewed edition.

„Plan B 4.0” is a collection of all the suggestions which the author gives to world leaders. Lester Brown became famous for certain radical standpoints. He was among the first to oppose the transformation of cereals into biofuels, and we witness today food stocks dwindling, while the hunt for land in the developing world is tantamount to contemporary colonialism.

2.1. The bio-economy concept. The visions of Nicholas Georgescu-Roegen and Lester Brown

In 2001, Lester Brown launched the eco-economic theory, which underlines the significance of ecology and environment for the sustainable development of mankind, raising the alarm on the limited resources of the Earth. The Romanian-born American scientist, Nicholas Georgescu Roegen, launched, 40 years ago, the concept of bio-economy, which approaches the role of people in the entropic systems, with a statistically-proven need regarding the negative energy balance in case of excessive consumptions of raw materials and the lack of perspectives for future generations.

The rational use of environment resources involved the emergence of a new paradigm, the eco-bio-economy, which is based on three large concepts: economy, ecology, biodiversity.

The term “bio-economy” designates an economy which uses biological resources of the soil and seas, including waste, as raw materials for foodstuffs, animal feed and industrial and energy production, including the use of ecologic

⁹ Articles 32–40 of the proposed Regulation establishing certain common provisions on the funding of the 2014–2020 Common Strategic Framework

processes for sustainable industrial sectors. One example to such extent is bio waste, which shows a significant potential as an alternative to classical chemical fertilizers or for the conversion to bioenergy, a contribution assessed to approx. 2% of the EU goal on renewable energy.

At the same time, bio-eco-economy is based on three large types of “growth”: smart growth across three axes (a Union of innovation, the Europe digital agenda and Youth on the move), sustainable growth with at least three pillars (resource efficiency, a global policy for the age of globalization), inclusive growth (agenda for new skills and new jobs; the European platform against poverty).

2.2. Short introduction of the strategy “Innovation for sustainable growth: a bio-economy for Europe”

The strategy seeks connections and complementarity with other policy fields, tools and funding sources with the same objectives, which it approaches in a similar manner, such as the Cohesion Funds, the Common Agricultural Policy (CAP), the Common Fishing Policy (CFP), the Integrated Maritime Policy (IMP) and environmental, industrial, employment and energy and health policies.

The Commission’s proposal is also one of the operational proposals based on the flagship initiatives “A Union of Innovation” and “A resource-efficient Europe” under the EU 2020 Strategy. The need to increase public funding for research and innovation in the field of bio/economy was recognized by the future Commission’s research programme, entitled Horizon 2020”, which proposed the allocation of EUR 4.7 billion for the Challenge “Food security, sustainable agriculture, marine and maritime research, and the bio-economy”, with complementary funding in other fields of Horizon 2020.

2.3. The economic cycle, a basis for sustainable development

In the economy, cyclicity is the form of a moving economic activity in a country subject to an alternative succession of expansion and contraction economic periods. The period between the successive alternations of contraction stages with expansion stages is the economic cycle.

An economic cycle implies four stages: expansion, peak, recession and the threshold. At the same time, the cyclicity is one main feature of economic progress and its very basis, even helping to explain economic driving forces and their causes. The phenomenon of cyclicity can be explained by both internal and external causes. From the external causes, we will insist on the political cycle theories and the technological cycle theory.

The political cycle theory explains that the periodicity of elections in democratic systems, together with the force of governments in stimulating economies cause economic cycles with a duration similar to that of legislative periods.

The technological cycle theory explains the existence of the Kondratieff long cycles, because there are times when the action of certain key scientific discoveries leads to the emergence of new technologies stimulating investments, demand and jobs. While the new products become accessible for an increasing number of people of several countries, the cycle remains in an expansive stage. Once the markets become saturated, investments stop, companies are closed and recession sets in, in the expectation of a new technological wave. Technical progress expressed by the advance of the transportation means is a key of various historical cycles (trains in mid 19th century, motor vehicles at the beginning of the 20th century, and airplanes after the Second World War).

The economic cycle consists in the period between two contractions of the overall economy. It includes several stages with different names. The cyclical movement includes the following stages: **the expansion**, characterized by: increase of production, GDP, employment, jobs, salaries, sales and profits; the business becomes lucrative, and credit becomes cheaper; the value of securities increases.

At a certain point in time, due to the exhaustion or limitation of possibilities for further expansion, obstacles emerge and put an end to expansion: decrease of productivity; reduction of profits; disruptions reflected in: fluctuation and decrease of securities; more expensive loans; less loans and investments. When the economic crisis (stagnation or decrease of production, increase of bankruptcies and of the unemployment) engulfs the entire economy, a new stage sets in: **depression**. In this stage, characterized by economic imbalances (the supply exceeds demand), enterprises reduce costs and replace and upgrade their fixed assets. The investments carried out allow overcoming the depression and setting a new upward stage in the economic cycle.

The end of the crisis (depression) occurs as follows: the upgrade of fixed assets leads to a growth of fixed and working capital demand, stimulating output in the respective industries; this determines an increase of jobs in the industries manufacturing production means; thanks to higher revenue, the employees increase demand of consumer goods, thus absorbing and reviving manufacturing in their enterprises, increasing employment in that sector as well. A new expansion phase begins, followed by another contraction that portends a new economic cycle, representing a progress from the previous economic cycle. The economic cycle includes two different states: **recession** (economic crisis and depression), marked by negative effects; the **boom** (a resuming of economic growth and expansion), characterized by positive phenomena. While the *recession* can be characterized by stagnation or negligible reduction of business, wide-ranging and long-term reduction of business, **expansion** can be robust, and could include most or all economic fields.

The cyclical evolution is a feature of contemporary economies, and each of its stages fulfils a specific role, namely: the expansion quickly satisfies some economic aspirations; the recession restores, at a certain social cost, some economic balances and ensures the restructuring and renewal of production factors.

3. Economic crisis

3.1. *The crisis typology of economic systems*

Economic crises are classified according to: their volume (singular, local, systemic); their general economic level (mega-, macro-, mezzo-, micro-); their cause (cyclic, normal, and arbitrary); their impact (catastrophic, devastating, and painful); their length (long, medium, short term); their origin (internal, external, mixed, and artificial); overcoming possibility (independent, with external assistance, or which cannot be overcome).

