

THE DEVELOPMENT OF RURAL ENTREPRENEURSHIP IN ROMANIA**ANDREA FEHER, VASILE GOȘA, TABITA HURMUZACHE, MIROSLAV RAICOV**

Banat's University of Agricultural Sciences and Veterinary Medicine from Timișoara
Faculty of Farm Management
Calea Aradului, no.119, 300645, Timișoara, Romania
feherandrea.usab@gmail.com

ABSTRACT

Small and medium enterprises play a vital role within the economy of a country, representing a source of entrepreneurial and innovation skills that greatly contributes to the achievement of gross domestic product and employs a large part of the labor force. The rural economy is more developed and dynamic, as it has a structure more diverse, and the share of non-agricultural economy is higher.

The purpose of this article is to perform a radiography on the business environment in Romanian rural areas by identifying the main strategic ways for stimulating entrepreneurial spirit.

Rural communities in Romania is mostly characterized by an aging population, declining birth rates and dependence on agriculture, especially the subsistence and semi-subsistence. Sources of income are reduced due to the low number of jobs and have major implications on quality of life in rural communities. Therefore, local authorities should be concerned about the development of their localities and improving the quality of life through the successful implementation of development programs and projects.

Keywords: entrepreneurship, SMEs, rural areas, rural economy, development

INTRODUCTION

Entrepreneurship is a multi-facet phenomenon, shaped by social and economic conditions. Entrepreneurship can be treated as an attitude or as a process. Being an attitude, entrepreneurship corresponds to a trait in people's character and stands for the readiness to face new challenges, to improve the existing components of the human environment and to take an active and creative stance towards one's surroundings. In turn, entrepreneurship understood as a process means the creation and development of a business entity (enterprise) (BABUCHOWSKA, MARKS-BIELSKA, 2013).

Entrepreneurship is recognized as a primary engine of economic growth. Without it other factors of development will be wasted or frittered away. Entrepreneurship stimulates economic growth through the knowledge spill over and increased competition of the entrepreneurs (CARREE, THURIK, 2005).

The accumulation of factors of production per se – be they knowledge, physical or human capital – cannot alone explain economic development. They are necessary inputs in production, but they are not in themselves sufficient for economic growth to occur. Economists, however, thought so for a long time and in centrally planned economies and many third world countries massive investments in human and physical capital did not produce much prosperity. Human creativity and productive entrepreneurship are needed to combine these inputs in profitable ways, and hence an institutional environment that encourages free entrepreneurship becomes the ultimate determinant of economic growth. Thus, the entrepreneur and entrepreneurship should take center stage in any effort to explain long-term economic development (ELLIASON, HENREKSON, 2011, HOLCOMBE, 1998).

Rural entrepreneurship is acknowledged as an important component that contributes to the economic development of a country (AHMAD, 2011, STATHOPOULOUS ET AL., 2004).

Rural entrepreneurship is one of the newest areas of research in the entrepreneurship field. It has become one of the significant supportive factors for rural economic development and agribusiness (WORTMAN, 1990). In opinion of Wortman rural entrepreneurship generally can be defined as creation of a new organization that introduces a new product, serves or creates a new market, or utilizes a new technology in a rural environment.

Entrepreneurship in rural areas include widening the base of a farm business to include all the non-agricultural uses that available resources can be put to or through any major changes in land use or level of production other than those related solely to agriculture (PETRIN, 1994). In this regards, rural entrepreneur is someone living in a rural location and contribute to the creation of local wealth. Many examples of successful rural entrepreneurship can already be found in literature. Diversification into non-agricultural uses of available resources such as catering for tourists, blacksmithing, carpentry, spinning, etc. as well as diversification into activities other than those solely related to agricultural usage, for example, the use of resources other than land such as water, woodlands, buildings, available skills and local features, all fit into rural entrepreneurship. The entrepreneurial combinations of these resources are, for example: tourism, sport and recreation facilities, professional and technical training, retailing and wholesaling, industrial applications (engineering, crafts), servicing (consultancy), value added (products from meat, milk, wood, etc.) and the possibility of off-farm work. Equally entrepreneurial, are new uses of land that enable a reduction in the intensity of agricultural production, for example, organic production.

