

## THE NON-AGRICULTURAL ECONOMIC ACTIVITY IN THE CONTEXT OF INCREASING THE COMPETITIVE BUSINESS ENVIRONMENT IN THE ROMANIAN RURAL AREA

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### *Abstract*

*The paper makes an inventory of the rural non-agricultural activities, which can be classified into two categories depending on the time allocated to the respective activities: independent ones, those that are practiced in exclusivity, using the entire working time, and the complementary ones, those that are carried out to complete the available working time, by those involved in agriculture. To increase the relevance of the analysis, the paper attempts to quantify the most important methods for increasing the rural business environment competitiveness on the basis of documentation, analysis and processing of statistical data. In general, no rural development program can be conceived in the absence of the essential role played by agriculture, but the rural economy is more developed and more dynamic if it has a more diverse structure, with a higher share of non-agricultural economy.*

**Key words:** competitiveness, non-agricultural activities, rural business, rural development

### INTRODUCTION

In the sector of agriculture, forestry and food, competitiveness increase leads to performance improvement, revitalization of the rural areas and the creation of new jobs; this aspect was mentioned in paragraph 1 “The development challenges” of the Partnership Agreement, which is the national document that describes the way in which Romania has in view to use the European Union funds in order to reach the goals of the Common Agricultural Policy in the period 2014-2020. [1]

In order to promote labour force employment in the rural area, the European Commission has proposed a series of measures to stimulate the economic activities in the countryside and to encourage the local development initiatives through support to projects targeting the establishment of micro-enterprises and consolidation of local action groups.

The business environment development in the rural area, according to the principle of activity field prioritization, contributes to:

- diversification of agricultural and non-agricultural activities in the rural area;
- job creation;
- increase of rural population’s incomes;

-narrowing the disparities between the rural and the urban areas;

-facilitating the supply and utilization of renewable energy sources, of by-products, of wastes, residuum and other non-food raw materials for bio-economy purposes;

-fostering the maintenance and development of traditional activities. [6]

Thus, the diversification of rural activities in the rural area contributes to the creation of new alternative or additional income sources for the rural population, as the main possibility to increase the utilization of available time in the rural areas. The non-agricultural economy consists of extractive and processing industry, food and light industry, wood and forest products harvesting and processing, cottage industry, agro-tourism activities and services. [4]

Given the potentials and rural environment diversity, most business ideas are based on a structure that has a high diversification degree (requires smaller or larger investment, depending on the nature and work extent). [3]

By diversification we understand any income gain activity that does not depend on any agricultural work, yet it is connected to the farm. This refers, among others, to: agro-

processing, wood processing, aquaculture, energy production from renewable sources for the market, contracts for hiring working equipment, tourism, housing and other leisure activities, craftsmanship. [2]

By the diversification of the farm activity, an equilibrium could be reached between the agricultural activity, other forms of rural development and the preservation of natural resources, while the multifunctional role of farmers could acquire other dimensions – that of food or non-food producers, suppliers of services, rural entrepreneurs. [9]

In a modern economy, starting from the principle that labour movement is much more expensive than the movement of materials and products, most countries modified their policy with regard to enterprises location, and they moved the enterprises towards the labour force and not inversely. The displacement of labour implies massive investments and complex social phenomena. On the contrary, the location of small and medium-sized companies in the rural area means economy diversification, labour employment, increase of the economic power of rural localities and their overall development. [8]

Long-term sustainability can be reached by encouraging the establishment or development of profitable non-farm business and improving the quality of human resources in rural areas/countryside. Investing in human capital and social infrastructure represents the most important concern for the great entrepreneurs in Romania, aiming to use the complete potential of women and men. [11]

## MATERIALS AND METHODS

In recent years, the European Union has been supporting entrepreneurship, becoming untenable to formulate policies for economic development without taking into account the improvement of the business environment by removing barriers or direct actions for supporting entrepreneurship. The purpose of this research is to quantify the current situation of the development level of business environment in Romanian rural area.

The whole volume of information present in this article was obtained through scientific

research specific methods, while respecting all its stages from the methodological point of view: identification of the investigated problem, research framework delimitation, information collection, data processing, analysis and interpretation and drawing up the conclusions.