The main measurement systems for overcoming crises are:

- at macro-level – national economy means, including external loans;
- at mezzo-level – the means of the region, municipality and state subsidies;
- at micro-level – exclusively the means of economic organizations (as they are the only ones having access to own assets), as well as the administrative involvement of state bodies (courts of law, prosecutors, bankruptcy commissions etc.).

The causes of economic crises. Visions of the economic history

According to Karl Marx, the cycles of capitalist reproduction as a result of the main contradiction of the capitalist means of production lie in the social character of production and the private character of acquiring the results. The build-up of such contradictions leads to acute disproportions within the capitalist reproduction, the polarization of income, unemployment, the decrease of purchasing power, the decrease in demand.

According to Hayek, investments too large, state over-funding of corporations (facilitating credits, very advantageous state orders, tax relief). This leads to over build-up of profit and the unbalanced increase of production, while the corresponding demand decreases suddenly.

According to Schumpeter, each stage of the reproductive cycle has its own psychological frame, determining the respective attitude towards investment. The panic caused by the crisis narrows investments and vice versa, the effusion stimulates the competition concerning investments, which afterwards leads to their over build-up and the sudden decrease of demand.

According to Jevons, the economic cycle is explained by the fluctuation of crops corresponding to the succession of seasons. Such natural factors determine the farmers' demand, which influences the functioning of the corresponding branches.

According to Keynes, the typical cause of the crisis is not the interest increase, but the decrease of the maximal efficiency of the capital, determined by the crisis.

3.2. The Jevons paradox and the rebound effect

The increase in eco-efficiency represents, however, a controversial issue in the relevant literature. As far back as the 19th century, William Stanley Jevons (1865) endorsed the thesis known as the “rebound effect” or Jevons’ paradox, according to which the technological progress increases the efficiency with which a resource is used and which tends to rather increase than decrease the consumption rate of the respective resource.

This paradox, based mostly on reasoning and theoretical and intuitive deductions with a view to the conditions of modern economic theories, has been toned and customized, so that, apart from reducing the necessary quantity corresponding to a certain production volume, the improved efficiency decreases the relative cost of using the resource, which leads to an increase in demand.

The Jevons paradox arises when the rebound effect is above 100%, exceeding initial efficiency gains. According to expert studies, in developed countries the rebound effect is usually low, so an improvement in eco-efficiency would normally reduce the total volume of resource use.

The Jevons paradox has been reviewed in the ’80s (Khazoom, Brookes, 1987), meaning that further arguments were brought regarding the decrease of energy consumption by increasing economic efficiency will simply lead to an increased energy demand, at national economy level. In 1992, Saunders issued the hypothesis that the improvement of energy efficiency will rather increase than decrease the energy consumption, in the sense of the Khazoom – Brookes postulate, in two ways: an increased energy efficiency leads to cheaper energy, which encourages an increased consumption (the rebound effect); a higher energy consumption at macro economic level will lead to a higher rate in economic development which, in its turn, will increase again the volume of energy use per overall economy.

3.3. The particularity of the economic crisis according to Georgescu-Roegen. The entropic perspective

The initial premise is that the main cause of economic crises is the constant attempt to create the so-called “contraband entropy”, as qualified by the great economist Nicholas Georgescu-Roegen. The expression refers to artificially creating an energy which does not exist. I will try to explain the economic crisis from the entropy point of view. Practically, I will explore the theoretical possibilities opened by value analysis and inflation with a view to entropy, and I will try to show that it can be considered responsible for economic crises and cycles.

The thermal energy of a closed system is continuously degrading into related energy. The extension of this feature of thermal energy is based on the second principle of thermodynamics, the entropy law. This law establishes that the entropy (the quantity of related energy) of a closed system grows constantly, or that the

order of such a system is gradually transformed into disorder. All activities, and especially the economic processes, inevitably constitute an entropic process.

In short, from the thermodynamics point of view, everything that is comprised in the economic process represents valuable natural resources, while everything that comes out of it represents waste without value, so the matter-energy absorbed in the economic process is in a low entropic state, while the one which is eliminated is in a high entropic state. According to Georgescu-Roegen, the purpose of this process is simple, the “immaterial flow” named “the joy of living”.

3.4. Value as part of the Roegen paradigm

“The primordial objective of the economic activity is the self-preservation of the human species al” said Georgescu-Roegen, while out of all human needs, only the biological ones are truly indispensable. This means that a primordial condition for self-preservation is the satisfaction of biological needs, and, as the satisfaction of such needs implies accessing low entropy resources, we can establish the first condition for the utility of something. However, utility does not lead to value.

In Roegen’s view, all the goods consumed by humans in order to fuel their “joy of living” have value, whether they are produced or picked from the environment, provided that all of them have low entropy.

Roegen’s minimum bio-economic program, considered as utopian even by its author, recommends a decrease in the consumption of resources, matter and energy, by relinquishing the production of arms and other futile “luxuries”, the decrease in population numbers up to a level where food may be ensured only by eco-agriculture and freeing the current human from the sick tendency to produce and consume “fashionable” goods.

4. The resilience of economy – diminishing the effects of the economic crises

The resilience term was used for the first time in physics and starting with the 1970s it was introduced in other areas, including economy. By definition, the economic resilience represents the capacity of an economy to resist the negative effects of external economic shocks and to rapidly heal after the impact.

Some of the fundamental traits defining the resilience of an economic-social system, with a view to its infrastructure component, are: the existence of reserves (positive redundancy), which facilitate the amortization of shock; flexibility, capacity to correct/adjust imbalance; maintaining social cohesion; social and political capital, social and political dialogue institutions, which allow negotiation and reaching compromises (especially in democracies); economic performance, which ensures sustainability; capacity to adapt, self-organize and learn, which

would allow the development of “anti-bodies” and buffers for predictable and unpredictable shocks.

Climate changes indicate disorders in the relation between humans and nature, random and unpredictable phenomena, wars, terrorist attacks which have a strong effect due to their unpredictability. Here, we need to include extreme phenomena, whose proliferation invalidate even their perception as extreme and rare events¹⁰.

Some of the causes which diminish economic resilience are: increasing the inter-connectivity degree, which affected resilience to the extent that contamination effects intensify without instruments to stop them; epidemics spread faster with a view to the intense circulation of humans and goods, and when control means are ineffective; new information and communication technologies increase the vulnerability of informatics systems which are one step behind in the defence against viruses and forbidden accessing (hackers).

As globalization is not accurately managed, it has made systems vulnerable even in developed countries. Not even the most developed and mature economies cannot efficiently absorb the shocks created by the competition of countries which assimilate advanced technologies and own cheap labour.