MATERIAL AND METHOD

The work relies on an extensive documentation in the field. In the first part of the work the authors have presented a description of the entrepreneurship phenomenon in general and then of rural entrepreneurship, based on international literature in this field. The second part of the work deals with rural entrepreneurship in Romania and, in this respect, the study is based on processing of national and international statistical data. The authors also make some strategic ways to follow for stimulating rural entrepreneurial spirit in Romania. The structure and dynamics of the business environment are analyzed on the basis of specific indicators designed to capture general trends in the quantitative and structural development of business initiatives and to highlight those characteristics of dynamics and structure on which corrective interventions are needed.

The indicators used in this analysis are the followings:

- A. The density of active local units per thousand inhabitants is considered a good indicator to reflect the ability of a territory to be/ not to be attractive to business initiatives.
- B. Dimensional structure of active local enterprises by number of employees, which reveals the ability of labor force absorption from the local market.
- C. The structure of active local units by activity sectors, which reflects the diversification degree of business environment and thereby its ability to economically exploit the local resources.

RESULTS

The rural space of Romania consists of the administrative surface of the 2,861 communes which regroup 12,956 villages. The related surface for rural space as delimited in this way totals 223,055,000 ha, representing 87.1% of the country surface. The rural population is about 9.63 million people, meaning 44.9% of the total population. The number of rural households is of 3,311 thsd (45.0% of total households in the country) and the number of housing is 3860 thsd (45.8% of total number of housing) (NIS, 2011). This space is the repository of the vast majority of economic resources: raw materials for industry, agricultural resources, forestry, tourism and spas.

Of the 450,000 active SMEs nationally, only 14.0% operate in rural areas, which are mainly microenterprises, but without the absorption potential of labor force surplus, with a minimum contribution at the formation of rural economy.

The low density of rural SMEs relative to population, of about 7 SMEs /1000 inhabitants is six times lower than the European average (42 SMEs /1000 inhabitants in the EU- 27) and three times lower than the national average. Because a sufficiently large number of companies are not activating and there is a lack of a favorable frame for establishing and developing of them, rural SMEs do not contribute significantly at the sustainable economic development of rural areas (STERIU, OTIMAN ET AL., 2013).

Starting from the hypothesis that entrepreneurship leads to economic growth and new jobs creation, supporting it has become a priority as a solution to exit the economic crisis and mitigate the risk to continue emphasizing the underemployment of workforce and rural poverty. In the context where 45.0% of Romania population is in rural areas, encouraging the formation and development of non-agricultural businesses in rural areas should be an absolute priority.

The dimensional structure of the active local enterprises by number of employees is dominated, as was natural, by the businesses classified within the category of SMEs which represented in 2010, nationally 99.6% of the number of active local units (NIS, 2011), number with 0.2 percentage points higher than the European average (SCHMIEMANN, 2008). This percentage has remained relatively constant over the entire period before and during the global economic crisis. In dynamic still, by dimensional categories, the enterprises were affected differently by the economic crisis. Thus, the most stable ones were found to be smaller companies that seem to have a more flexibility and a greater ability to adapt to new economic contexts induced by the economic crisis. Thus, if the number of SMEs has decreased by 11.0% in 2010 compared with 2008, the number of large enterprises (with more than 250 employees) has decreased by almost 19.0%. Within the overall business environment from Romania, the greatest economic stability and ability to cope with economic crises occurs with small enterprises (10-49 employees), whose number has decreased by less than 9.0% during the period 2008-2010.

The structure of active enterprises by residence areas and activity sectors shows that businesses that have as activity object the production of goods and services of agriculture or forestry nature are concentrated primarily in rural areas (up to 2/3) while the businesses whose activity profiles are circumscribed to secondary and tertiary sectors are more concentrated in urban areas (up to 75.0%, respectively 80.0%). The economists recognize that the produced value added within the businesses from the primary sector of the economy (agriculture) is much lower compared to businesses that process these raw materials and those who provide services to companies and households. Therefore, this disproportionate distribution of economic activity sectors between the two areas, urban and rural, is unfavorable for the rural space, the opportunities of rural business environment to generate substantial profits being much lower than in urban areas.

