

RURAL ENTREPRENEURSHIP IN ROMANIA: IMPORTANCE, PREMISES AND LIMITATIONS

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Abstract

Both in Europe and Romania, small and medium enterprises (SMEs) are predominant in both the total number of enterprises and in terms of number of employees. According to European Commission, in Romania, SMEs account for 99.9% of total number of enterprises, provide employment of 67.2% of total employment in the private sector and generate 49.6% of gross value added. Therefore SMEs directly affect employment and economic growth in the area. It is widely recognized that the role of SMEs in the national and regional economy is very important because they contributes in a large proportion to the achievement of the country's gross domestic product (GDP) and provide jobs for a large number of people. Therefore the economic recovery largely depends on the improvement of SMEs' performance. In Romanian rural areas, entrepreneurship still encounters a large number of vulnerabilities and there is an important need to create the means for the rural entrepreneurs to have access to finance, professional advices and support and to benefit from a better and modernized infrastructure. In this research, our main purpose was to investigate and analyse the role played by the rural SMEs as an important factor that can generate and increase the development of the Romanian rural areas. On this path, we are going to analyse the premises and challenges of the entrepreneurship in rural areas and the importance of this manifestation for local and national economy.

Key words: entrepreneurship, rural development, SMEs

INTRODUCTION

Given the fact that complex development policies are promoted for rural areas where agriculture remains the mainstay, it is required the creation and development of other activities that meet the transposition of the concept recalled. The main focus in the rural communities development is to diversify rural economic and demographic opportunities. Rural tourism, agro-tourism, small and medium sized enterprises will be able to offer such sustained participation of the working population by absorbing workforce surplus [3].

In order to approach and reach the level of developed countries it is necessary the micro-enterprises extension in rural areas, demand driven by the need to support small agricultural producers still deprived of the advantages of scientific and technical progress. It is widely recognized that the role

of small and medium enterprises (SMEs) in the national and regional economy is very important because they contributes in a large proportion to the achievement of the country's gross domestic product (GDP) and provides jobs for a large number of people. Therefore, the economic recovery largely depends on the improvement of SMEs' performance [10].

Both in Europe and in Romania, SMEs are predominant in both the total number of enterprises and in terms of number of employees. Nevertheless, SMEs directly affect employment and economic growth (European Commission, 2016).

Within this paper we want to underline the important role to be paid by the SMEs companies in the rural areas as one of the most important factor that can determine and sustain the development and the diversity of the Romanian rural areas.

The problem of entrepreneurship has, at least, two meanings in the present paper: the

premises and challenges of the free manifestation of private initiative in rural areas and the importance of this manifestation for local and national economy. Analyzing these two subjects, we will be able to answer to the paper's objective.

MATERIALS AND METHODS

We have conducted our research based on theoretical elements combined by using various *sources of information*, both quantitative and qualitative, such as: national and international statistical data and other relevant scientific and academic sources, reports and analysis by the Romanian National Institute of Statistics, county Department of Agriculture and Rural Development, Ministry of Agriculture and Rural Development, Regional Development Agencies, along with recent publications presenting the investigated topic. In the same time, we tried to underline the premises for rural entrepreneurship, the limitations faced by the rural SMEs and to make some strategic ways to follow for stimulating rural entrepreneurial spirit in Romania.

RESULTS AND DISCUSSIONS

Analysis of the SMEs sector in Romania

Delimitation of SMEs in the economic landscape has been, over time, a difficult and controversial topic. According to Definition of European Commission Recommendation

no. 361/2003/CE: micro, small and medium enterprises category (SME) is formed up by enterprises that employ less than 250 persons and have a net annual turnover up to 50 million euros and /or have total assets up to 43 million euros.

The main SMEs features as high dynamism, flexibility, adaptability and capacity for innovation, places them in a position to benefit from the profound changes taking place in the socio-economic environment. Specifically, developments such as increasing the level of education of the population, globalization, computerization, etc. using outsourcing services that encourage and accelerate the transition to the new economy, are more as opportunities than threats for most SMEs [9].

Small and medium sized enterprises play an important role in the development of economy by creating jobs, supporting competitiveness and innovation, emphasizing dynamism and market atomicity [1]. Both in Europe and in Romania, SMEs are predominant in the total number of enterprises and in terms of number of employees (Table 1). Therefore SMEs directly affect employment and economic growth.

In Romania, SMEs account for 99.9% of total number of enterprises, provide employment of 67.2% of total employment in the private sector and generate 49.6% of gross value added (Table 1).