In Romania, the resilience of the system was tested over the years by the shocks caused by ample floods (whose effects are aggravated by deforestation and precarious dams). Education and infrastructure subsidies are other major weaknesses which affect the resilience of the domestic economic system.

Inadequate policies as rules of the EU game have fostered the emergence of large external imbalances (of two digits) in the past decade, which determined painful corrections with a view to freezing financial markets. There is also an insufficient orientation of resources towards the production of goods and services for export and which can cover internal needs. Agriculture is still under developed, there is still massive import of basic foods; the dependency of GDP (of crops) to meteorological conditions is determinant in this field. Also, the weakness of state institutions represents a trait of how the Romanian society works, which affects its economic performance.

5. Conclusions

Ascendant and descendant movements in production, inflation, interest rates and occupation form the economic cycle which characterize market economies. Such fluctuations happened as of the start of the XIXth century, and by research these it was concluded that the alternation of expansion and contraction periods take place with a certain frequency. The in-depth knowledge of economic mechanisms

¹⁰ Tail events/black swans, as defined by Nassim Nicholas Taleb – *The Black Swan: The Impact of the Highly Improbable*, Curtea Veche, 2008

has stimulated competition between various schools of economic thinking with concern to the causes of the economic cycle.

In conclusion, Georgescu-Roegen speaks for the decrease of negative phenomena of production and consumption models which deplete natural capital. Practically, the so-called “rebound effect”, firstly mentioned by Jevons, has also been analysed by Nicholas Georgescu-Roegen, who supported the idea of economic “decrease” (*décroissance économique*) meaning that a production and consensus model should be put into practice in order to avoid and diminish waste and unnecessary consumption of natural capital, by using a mix of policies promoting the passing from “high” entropy to “low” entropy, so as to slow down the process of gradual dissipation of matter beyond the possibility to “reassemble” (reuse).

At an economic science level, it becomes very clear that we need to accept that the universe where we find ourselves is finite, not inexhaustible, and this leads to a conceptual redefining of all variables determined by this conclusion.

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OTILIA MANTA¹

CURRENT CHALLENGES IN RURAL FINANCE

Abstract: *From assessing the financing classical rural and evaluating the current situation of financing the rural world, we can say that in introducing and witnessing the intervention of certain persons to the goal of fateful building a facility for microfinance mechanism to facilitate sustainable access of rural entrepreneurs to sources of funding in a systematic and comprehensive manner, and that leads us to the development of perspective microfinance in rural areas.*

Microfinance solutions for small entrepreneurs (SMEs and microenterprises) in rural areas and outskirts of small towns, must be accompanied by an integrated package of support services microfinance (financial counseling, consulting and design services, care management throughout each project developed and co-financed from European funds, special assistance value chain, etc.) is a first process of the whole mechanism microfinance locally. Through this paper we try, besides a brief assessment of past rural credit, to bring to the fore the current mechanisms microfinance tailored to the current phenomenon of accelerated growth relative and absolute poverty agrarului the countryside. Romania currently has over 2.5 million subsistence farms (rural households) and financially excluded 5.5 million (the majority share of rural areas).

Key words: *inclusion, social, economic, microfinance, poverty, family farms.*

JEL classification: *Q – Agricultural and Natural Resource Economics; Environmental and Ecological Economics; Q0 – General; Q01 – Sustainable Development; Q1 – Agriculture ; Q14 – Agricultural Finance.*

Introduction

A review time of social and economic leap in the countryside 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 the Romanian villages. The pace of change is evident in some sectors, especially in large agricultural companies, where the yield of crops, gradually approaching those made by neighboring countries that joined the EU in wave two or three. If we consider the productive potential of the Earth and the level reached by livestock in early 1990 it is difficult to form a positive assessment on the current stage of development of the Romanian agriculture as a whole, especially the social status of those who inhabit rural areas.

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Materials and methods

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

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

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

- Integration of forms, methods and logical 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 national and international institutions and 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 nationally. Our own contributions on investigated the issue has highlighted during research work and theoretical significance and the application value resulting from the conclusions and proposals that we have formulated and promoted. Also, the results of research were disseminated during 2015 in the frame of national and international scientific conferences and through publication I attended in scientific journals, as author. The research results are presented using tables, figures and graphs. The theoretical information for the research needed were taken from literature and specialized works (books, studies, papers, articles, etc.) in the field of microfinance research, from home and abroad. Statistical information on how and concrete date microfinance works were taken from reports and statistics of the microfinance institutes involved in the country and abroad as well as to public and private bodies specialist.

Rural credit developments, past and present

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. This was how the first credit institution in rural Romania began.

The institutions establish a new law was promulgated by royal decree. Under this law, the only access to rural credit had 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 the time, this institution was one of the most viable forms of financial support for those who were the Romanian landowners class. This appreciation is the positive activity rural land credit institution of those times. The downside is that this institution could not financially support the vast majority of small landowners and even those who will later form the so-called class “chiaburimi” in villages.

Returning, however, the activity of the institution credit rural land 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 opening would open the way to attract rural credit system within certain categories of farmers who, over time, would lead to economic stratification of rural society.

By 1945, the pyramid will find great landowners and lessees who will manage their wealth, followed at great distance from those who, later, will be categorized as “kulaks” villages.

The strongest and most respectable social class in rural areas will be the middle peasants. Around the 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 not to be, because the 1945 land reform and collectivization process triggering especially defeated the aspirations of the general welfare of the rural community.

Going back in history and analyzing policy of financial support for agriculture it should be noted that the great turning point occurred with the advent of popular banks and credit societies and rural or agricultural associations. These institutions have experienced the most widespread in Romania and had a decisive role in supporting and developing small owners. The truth is that germs cooperatives in financial support agricultural owners emerge and develop. In fact, occur in 1881 with the advent of county agricultural credit houses, they have an important role in lending, especially the lessees of land.

If you were to draw a first positive conclusion, by the end of the first war the basis of financial support for small producers has been to the 3,000 popular banks and 500 cooperative land lease, the latter supporting the operation of the 5 million hectares of farmland.

Massive intervention of the National Bank in organizing and supporting agricultural credit in Romania occurs especially in the interwar period. This mutation

has resulted in the creation of agricultural credit institutions, cooperative reorganization, especially in setting monetary fund of banks serving agricultural or farming interests. Support 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 by cheap loans, with interest of 2–4% and by requiring them to charge in turn an interest rate of no more than 2–5%.