An important place for the purpose of the paper is held by office research, which consisted of the identification of other studies and articles that addressed the same theme, as well as of the processing of certain statistical data. As a result, the information sources used can be classified into governmental sources (statistical, ministerial and from research institutes) and non-governmental sources (independent publications).

The statistical data were completed with information from the articles and studies published in specialty journals as well as in Government documents.

## RESULTS AND DISCUSSIONS

Business environment development in the Romanian countryside, by contributing to the preservation and development of traditional activities, also leads to the diminution of rural-urban disparities.

In Romania, at present, most rural people are working in agriculture, forestry and fisheries. In the year 2011, both the activity rate (62.6%) and the employment rate (58.8%) of the population in the rural area (calculated in relation to the working-age population: 15-64 years) had lower values compared to previous years (Figure 1).

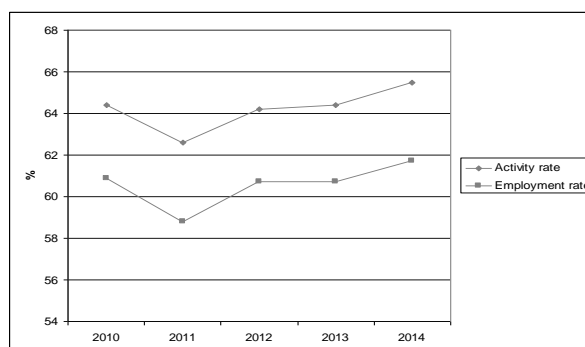


Fig. 1. Activity rate and employment rate in the rural area, in the period 2010-2014

The creation of new enterprises had been proceeding well up to 2008 (Table 1) but stalled during the recession and has yet to fully recover.

Table 1. Number of active economic and social operators of national economy, in the period 2004-2008

Type of operators	2004	2005	2006	2007	2008
Enterprises	410,383	450,666	480,910	520,228	555,128
Agricultural holdings	11,794	12,510	13,347	14,221	14,407
Non-agricultural enterprises*	394,519	433,030	461,812	499,857	533,976
Private entrepreneurs	410,642	381,468	324,700	330,438	306,879
Total	901,414	928,225	911,662	957,524	1,002,879

\*Enterprises from industry, construction, trade and other services

Source: Romania's Statistical Yearbook, 2004-2012 data series, NIS.

However, the number of agricultural enterprises increased across the years in the investigated period (Table 2).

Table 2. Number of active economic and social operators in national economy, in the period 2009-2012

Type of operators	2009	2010	2011	2012
Enterprises	541,836	491,956	452,171	472,342
Agricultural holdings	15,112	15,240	15,152	16,080
Non-agricultural enterprises*	519,441	470,080	430,608	449,482
Private entrepreneurs	307,777	290,960	280,377	278,078
Total	942,876	876,225	826,170	850,113

\*Enterprises from industry, construction, trade and other services

Source: Romania's Statistical Yearbook, 2004-2012 data series, NIS.

In rural area, most of the non-agricultural enterprises are involved in trade activities due to the fast recovery of investments and minimum necessary expertise in the organization of such activities; at the same time, the industry and services are not developed in conformity with the market demand. Except for two branches, i.e. food industry and timber industry, there are no other industrial activities in the proper sense of the word in the rural area.

Only about one quarter of the communes in Romania have non-agricultural economic

activities on their territory, organized under the form of SMEs in the extractive, processing, cottage industry and agro-tourism activities. In 2011, only 18.1% of the active SMEs with non-agricultural profile were listed in the rural area, which reveals a low share of SMEs involved in carrying out these activities (industry, services and rural tourism). Yet, in the period 2005-2011, the number of rural non-agricultural SMEs increased by 16%, but the effects of the crisis from the last years led to a decrease in number of these. [10]

The decrease of the number of workshops providing services and handicraft cooperative units generated severe compression of the social economy from rural areas. In 2010, out of the 2,017 cooperatives, 42.5% were craft cooperatives where traditional activities were carried out (crafts, handicraft). [10]

Business development in the rural areas features great differences across regions, as an effect of the insufficient material resource exploitation, of the deficient education, of the low level of utilities, as well as of the massive rural-urban migration or out-migration to foreign countries.