The strategies to encourage rural entrepreneurship initiative must respond to three major challenges (STERIU, OTIMAN ET AL., 2013):

- aspects of economic structure - low employment opportunities in the primary sectors (especially agriculture) as a result of structural changes in the economy (focusing on agricultural land use, migration flows, financial crises, etc.), increased by legislative changes far too fast to could be assimilated by the rural population. It highlights thus the need to address the stimulation of economic activity in line with employment potential in rural areas;
- the characteristics of rural business environment - the difficulty of maintaining a critical mass of facilities in rural areas (infrastructure, market, tax incentives, etc..) to support economic development;
- the characteristics of rural population - accelerated aging of the population associated with extrarural exodus of young people and (re)turning to rural areas, especially of persons at retirement age, are social processes that negatively affect the chances of potential rural entrepreneurs occurrence.

Stimulating the entrepreneurial spirit, according to the Small Business Act for Europe (EC, 2011), is based on three pillars of action shown in *Figure 1*.

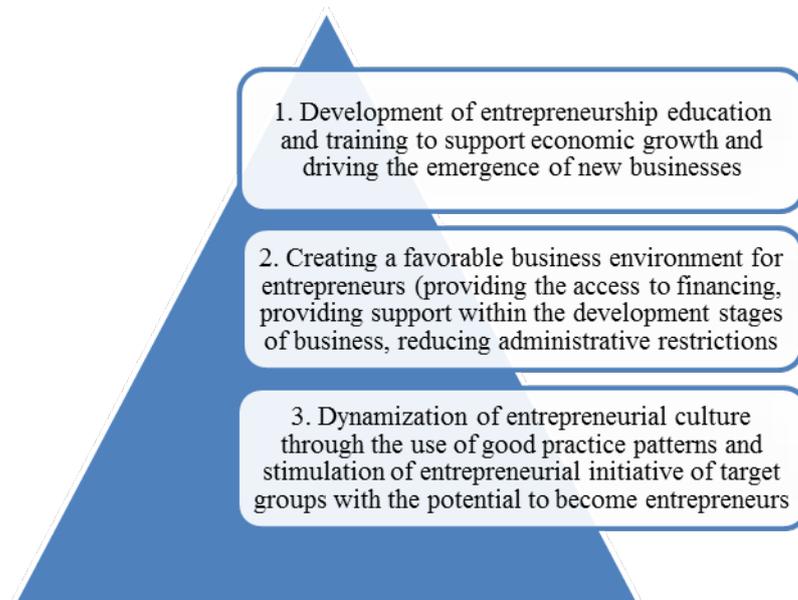


Figure 1. Pillars of Action of rural entrepreneurship development

Source: Processing after EC(2011)

1. The first pillar of action covers the following measures (STERIU, OTIMAN ET AL., 2013):
 - including among the programs of primary, secondary, professional, and higher education, as well among the adult education, of needed disciplines for skills training necessary for an entrepreneurial spirit development;
 - using structural funds for the revival of entrepreneurship education for youth;
2. The second pillar, of creating a favorable business environment for entrepreneurs, comprising the following steps:
 - the access to financing by creating of some micro-credit schemes and loan guarantee for rural non-agricultural start -ups;
 - providing support for entrepreneurs in the developmental stages of the business through: rural tax systems more favorable for businesses in the early stages; implement a new payment scheme of VAT at collecting for small businesses;

designing and implementing a system of adjustments for the payment timing of social contributions for a limited period of time based on some specific situations of the enterprises; providing support for accessing the European Programme for agriculture and Rural Development;

- reducing bureaucracy and administrative restrictions by: creating of a single point of contact at rural microzone level to obtain complete information for SMEs, licenses, financial support and public consultancy; simplifying the legislation regarding the employment and implementation of flexible programs of workforce employment.