The size of credit to support agriculture represents up to 40% of the total National Bank portfolio. The rationale behind this massive support was from the reality that, at that time, agriculture represents the main branch of the national economy. Moreover, in 1934, by law enforcement agricultural debt conversion, 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 support agriculture deserves a little comment.

The first conclusion is that the leadership of the National Bank was outstanding professionals, trained in the school of erudite scholars of those times. People with extraordinary influence in the world of those times. We regard Cantacuzino family representatives, Brătianu, Ghica, Sturdza and many others. In the face of such celebrity, policy makers were a common front in the great goal of advancement of a social class doomed to destitution.

If I had to explain, I will just stop at the evocation of the great scientist Gheorghe Ionescu-Sisesti, a scholar who demonstrates with data and facts that Romania without a developed agriculture is unlikely to ascend the 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.

Returning closer to the policies of financial support for those in command of the economy, I believe it would be an act of great courage to emit some positive considerations. I'm trying to do this saying from the beginning that after the first period of control imposed by the soviets, including in the banking system gradually agriculture was more a factor of progress.

Beyond the great wrong to pull out the credit system of agricultural producers outside the socialist system organization, bank loans were granted mainly to political order. Proof that, especially after 1980, we have witnessed a process of financial spoliation of the majority of socialist agricultural units. About the few manufacturers are in front of socialist control system can emit few judgments, even for this account that weather statistics as just peripheral. The statistics on the financial support of private farmers or craftsmen in the villages involves many inaccuracies and that is why they do not want to elaborate on this topic.

Post-revolutionary reform landing

From the data we have available, that former communist Agricultural Bank in 1990 presents a confusing balances at least in terms of statistical reports. The new system of agricultural credit has started with a large financial balance. Post-revolutionary laws of restructuring of 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 agri-food sector is worryingly shrinking. In fact, if we exclude the emblem displayed on the buildings of 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, privatization of Banca Agricola 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, the Agricultural Bank benefited from cheap credit lines, totaling 105 billion lei. Difficulties in the agricultural sector after the application of Law 18 forced authorities to continue preferential credit system to prevent the emergence of a major food crisis. Thus, compared with 1995, the total volume of agricultural loans totaled 1400 billion lei in the coming year totaled nearly 4000 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 1000 billion ROL.

Possible models of a 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 system of lending 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, I believe that 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 sectors vital 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 by financial contributions for which payment to be repaid in time. In this action more than 25 commercial banks operating in Romania and food companies are involved in lending could be involved.

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 existing models today in some countries of the European Union.

In the current concept of the European Commission, microcredit is a loan not exceeding 25000 euros for micro 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 is to minimize losses and increase the volume of funded microcredit. The impact of this loan is twofold: the economic impact – enabling the development of income generating activities; and the 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 being not profit, but customer wellbeing.

Under the current regulations, the 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 of the loan (a form of collateral collective) ;
- The individual SME loans: they are granted to a single SME or a single person that does not require collateral.

The challenge for the financial system

Earlier 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.

Aware of this chance, the *BUSINESS DEVELOPMENT ASSOCIATION (ADA)*, undertaken during the period April 2014–November 2015, a project with a total budget of 8,045,909, 66 lei, financed by the European Social Fund and the Romanian Government. The objective of the project was the continuous education of adults administrator officer, manager risk and financial intermediation as well as support of entrepreneurial skills, development of a unified, comprehensive,

functional and sustainable micro-enterprises specializing in micro-level for the common, 6 Regions. This project is designed as phased and has been designed 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, over a period of 20 months. The project was submitted to participants with practical skills. Proposed target group was made up of 1680 people from rural areas. Of these, 420 people received counseling / guidance, and 312 participated in training programs.

We believe that the pilot project represents a starting point in raising the level of financial literacy in rural environments, a pillar of strength in creating a funding mechanism adapted to the local rural population.

The actors who may be involved in a strategic program to support the system of microcredit to rural areas for involving Association Business Development (ADA), together with the National Union of Credit Unions of Employees in Romania (UNCARSR) – about 1 million members in the country and UTCAR (Territorial Union of Credit unions), with approximately 10000 members and the constitution of employers and trade unions at the enterprise specializing in microfinance in supporting economic growth, namely financial and social inclusion.

Through EU funds, we can create a mechanism of financial support, similar to 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. In this context, it would be useful to support specific policies in Romania and development of mechanisms to create specialized institutions for SME financing and in particular the microcredit for rural SMEs, as follows:

- Initiation of financing vehicles as support from Investment Funds for SMEs in Romania in accordance with our laws and procedures of Community directives;
- Initiation of financial institutions that operate under the concept of the “ethical financing” concept which so far have been highly recognized by legislators in member states of the European Union (Italy is one of the EU member states who practices ethical financing. Consequence of the fact that at present, the biggest problem in financing projects is related to the relationship client-bank / financial institution, a relationship that currently suffers. We believe that funding ethic reflects the need of society for greater morality, equity, solidarity and affordability, financial literacy;
- Microfinance institutions: providing financial services to low-income customers who normally have no access to traditional banking services;
- Self-help initiatives / cooperatives / credit unions.

Social credit in the current social market economy

Microcredit-as defined by the EC, is under € 25,000 loan granted to support the development of microenterprises and self-employability. It has a double

impact: the economic one, as a means of creating income generating activities and a social one, as a means of social inclusion and therefore financial inclusion.

91.8% of businesses in the EU are micro level, comprising over 2/3 of the workforce. Micro and small enterprises are the engine of the European economy. However, creation and development of micro businesses in Europe is a cumbersome process.

People from disadvantaged groups facing particular difficulties for starting a small business or becoming self-employed (self-employed) as well as long-term unemployed, economically inactive young people, single parents (usually women), immigrants, the elderly (seniors) or disabled. In addition to administrative barriers, another major problem for them is access to finance.

Commercial banks are reluctant to grant small loans because the costs are large for administration while profit margins are small. This discourages banks to provide loans under € 25,000. Also, the self-employed and micro-entrepreneurs are considered too risky by banks, using the scoring method based on credit history and provide safeguards for securing the loan. Most times people from disadvantaged groups have no collateral and no business track record.

Moreover, the financial crisis and economic downturn became more expensive in debt financing and the wave of regulations (especially Basel II reform) have made a more difficult access to financing. Banks are gradually retiring from local and mutual economy as a result of increasingly stringent banking regulations. Therefore, the EU has made a priority of small and micro enterprises, through its internal policies, regional and employment. Europe 2020 Small Business Act aims to improve regulation and access to finance for small firms by single market act and the new structural funds programs.