Table 1. EU and Romanian enterprises distribution

	Number of enterprises			Number of employees			Value added		
	Romania		UE28	Romania		UE28	Romania		UE28
	Number	Proportion	Proportion	Number	Proportion	Proportion	Billion Euros	Proportion	Proportion
Micro	392,377.00	87.1%	92.7%	884,895	22.2%	29.2%	7	13.5%	21.1%
Small	48,024.00	10.7%	6.1%	928,801	23.3%	20.4%	9	16.1%	18.2%
Medium-Sized	8,643.00	1.9%	1.0%	866,563	21.7%	17.3%	11	20.0%	18.5%
SMEs	449,044.00	99.7%	99.8%	2,680,259	67.2%	66.9%	27	49.6%	57.8%
Large	1,637.00	0.3%	0.2%	1,309,863	32.8%	33.1%	28	50.4%	42.2%
TOTAL	450,681.00	100.0%	100.0%	3,990,122	100.0%	100.0%	55	100.0%	100.0%

(Source: 2015 SBA Fact Sheet ROMANIA - Enterprise and Industry [4])

Opportunities for SMEs development in rural areas.

Rural area in Romania is almost equal from the point of view of the population, to the

urban area. Throughout its modern history, Romania was a country with a predominantly rural population. Rural area have substantial growth potential and a vital social role. This surface sums up 207,522 km², respectively

87.1% of the country surface. The population of this area, although it recorded a slight decrease in 2013-2015 period, is currently about 9.2 million people (46% of the population) (National Institute of Statistics, 2014). [12]

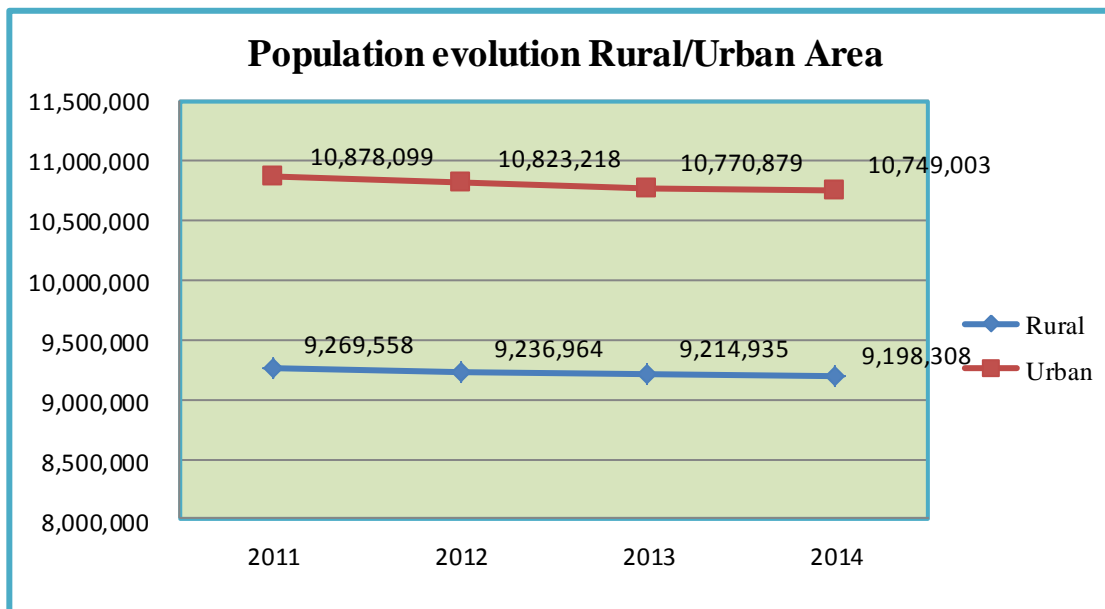


Fig. 1. Dynamics of Romanian population distribution, by rural/urban areas (Source: Data processed by the author based on NIS databases, 2015)

The structure of Romanian rural economy is clearly dominated by agriculture, but should also be noted that there are many differences between regions of the country in which the place of agriculture in the rural economy may not be the same [7].

According to data released by the National Institute for Statistics, although the labour

force involved in agriculture has recorded a negative trend in recent years, still has a considerable amount. Thereby, for the 2015 year, the total of agriculture labour force consisted of 1326 thousand annual work units of which 213 thousand employees and the rest of 1113 thousand unemployed (Figure 2).

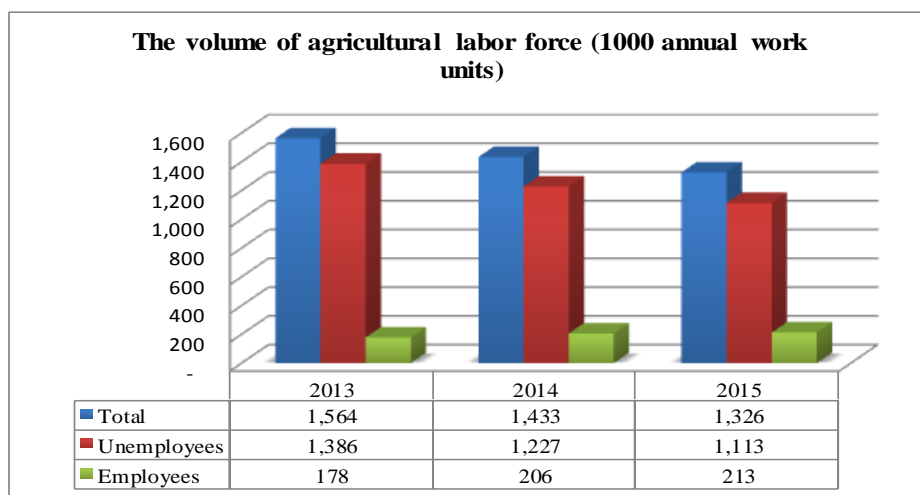


Fig.2. The dynamics of volume of agricultural labor force in Romania (2013-2015) (Source: Data processed by author based on NIS databases, 2015)