3. The third pillar of action for the development of entrepreneurship refers to the following measures:

- stimulating the rural entrepreneurship initiatives by disseminating of successful models of businesses and of examples of good practice in order to limit the risks of failure for the small businesses and to increase the confidence of potentially new rural entrepreneurs;
- encouraging the creation of new businesses by the demographic groups under-represented in the entrepreneurial environment: (i) marginalized groups (women, unemployed) by encouraging them to change their perception on their chances of success, (ii) the group of migrants (migrant entrepreneurs and Romanian rural population contained in external temporary migration flows for employment) in order to induce the latter ones to return to the rural space of origine and to exploit the knowledge gained within the activities performed abroad.

CONCLUSIONS

Entrepreneurship development is weak represented in rural areas of Romania, as a result of insufficient exploitation of natural resources, poor education, low level of utilities, as well as of the phenomenon of massive migration to urban or externally, to other countries of the world, especially from the part of young population.

The development of a viable network of private small and medium enterprises (agricultural food, industrial, of local products processing, crafts, services etc.) within the rural areas has, in addition to the important economic function, an outstanding social component too, in the meaning of stabilizing the rural population, eliminating commuting and of using, by complementarity, the rural workforce. At the same time, these enterprises also have the role of boosting the rural economy, which contributes in this way, through the taxes that are paid to the local budget, to the economic, cultural and social development of communities.

We believe that urban-rural economic balance, without a real policy of economic and financial support and providing important tax breaks for the rural SMEs, still remains an unsolved problem for the Romanian rural area.

REFERENCES

AHMAD, A.R., WAN, Y., WAN, F., MD NOOR, H., RAMIN, A.K. (2011): Preliminary study of rural entrepreneurship development program in Malaysia, International conference on management (ICM 2011) Proceeding, pp. 537-545

- BABUCHOWSKA, K., MARKS-BIELSKA, R. (2013): The growth of rural entrepreneurship in the context of the implementation of the Rural Development Programme in 2007-2013, Rural development 2013. The sixth international scientific conference proceedings, Volume 6, Book 1, pp. 493-498
- CARREE, M., THURIK, R. (2005): Understanding the role of entrepreneurship for Economic Growth: Discussion paper on Entrepreneurship Growth and Public Policy. Max Planck Institute for Research into Economic Systems. Group Entrepreneurship, Growth and Public Policy, Germany
- HOLCOMBE, R.G. (1998): Entrepreneurship and Economic Growth." Quarterly Journal of Austrian Economics 1 (2), pp. 45-62
- ELIASSON, G., HENREKSON, M. (2003): William J. Baumol: An Entrepreneurial Economist on the Economics of Entrepreneurship , SSE/EFI Working Paper Series in Economics and Finance No 532
- SCHMIEMANN, M. (2008): Enterprises by size class -overview of SMEs in the EU, EUROSTAT, Statistics in focus Industry, trade and services No. 31
- STATHOPOULOU, S., PSALTOPOULOS, D., SKURAS, D. (2004): Rural entrepreneurship in Europe. A research framework and agenda, International Journal of Entrepreneurial Behaviour & Research, Vol 10, No 6, pp. 404-425
- STERIU, V., OTIMAN, P. I. (COORD.) (2013): Cadrul național strategic pentru dezvoltarea durabilă a sectorului agroalimentar și a spațiului rural în perioada 2014-2020-2030, Editura Academiei Române, București
- PETRIN, T. (1994): Entrepreneurship as an economic force in rural development, Keynote paper presented at the Seventh FAO/REU International Rural Development Summer School, Herrsching, Germany
Available at http://www.fao.org/docrep/w6882e/w6882e02.htm#P359_61606
- WORTMAN, M. S. (1990): Rural entrepreneurship research: An integration into the entrepreneurship, Agribusiness, Volume 6, Issue 4, pp. 329-344
- EUROPEAN COMMISSION (2011): Communication from the Commission to the European Parliament, the Council, Economic and Social Committee and the Committee of the regions Review of the "Small Business Act" for Europe, Brussels, COM(2011) 78 final
- NATIONAL INSTITUTE OF STATISTICS (2011): Romanian statistical yearbook