Microcredit is operational by 2007 JASMINE technical assistance program followed the European Progress Microfinance Facility 2009, providing 200 million European microfinance institutions in the form of loans, guarantees and equity. Financial engineering were introduced recently as the preferred strategy for use of structural funds by member states.

Conclusions and considerations regarding the importance of microfinance

I confess that personal concerns on issues related to financial and social inclusion of SMEs in rural areas, especially small farmers dates back to the when I started to develop some investments and support services in rural areas. In most cases, potential investors and farmers were connected to the market economy system only through small grants, European and / or national granted per area or per animal. Starting from the “main priorities and measures for the development of the regions selected from the political strategies for Regional Development Fund, integrated into the structure of the priority objectives and measures appropriate

contained in the National Development Plan”² and linking with microfinance measures in the context of the European economy nowadays, I believe that the topic through research conducted within the proposed ITS framework, helps developing a model to support microfinance in rural Romanian area.

Global measures taken by world leaders at the Summit in Seoul in November 11–12, 2010³, Namely those with direct impact on balanced growth and corporate social responsibility increasingly makes us say more world leaders are creating models for those concerned with social and financial inclusion of the poor. Also in this summit they discussed topics related to the reform of international financial institutions, strengthening the global financial safety and mechanisms, in a separate session of the new G20 agenda on development.

In carrying out this work I start from studies and scientific works of the most awarded personalities in Romania whose work examines with great probity the fundamental problems of Romanian Sustainable Development in rural areas.

I will announce a few of these studies and themes: Romania’s national agricultural project after decades, a view of two and a half “reform, restructuring and adjustments” security and the nation’s food balance; The main challenges of the countryside; The performance restrictive factors of Romanian agri-food economy: agro disintegration, disruption between agricultural production and food processing, agro-food chains inaccuracies in operation, subsistence and semi-subsistence farms domination, forms of financial support promoting that stimulated productive performance; developments in post-revolutionary agrarian structure; Conception errors in agricultural settlement on the principles of market economy; The current structure of characteristics and rural areas; The Governmental Policies agricultural support; Initiative for a new philosophy of Romanian rural development; 10 years when the food sector and development of Romanian rural area was mainly supported by EU funds: what could be the ensuing consequences?

Sooner or later, the Romanian financial system will align and be forced to the practices of microfinance in countries with a developed agriculture system, to address new innovative models in microfinance through modern means at the current time. After a period of searching and calling some improvisation, I believe that we are at the stage where we are obliged to approach and decisions leading to the reestablishment of new principles of institutions to provide lending to local actors and sectors vital to the economic consolidation of settlements and human welfare. It is about the establishment of the microfinance institutions specialized units to economic bottom with legal personality: Non-bank financial institutions in rural areas, which credit the intension and individual’s assets: microfinance

² Prof. Emilian M.Dobrescu, 2014 European Economics course.

³ G20 Seoul Summit, 11–12 November 2010. The European Union is a full member of the G20, together with 19 other Countries: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, United Kingdom and United States.

institutions that only educational and health institutions or rural areas. The capital required to set up political institutions should be ensured through government financial contributions for which payment is repaid in time.

Another extremely important in microfinance is creating innovative models of continuous training of human capital given, involved in providing financial services in rural areas in the financial and education of those who accessed microcredit. At the European level and global decision makers currently trying to accomplish programme for microcredit financing in rural areas, and decisions that may concerns directly influence the development of activities in rural areas through access to microcredit areas. To achieve this goal of setting innovative and coherent microfinance rural environment we should start from what was good in the lending system areas in Romania in the interwar period, especially from innovative models existing today in some countries of the European Union and creating our own innovative models of microfinance.

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DEVELOPMENT FACTORS OF AGRITOURISM FARM OFFER IN POLAND – WIELKOPOLSKA REGION CASE STUDY

Abstract: *The paper presents the development factors which determine forms of leisure and recreational services on agritourism farms. Author shows similarities in terms of leisure and includes farms of the same type due to attractiveness and type of services. The practical purpose of the research is the use of the results to tourism activities in the economy of the region Wielkopolska.*

The data source is a questionnaire survey on agritourism farm owners in Wielkopolska voivodship and their potential customers. The methodology is based on a standardized interview among farm owners (218 questionnaires) and a diagnostic survey to potential guests (100 questionnaires). The dissertation contains also an analysis of secondary data source and an analysis of scientific and statistical documents, based on Polish and foreign sources.

The analysis characterizes recreational offer and services, identifies factors and conditions for their development in the context of sport and leisure. It was found that the supply of agritourism farm activities in Wielkopolska is very diverse. These are offers of services above all such as horseriding. The diversity of recreational activities allows to classify agritourism farms in Wielkopolska in certain types, that is to say:

- Recreational and sports tourism farms;*
- Health and food tourism farms;*
- Natural and ecotourism farms;*
- Educational and entertainment farms.*

However the terms and factors, such an attractiveness and potential of environment are very different for farms and areas, their development (tourism function) is uneven in the region. The offer is almost converging with the notions of potential customers but currently most agricultural sectors are in crisis.

Based on the analysis it is possible to create the product brand for regional agritourism which will be formed on health and physical activity. The best way seems to be the collaboration of farms with other science and economic organisations to create a cooperative network. However, all this requires a financial and institutional support at a local and regional level.

Key words: *agritourism; classification; factors, farm; leisure; offer; rural tourism; typology.*

JEL: *D22; Q100; Q120; Q130; R31; Y4.*

1. Introduction

Entrepreneurship in the countryside is mainly connected with the development of agricultural economy and food. In recent years, in all countries of the free market economy great transformations have been undergoing at the countryside,

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changing more and more its structure and functioning. At the dawn of the XXI century world agriculture faces new challenges and development opportunities concerning the industrialization processes, the progress of biotechnology, changing climate conditions, new challenges and opportunities in the age of information and globalization of the economy [17]. The evolution is heading towards a change of the image and identity of a village, from traditional one, based on family farms; towards a modern, manufacturing one. A very common model of these changes for European countries is American agriculture.