Romanian businesses proved to be less resilient during the recession. The most problematic factors for doing business in Romania are corruption, tax rates, government bureaucracy and inefficiency, access to finance, tax regulations, inadequate infrastructure, inflation and an inadequately educated workforce.

The access of SMEs to finance remains a problem. In terms of territoriality, financial services are generally less accessible to rural areas enterprises and to the agricultural sector, due to high credit costs. Although financial mechanisms (guarantee schemes) were in place, some of the beneficiaries who signed financing contracts under the 2007-2013 National Program for Rural Development did not succeed to access credits for investments. The main reason consisted in the non-existence of an agricultural credit adjusted to the specificity of agriculture.

The requirements imposed by the banking institutions for accessing funds (e.g. for guarantees) are similar to the ones applied for

any other company or SME, being impossible to fulfill. The insufficient specialization of crediting services was directly reflected in the guarantee system for agriculture, which was not used to its planned capacity, and, implicitly, in the limited level of accessing the program and the high level of project cancellations among selected beneficiaries.

Small-scale business development is an important source for employment/income earning, and the analysis of rural SMEs shows a low ability to provide jobs for population.

**The diversification of the non-agricultural utilization of available resources in the rural area** makes it possible to develop an entrepreneurial environment oriented towards:

-*Productive non-agricultural activities*, such as:

- light industry (leather-made items, footwear, woolen and fur items, knitware, household appliances, odor control products, etc.);
- industrial processing of wood products (e.g. furniture), starting from the timber stage;
- industrial processing of meat and milk products;
- fine mechanics, assembly of machines, tools and household appliances, production of packages, etc.

-*Craftsmanship activities*, handicraft and other non-agricultural traditional activities with local specificity (processing of iron, wool, pottery, embroidering, manufacturing traditional musical instruments, etc.), as well as their marketing (small shops selling own products obtained from these activities).

-*Services for the rural population*, such as:

- tailoring, barbers' shop, shoemaking;
- private kindergartens;
- internet connection and diffusion;
- mechanization, transport (others than the purchase of transport means), phyto-sanitary protection, sanitary-veterinary services and artificial insemination of livestock;
- repair of machines, tools and home appliances.

-*Renewable energy production* by the procurement of equipment for producing energy from renewable sources other than the bio-consumable sources;

-*Commercial activities* (small shops for the

sale of own products obtained from agricultural and non-agricultural activities, as well as of those of local, regional, national or global origin, with agricultural or industrial character);

-*Financial-banking and advisory services*;

-*Rural tourism activities, green tourism etc.*

The development of micro-enterprises as well as of small and medium-sized enterprises plays an essential role in the European economy, where these represent a significant source of incomes, while promoting entrepreneurial, innovation skills and job creation.

In Romania, for the period 2007-2013, the main programs for stimulating the business environment in rural areas are:

-The program for stimulating the creation and development of micro-enterprises by young entrepreneurs,

-The START Programme, and the

-Measure 3.1.2 of National Program for Rural Development – „Support to creation and development of micro enterprises”. [6]

The low rate of absorption of European funds on this measure is caused by strong bureaucratic character. It appears so, another reason for the lack manifestation of entrepreneurship in rural areas: the inefficiency and ineffectiveness of programs to stimulate entrepreneurship.

For the period 2014-2020, the National Program for Rural Development (PNDR) provides support to the non-agricultural enterprises in the rural area under the measure **M6 – “Farm and business development”** with two sub-measures - 6.2 “Support to the establishment of non-agricultural activities in rural areas” and 6.4 “Investments in the creation and development of non-agricultural activities”. [7]

The goal of the support granted under the measure M6 will stimulate the business environment in the rural area, contributing to the increase in the number of non-agricultural activities in the rural areas, as well as to the development of the already existing non-agricultural activities, job creation and increase of the rural population's incomes. At the same time, the support targets the farmers or members of agricultural holdings who wish

to diversify their economic activities by the practice of non-agricultural activities in order to increase their incomes and create occupational alternatives.

**The sub-measure 6.2 “Support to the establishment of non-agricultural activities in rural areas”** has in view: *the diversification of the rural economy* through the increase of the number of micro-enterprises and small enterprises in the non-agricultural sector, development of *services* and creation of jobs in the rural area and encouraging the maintenance and development of *traditional activities*.

