

ЧЕРНІВЕЦЬКИЙ НАЦІОНАЛЬНИЙ УНІВЕРСИТЕТ  
ІМЕНІ ЮРІЯ ФЕДЬКОВИЧА  
ЕКОНОМІЧНИЙ ФАКУЛЬТЕТ  
КАФЕДРА ФІНАНСІВ І КРЕДИТУ  
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РАДА МОЛОДИХ ВЧЕНИХ ЕКОНОМІЧНОГО ФАКУЛЬТЕТУ  
ВІННИЦЬКИЙ НАЦІОНАЛЬНИЙ ТЕХНІЧНИЙ УНІВЕРСИТЕТ  
КАФЕДРА ФІНАНСІВ ТА ІННОВАЦІЙНОГО МЕНЕДЖМЕНТУ



## ФІНАНСОВІ ІНСТРУМЕНТИ СТАЛОГО РОЗВИТКУ ЕКОНОМІКИ

III МІЖНАРОДНА НАУКОВО-ПРАКТИЧНА КОНФЕРЕНЦІЯ

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## **PRINCIPLES OF LENDING AND BORROWING IN SOCIAL ENTREPRENEURSHIP**

Social entrepreneurship is the modern way of making the world a better place for everyone [1]. Carrying out the new combinations of the first and second input factors in the production function creates an innovation that represents the dynamic change in the economy. The innovation alters the static patterns and elevates competition to a higher technological level. The old static way of production and competition cannot follow. In turn, traditional players on the market will have either to transform or drop out. The entrepreneur is a single individual and only entrepreneurs can make innovations in the sense of creating something new that has never been on the market, or has the capacity to decrease the production cost per unit, i.e. a higher physical product that has the capacity of creating an entrepreneurial profit. Entrepreneurship is thoroughly explained by Joseph A. Schumpeter in his book *The Theory of Economic Development* [2].

The entrepreneurs are the creators of civilization. Their successful actions on the market give new possibilities to the vast majority of the population and changes the traditional patterns in a self-governing way for each individual and society. Social values for all are the fruits of their achievements. Economic freedom, individual freedom, freedom of choice, extended life expectancies, individual optimism, better health and prosperity are only some of the values created by entrepreneurs, be it the business type, social type or any other type of entrepreneurs as long as their actions are based on innovations. The social entrepreneur is a leader, not elected by ballot papers of any kind, but by the people in their role as consumers on the market. If they like the new products or services that is based on innovations and introduced to the market by the entrepreneurs, they will buy and thereby show their power in choosing the new and in that way distance themselves from the old. This is a completely different election than the political one.

The entrepreneur is the head and not the tail. That is true, both in his private life as in his business life. The entrepreneur has, and must have

complete freedom to make his judgmental decisions, both as a private person and as an entrepreneur. This is a significant fact when it comes to capital. In dynamic production, the process of producing runs with only two input factors, land and labor. Capital is considered means that is transferred to entrepreneurs and resolves into land and labor as an independent agent. Therefore, the entrepreneur must have total control over the financial resources that is operating in the production function. Most enterprises are well financed by buildup equity from previous successful business activities. Otherwise, the entrepreneur is forced to take a loan. Productive loans represent an unnecessary risk, not for the entrepreneur in his role as such, but for the man in the role as capitalist, because the entrepreneur can easily fill different roles in business life. When the activity proves to be a success, the productive loan can be easily managed and repaid from the proceeds from the sale.

Considering both types of loans, private (for consumption) and productive (for investment), the entrepreneur should always avoid taking any kind of loans. It is always better to lend than to borrow and as community leader through economic activities, the entrepreneur represents the sustainable economy. Referring to Benjamin Franklin “Remember this saying, *The good paymaster is lord of another man`s purse*, He that is known to pay punctually and exactly to the Time he promises, may at any Time, and on any Occasion, raise all the Money his Friends can spare. This is sometimes of great Use: Therefore, never keep borrow`d Money an Hour beyond the Time you promis`d, lest a Disappointment shuts up your Friends Purse forever.”, it is obviously better not to be under any paymaster for any kind of credits [3]. Private loans inevitably make the man and his family live under his expected level. Not only is a loan expensive and hard to payback for most people, but it limits the economic and personal freedom of the entrepreneur and his family.

In all kinds of entrepreneurship, the most valuable resource is the entrepreneur`s good name and his talents as a creator of innovation. That value will guarantee the entrepreneur and his family not to live a sublevel economic life but contribute to a sustainable community financing. Entrepreneurial profit is the basis of private wealth, and that wealth contributes to community financing on a sustainable level, because the successful entrepreneur knows best how to invest his profit in a justifiable and successful way. Most fortunes are made of entrepreneurial profit, because salary does not provide much, and seldom enough for lending. Borrowing might seem as a smooth and easygoing way of financing the enterprise, but in the end, it will cause a setback for the entrepreneur, even if he is successful, because interest represents both an unnecessary risk and

extra cost that forever will be a loss for the value creation. On the other hand, the successful entrepreneur can lend to the market and secure him an extra value income in monetary terms and at the same time contribute to the social value increase for the individual, family, neighborhood and nation where his capital is engaged.

The traditional way of thinking in society is that the worker does not wish to earn more and more money, but simply to live as he is accustomed to live and earn as little as is necessary for that purpose. These people obviously are forced to borrow when unforeseen, and unnecessary expenses or hard times struck as consequences of economic fluctuations, and they are easily targeted by the financial structures. The new social class structure analyses and justifies the order of three distinct groups of individuals in any society today whereof the elite class represents the dynamic and prosperous population, i.e. the entrepreneurs [4]. The starving class, as well as the desperate class both are victims of the static production. Once the static economy has reached its optimum, the lower classes will inevitably suffer. Diligence and frugality are attitudes that are characteristic of the successful entrepreneur, and are a guaranty for sustainable financial contribution, not only for himself and his family but also for society in the broadest sense. Asceticism and dedication to work as well as his ability of judgmental decision making keep the entrepreneur stay wealthy over a long time span. This is in contrast to the different types of financial structures operating in the market to engage potential new entrepreneurs and aspiring individuals with too much hope of succeeding as entrepreneurs, be it the business type or the social variant. Governments, both local and national, banks, finance institutions, NGOs and others offer loans and social benefit programs in a huge amount. Regardless, these loans and benefits are all within the static economy.

In conclusion, we can summarize the principles of lending and borrowing in social entrepreneurship as follows. The entrepreneur is an independent individual and avoids borrowing for private consumption or investment. The entrepreneur usually finance the enterprise based on equities accumulated from previous successful entrepreneurship. As soon as the new products or services are established in the market, the enterprise is sufficiently supplied with capital from the sales revenues. Capital is considered means that is transferred to entrepreneurs. As entrepreneurs are associated with the skills and attitudes of members of the elite social class group, they nurture the dynamics of the economy. The entrepreneur is the head, not the tail, who refers to being a community leader in social and economic activities. Entrepreneurs carefully make their judgmental decisions on how to invest their money, and if they can afford it, they lend money to

individuals and society if they see an opportunity to stimulate social and economic growth. Community financing based on entrepreneurship is an innovative and sustainable economic factor. The entrepreneur can do something the state or groups of people cannot do, namely introduce innovations in the market. The fruits of innovations are extensive. A better world for all, economic and social growth and development, peace and human rights are some of the important results, as well as economic individual freedom.

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