As a consequence of these changes, as well as in terms of additional specific factors for Polish circumstances (such as f. ex. accession to the European Union), the concepts of “agrobusiness” and “agrotourism” emerged in literature. The notion of agrobusiness appeared in the work of Davis and Goldberg (in 1957), where it was initially defined as “the amount of all the activities related to the production and distribution of material supply of farms, production activities on farms, storage and processing industry based on agricultural products [17]. The Encyclopedia of Agrobusiness [9], in turn, quotes that it is a subsystem of the national economy, integrating activities that are directly or indirectly involved in the production of final food products. On the other hand, the concept of “agrotourism”, is closely related to the tourism economy and implies a wide range of services, activities and facilities based on qualities and values typical for the village, that farmers and the rural community maintain and sell to tourists [1]. Agrotourism mainly evolved in the process of searching for development opportunities in rural areas during the period of transformation and restoration of their quality and durability. The first development project of rural areas through agrotourism was developed under European conditions in Muhlviertel, Austria approximately 35 years ago. Moreover, agrotourism was from the very beginning assumed to be shaped according to specific methods, including in particular the Method of Global Management, which is a method of solving problems based on systems thinking and acting [1]. Nowadays agrotourism (in Polish *agroturyzm*) was replaced by the notion of rural tourism (in Polish *turystyka wiejska*) and agritourism or farm tourism (in Polish *agroturystyka*). The general definition of agritourism, comes as a form of active leisure (educational, cognitive, recreational or health) in the farmhouse, where agricultural production equally with the surrounding infrastructure, natural, recreational and cultural cause the greatest interest of tourists [15, p. 27]. This concept has also direct justification of the definition agritourism by Momsen, adopted by the Encyclopedia of Tourism [8, pp. 1–2].

In terms of national economy, the Polish village has also undergone numerous transformations. The changes were primarily the effect of system transformation, the transformation in forms of property from public to private. Their greatest flourishing period occurred between 1982 – and 1992. Next aspect are changes in the structure of agriculture and rural areas, in terms of changes in land use, crop livestock structures. Finally, dynamic urban development as well as

the migration processes in recent years, resulted in functional and demographic transformation of Polish countryside. A whole range of changes in the functioning of rural areas was the subject matter of research during the period of integration with the European Union, as described in numerous scientific papers and conference proceedings [f. ex. 13]. The most important aspects of these changes include: opening up to foreign markets, the development of entrepreneurship and job creation, modernization and renewal of infrastructure, the need to diversify the activities in the area of countryside as well as diversification of its activities in its sector. As a result of the system requirements the farm advisory system was created at that time (supervised by the National Center for Counseling and Development of Agriculture and Rural Development), as an active instrument of state policy, functioning till now [4].

Modern agriculture and the countryside face major problems. The main difficulties are the growing financial crisis, progressive economic stratification, increasing unemployment rate, nature protection and the environment issues, including the greening of country and facilities in rural areas. In the area of these transformations, as well as these problems, cultural identity and the development of rural tourism is situated. Management and economics experts are debate on the institutional conditions of the development of tourism, including the role of government and local government policy. Equally important are social aspects of local communities issues and the sustainability, assuming even partnership of all involved public authorities in the rural entrepreneurship. The implementation of tourism development program in the rural areas still requires shaping proper pro-social attitudes overcoming negative attitudes. The social image of farmers, based on past and present experience. It is an important issue for acceleration of the socio-economic development of rural areas [14].

Tourist activity takes place in space, which according to Drzewiecki can be named as rural recreation space [5] or, more precisely as space of agritourism. Rural recreation space has already been characterized precisely (abbreviated RRS) several years ago. Its analysis are presented at the municipal level, because relevant statistical indicators are fixed there [5; 16]. These are:

1. population density for 1 km² of agricultural land (not less than 80 persons/km²);
2. the percentage of individual farms (formerly private) in the area of agricultural land (over 60%);
3. the percentage of meadows and pastures in the agricultural area (no more than 30%);
4. the percentage of forests in total area of the municipality (between 30 – and 60%);
5. the percentage of water in the total area of the municipality (at least 5%);
6. types of rural settlements (too scattered as negative);
7. the percentage of people earning living by non-agricultural sources (less than 60%).

These indicators represent some extend criteria of the natural and economic (1, 2, 6, 7) and socio-cultural attractiveness of the area (3, 4, 5), but today they are quite questionable due to the excessively targeting pressure on the agricultural aspect of the site [20, pp. 293–306]. In result of analysis present that, areas which meet adequate standards in at least three of the criteria presented above are considered to be conducive to the development of recreational and tourist forms.

An agricultural area is difficult to cristallize, however it is defined in the narrow sense, as referring to the area of farm which provide the service of agritourism, its buildings, natural lay of the land and changes arisen as a result of the activities of the owner [20, pp. 293–306]. In a wider range it is rather a space similar to the RRS, referring not only to a closer, but to the further region of the farm, including location of the land and architecture of the area, the landscape, the quality and purity of the natural environment (air, water, etc.) [16]. Considering the type of production, there are five types of agricultural space:

- agricultural space (with the dominance of the lanscape of fields and crops);
- breeding space (with the dominance of the landscape of meadows and pastures);
- orchard and plantation space (with the dominance of forest and fruit trees);
- fishing space (with the dominance of the landscape of ponds and dykes);
- forest space (with the dominance of the landscape of woodland) [16].

Some authors also attach the rural space with the domination of the cultural landscape to the above list. Touristic attractiveness of the space is usually tested with wide variety of methods, which are grouped by i.a. Tomczyk [18, pp. 19–35]:

1. simple measures of ordering space, such as:

- cluster methods of spatial units based of their identity;
- methods of grading point;
- a factor of attractiveness based on the method of standardization of features.

2. methods with a higher degree of aggregation, such as:

- modelling methods;
- the methods of factor analysis;
- taxonomic methods;
- synthetic measures of development.

3. qualitative methods.

Virtually none of them is fully equivalent of the assessment of the suitability of land for the development of tourism, although approximates it highly.

To the factors affecting the development of tourism in the country in its broadest sense (largely they are exogenous factors which influence was mentioned earlier, such as the type of Polish agriculture or changes in rural areas), Balińska [2, pp. 28–32]

adds also legal, financial and institutional factors (treated in this dissertation as secondary), and the supply and demand side-determinants (eg. diversification of offers). Durydiwka [6, pp. 53–64; 7] who defines the level of the touristic function of rural areas in Poland, concluded that the most important in this regard is the attractiveness of natural landscapes (frequently evaluated with the landscape inventory method and point scoring quality classification method) but also exploitation of the landscape attractiveness in the economic context (land exploitation) and tourism (tourist movement). To determine the touristic function of the examined areas author predominantly uses the empirical measures, such as the number of tourists accommodated and the number of companies registered in the Regon system in section H, analysing their relationship with other variables mentioned above. Durydiwka also concludes that other modifying factors such as proximity to urban areas, environmentally valuable areas and high quality cultural assets may impact the examined relations. A similar relationship of even more economic kind was evaluated by Johnson and Beale, by verifying the ratio of recreational activities income in the county to its overall income, defining it as the county recreation score [3].