**Under the sub-measure 6.4 “Investments in the creation and development of non-agricultural activities”** support is provided for the micro-enterprises and small enterprises in the rural area that create or develop new activities in the countryside.

The modern approaches from the governmental strategies prioritize the actions and measures, having in view to remove the constraints to private initiative in the rural areas through:

- Support to the private sector in the identification of investment opportunities;
- Strengthening the existing labour force and support to its re-qualification in order to meet the requirements of private investors in the rural areas;
- The adjustment of the education curricula in the rural areas to the specific conditions of the communities or regions, so that the young people can get jobs more easily;
- The increase of the quality of public administration in the rural areas;
- The public infrastructure improvement in the rural areas;
- Supply of technological assistance at the level of communities for the identification and coordination of public investments efforts.

The Governments have always recognized the problems in the rural area and the lower living standard compared to that in the urban area.

At the same time, the problems generated by the fewer opportunities to find jobs in the rural area have been included on the governmental agenda, together with the support to job creation and environment protection. Several governmental strategies

existed and still exist, trying to coordinate the efforts and resources of different ministries and governmental agencies (agriculture, labour and social protection, administration and environment), so as to generate a critical mass necessary for rural area development.

Yet these strategies have not generated the expected results, not even with regard to the increase of competitiveness of agricultural activities and to rural area development. The causes of failures are, in general, the top to bottom approach of the different strategies, the non-involvement of the authorities and of the rural communities, the systematic non-allocation of the funds that have been initially foreseen and the absence of certain priorities to be maintained for a long time period.

## CONCLUSIONS

For the quality of life growth and the diminution of negative social and economic phenomena with medium and long-term impact, it is necessary to increase the living standard of the population, by increasing the entrepreneurship opportunities in rural areas. Specifically, investments are needed in the development of human resources in rural areas and in supporting its entrepreneurial efforts and activities in order to generate profitable activities that can ensure motivating financial and social rewards on the medium and long term.

In a modern economy, starting from the principle that labour movement is much more expensive than the movement of materials and products, most countries modified their policy with regard to enterprises location, and they moved the enterprises towards the labour force and not inversely.

The location of small and medium-sized companies in the rural area means economy diversification, labour employment, increase of the economic power of rural localities and their overall development.

In Romania, the rural economy is by tradition associated to agriculture. This situation explains the need to create alternative jobs in the rural area, mainly by orienting the small farmers or the members of their families towards the non-agricultural sector.

The statistical data reveal that agriculture, food industry and forestry are of primordial importance for the rural economy. The presence of non-agricultural activities in the Romanian rural area, related to the primary sector, and mainly to the exploitation of natural resources and their processing, are non significant in economic terms.

The analysis of SMEs in the rural area reveals their low capacity to respond to the need to supply jobs for the rural population. Small-scale business development is recognized as the most important source of jobs and incomes in the European rural area.

In the present socio-economic context, the creation and promotion of entrepreneurial initiatives put into operation a viable mechanism for the rural communities' development. In order to obtain good results in the entrepreneurial activity in Romania, the following aspects should be taken into consideration:

-Infrastructure improvement to support business through the creation and development of industrial parks and businesses incubators;

-The continuation of the bureaucracy diminution process in the establishment and operation of the new enterprises;

-Better information of population on the governmental programs for private initiative stimulation;

-The promotion of successful business stories of the Romanian entrepreneurs on a larger scale.

The business environment development in the rural area, according to the principle of activity field prioritization, contributes to:

-Diversification of agricultural and non-agricultural activities and job creation in the rural area;

-Increase of rural population's incomes and narrowing the disparities between the rural and the urban areas;

-Fostering the maintenance and development of traditional activities.

In the future, with the continuation of the reform in education, the conditions of entrepreneurial spirit development could be changed. The success of such changes depends on how fast and how much the

administrative and managerial capacity of local authorities will be improved.

The investments in the non-agricultural and food economy in the countryside, besides adding value to products through the processing of agricultural and non-agricultural raw products from local resources, has another great advantage, in the sense of creating new jobs, through the utilization and stabilization of the local (rural) labour force, the revitalization of the rural localities, mainly of those localities from the less-favoured and remote areas.

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