At the lower level of reference the factors influencing the development of the farm organization towards tourism should be also analyzed as well as the development of its particular recreational offers and concentration on specific touristic areas. The analysis and conclusions of the case studies concentrate to distinguishing similar in the aspect factors, as emphasized by Durydiwka [6, pp. 53–64; 7], forms and level of attractiveness of the natural environment values. The most important of them include:

- the natural environment (fauna and flora);
- surface waters;
- the level of afforestation of the area;
- the location of the land;
- regional culture;
- tourist attractions.

Poczta [12] lists similar factors examining the impact of these variables (sightseeing values) on the development of the offer and undertaking recreational activity in agritourism farms in the district of Międzychód (Wielkopolska), taking into account the following determinants:

- an area of outstandingly natural beauty legally protected;
- afforestation;
- lake cover percentage;
- the percentage of meadows and pastures in the total utilised agricultural area;
- the number of natural monuments per 1 square kilometer.

3. Demonstration of the situation of agritourism marketplace in the region of Wielkopolska in terms of recreational offer, based on surveys and analysis of documents.

4. Identifying the types of specializations of agritourism farms prospering in the administrative area of Wielkopolska region and classifying various areas and farms in homogeneous groups (clusters).

5. Internal analysis of particular groups in terms of the factors affecting the formation and development of recreational activities.

6. Searching for other dependences between recreational offer and different variables, such as f.ex. the expectations of recipients.

7. Defining the standard criteria for the development of innovative local agritourism product.

Study area

The subject of the research were agritourism farms located in the region of Wielkopolska in 2009–2012. The data of Agricultural Advisory Centre of Wielkopolska region in Poznań – WODR [19] were used in the study (according to the census of 395 farms, as reported by the data available on the website of WODR www.wrow.wodr.poznan.pl from June 2009 to June 2012). The study finally included 218 households.

The survey research included 100 people among potential tourists of agritourism farms residing in the city of Poznan, which was the basic criterium of the selection of respondents to the sample.

The examination procedure involved three stages of the author's own testing:

1. The phase of electronic tests – conducted throughout the entire project period, which was completed by only a few respondents, the research was conducted with the use of an online questionnaire.

2. The phase of field research – consisting of stages from 2009 to 2012, the research was carried out with the use of direct interviews in agritourism farms.

3. The phase of the surveys – conducted mainly in 2011–2012, the study was carried out with the use of questionnaires in potential visitors of agritourism farms in the region of Wielkopolska. The research has also a practical aspect. The obtained data can be useful in specifying agritourists products in the researched area, both for agritourists interested in the subject (to facilitate the selection of sites according to their preference), and for the farm hosts (increasing the quality of services and products). The typology of agritourism farms allows to indicate strategic plans and cooperation between farms and other business entities. It is also possible to develop specific specializations for particular recreational activities and to formulate development paths for individual units. A comparison of the expectations of service users from different segments of the tourism market with a real offer of agritourism farms could be an additional aspect.

3. Conditionings of the development of agritourism farms offer in Poland on the example of Wielkopolska Region – case study

During the study, an analysis of the factors affecting the recreational offer of the farms according to the farmers was carried out. This section was divided into two groups of factors:

- promoting the development of the offer;
- restricting the development of the offer.

Next, it was determined which of the external or internal factors were the most important variables in the development of agritourism farms, as well as in the constructing its recreation offer – initially and during the research. When determining the impact of the selected factors, most of the farmers emphasized the importance of the order of the successive variables.

1. the increase of competition;
2. the support of other units;
3. promotion of the region and its products.

The least influential factors according to most of the farmers in the initial period of the farm included:

1. geographical conditions (most of the farmers held extreme opinions and for more than 75% of them, however, the factor was essential);
2. cost-effectiveness of the offer;
3. the needs of tourists appearance.

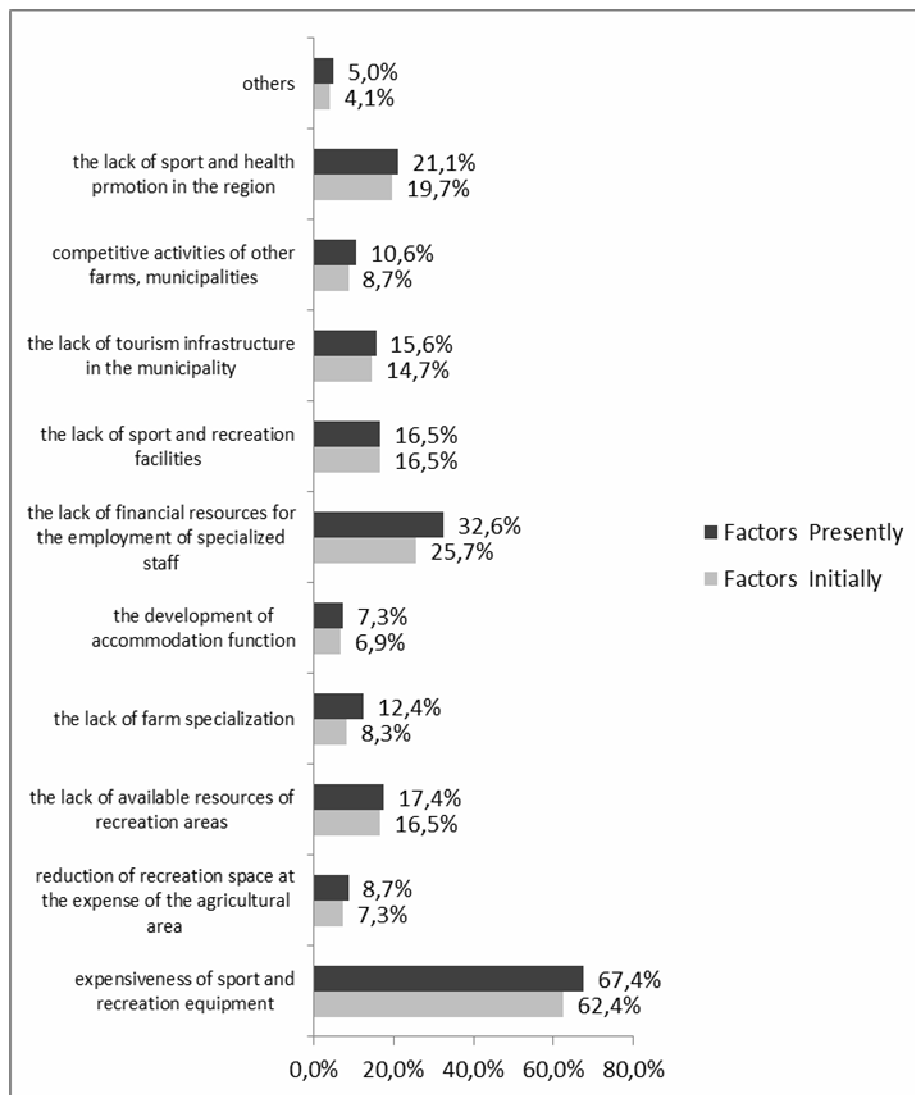
Table 1

Factors promoting the development of the offer of agritourism farms

Factors	The percentage of the farms %	
	Initially	Presently
The location of the land		
The vicinity of natural attractions and recreational facilities	46,8	48,2
Purchase and modernization of the sport and recreational equipment	67,9	74,3
Ownership and increase of the recreational space	29,4	31,7
Specialization of the farm in a particular activity	28,4	29,4
Redirecting the farm to organic methods	20,2	22,9
The availability of the sports and recreational facilities in the district	5,5	7,3
The availability of the tourism infrastructure in the district	14,7	17,9
Quality and development of the accomodation features	24,3	27,5
Support and advice of other units	20,6	26,6
The employment of specialized staff	10,1	10,6
Promotion of sport and health in the districts, region	4,1	5,0
Creating a common regional brand product based on health and recreation	11,0	11,5
A change of inhabitants' opinion on a healthy lifestyle	6,9	8,3
A change of tourists' opinion on a healthy lifestyle	10,1	17,0
Competitive activities of other farms, districts.	12,8	20,2
Cooperation between agritourism farms	0,9	2,3
Increased promotion of the recreational offer	8,3	8,7
Others	12,4	15,6

Source: self-reported data based on Smoleńska 2014.

This assessment has practically not changed in the latter period of activity. For 75% of the farmers, however, such factors as: own resources, cost-effectiveness and own ideas gained significance. According to the opinion of 25% of the farm owners, the tastes of the participants of the farm activities lost importance.



Source: self-reported data based on Smoleńska 2014.

Figure 2. Factors restricting the development of the farms' offer.

The farmers also choose from the group of specified factors (up to five) which they believe have the greatest positive impact on the development of the

recreational offer in the farm. Definitely the most of the farm owners (and the number of them is growing) associate the positive influence on the development of recreational offer of their farms with the proximity of valuable sightseeing (74.3%) and the location of the land (48.2%).

Factors restricting the development of the offer are categorised slightly different by the farmers. Most of the farm owners perceive the restrictions in the development of the farm offer in lack or high costs of sport equipment (67,4%) as well as by the lack of funds for the employment of qualified staff.

The lowest risks are perceived in the development of lodging or in limiting the recreational space in favour of farming.

In the interview, every farm owner could express their own opinion on the two variables which might mutually influence the direction of the farm activity, which is: the development of the farm offer (accommodation and catering) and the development of the recreational activity (services).

Most of the farm owners (63,76%) claimed unambiguously that the investments in the development of the tourist accommodation have no impact on the additional farm offer. The rest part of the landlords thought the opposite or was not able to express their opinion on the subject.

The conducted survey allow to extensively diagnose the condition and directions of development of agritourism in the region of Wielkopolska and answer most of the questions and hypotheses, which will be discussed in the last part of the thesis. Based on the preliminary conclusions that can be extracted on basis of the results, one can already ascertain that the recreational offer of agritourism farms is rich and is clearly developing towards physical activity or farm-stay and convivial enterprise, but it is still not organized or specialized well enough, even it is invariably in full development.

Conclusions

Referring to the methodological assumptions of the research project, conducted studies allowed to identify the main factors influencing the offer in the opinion of the farm owners. According to the farm owners, these are the variables on which the possibilities of farm development highly depend. Simultaneously they are the external factors, independent of the farm owners. The following are considered as the most significant ones:

- development of competition;
- support of other units;
- promotion of the region and its products.

Similarly, indicating the factors on which the formation of recreational activities depends, farmers largely emphasized:

- the proximity of natural attractions;
- the location of the land;
- purchase and modernization of the sport and recreational equipment.

Only the last of the above factors cannot be categorized as an external factor. However, the fact that the farmer cannot afford the purchase or modernization of equipment and sports facilities can be understood as an external reason, beyond their control (lack of co-financing, low farm income, high price of the equipment, etc.). There are also internal factors (depending on the farm) in the list of determinants indicated by the farmers, but they were of marginal importance in the opinion of the farmers comparing to other initiatives independent of them. It is worth noting, however, the creativity and inventiveness of farm owners is often emphasized in the vision of the development of modern tourism. Meanwhile, the owners of the agritourism farm consider the factor as irrelevant, and probably often absent in their organizational skills. Thus the necessity to support and experiences exchange of different units in promoting the development of tourism arises. However, the internal factors depending on the accommodation provider in the modern development of this field, should be perceived as those of greater influence.

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EMILIAN M. DOBRESCU¹

LA NECESSITÉ D'UN NOUVEAU MODÈLE ÉDUCATIF

Resumé: *L'homme ne peut survivre dans le monde globalisé d'aujourd'hui sans adaptation spécifique dans l'expérience millénaire englobant les connaissances et les nouvelles conditions pour le développement de la vie sur Terre. L'adaptation humaine à l'évolution actuelle de la vie sur Terre ne peut se faire que par l'adaptation aux réalités actuelles de millénaires de la vie humaine de l'expérience humaine. Ceci est possible grâce à un nouveau modèle éducatif fondé sur l'éducation et sur les nouvelles formes de communication interpersonnelle, l'éducation non formelle et de l'éducation tout au long de la vie.*

Mots clé: *Education; Humanité; nouveau modèle éducatif; principes, méthodes et routes du modèle.*

JEL Clasification: *A20, B49, I29.*

sui generis

un nouveau modèle éducatif

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