Burca (2015) has reported that agriculture is still providing in Romania a large number of workers that are usually earning modest and insufficient venues. Moreover, workers should be relocated to other sectors, such as agribusiness, where they can be hired by the entrepreneurs in SMEs companies; by this way it is diversifying the number of opportunities for the rural employees [2].

The share of agriculture in GDP remains substantial compared to the EU average; it has experienced some growth during transition period, but recorded positive variations do not reflect, even remotely, increasing economic efficiency of the sector, but rather his lack of efficiency [3].

Taking into consideration the above mentioned aspects and the importance of the agriculture for the national economy, it is easily to recognize the importance of the rural economy as a generator of development.

This way to conceive and materialize rural economy is an alternative to the policies promoted by economically advanced countries, potentially leading thus to reduce the share of employment in agriculture by increasing technical endowment, generating significant productivity gains and thus an "explosion" of agricultural production.

In this context, SMEs can be the economic engine of these areas; the performance and strategic perspectives of these businesses are major elements in the development of their work and the areas where they operate and they need to be supported and benefit consultancy in order to develop. Using them can contribute, among other things, to increase the employment of labor existing in rural areas, to avoid depopulation of some areas thereof, the enhancement of the various resources the nature of agricultural and non-agricultural, and increased income of members of various rural communities.

Rural Entrepreneurship Limitations

In terms of the future development of the rural areas through entrepreneurship, we cannot overlook the major challenges that entrepreneurs have to face. In a previous study [6] it is highlighted that having just 4 SMEs at 1,000 inhabitants and more than 50% of than activating in services and not in

production, the challenges of the Romanian rural entrepreneurship are many and incommensurable. Their impact upon Romanian rural economy may be seen every day, due to its lack of performance and huge problems that rural entrepreneurs confront to.

In order to analyse the challenges faced by rural enterprises is necessary to mention the weaknesses of Romanian rural area.

Among these are found: deficient rural infrastructure, dependence on agriculture, subsistence agriculture, low level of education and qualification of the rural population, low income, poor productivity and quality of agricultural products, unfavourable age structure, lack of an organized market network, rural youth migration and reduced installation rate of SMEs [3].

In Romania, rural entrepreneurship is facing a lot of challenges that prevent it to develop and to catch magnitude. In our opinion, those limits and restrictions, therefore the challenges of the Romanian rural entrepreneurship are given by several aspects:

➤ First and an important aspect is a poor quality of life in rural areas. Rural population is facing with bad living conditions and precarious existence of roads, water and sanitation, communication, education infrastructure. This lead to a strong effort against these living conditions (urban migration, accession university education and settlement in urban centers) and a lower interest in entrepreneurship.

➤ As a result of a weak manifestation as rural business in the past, in rural areas, there is a traditional approach of profession that almost excludes the entrepreneurial expression. The fear of risk taking, the resistance to financial investment whatever the financial resources, the lack of entrepreneurial education and competences take away any persons who would like to have a market approach.

➤ The absence of a family tradition in entrepreneurship in rural areas, and not only. The population is less willing to take as the entrepreneur risks the family's treasure and financial stability and this is equivalent of family's image and community's acceptance, especially in rural areas.

➤ Lack of entrepreneurial education in the field of rural activities. The market orientation is not part of the rural offer and few entrepreneurs accurately know marketing and how to reach consumers.

➤ The huge number of the small and semi-subsistence farms which cannot be competitive in market terms, as they confront many problems and they struggle in a vicious circle.

➤ Deficiency in the small and semi-subsistence farms' management and marketing, given by the absence of specialized trainings.

➤ The low number of special financial products offered by banks or guaranteed by public authorities, through which to support the rural economy development. The high cost, the restrictive conditions for newly established SMEs and especially the reduced capacity of companies to provide the guarantees required by the Bank make it very difficult for rural SMEs to access loans.

➤ The bureaucracy of accessing and managing European structural funds for rural development. The future policies should rearrange these conditions, according to the rural inhabitant profile.

Taking into consideration the aspects mentioned above, the weak manifestation of the rural economy and in the same time, having in mind the still important contribution of agriculture, as main rural activity, public policy should overcome all these challenges and help rural inhabitants to become more entrepreneurial.

To support SMEs, to increase employment, efforts should be made both at European and national level. Therefore, policies supporting SMEs should be combined with employment and economic growth policies. [1]

The strategies to encourage rural entrepreneurship initiative must respond to three major challenges [11]:

➤ 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 extra-rural 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 [5].

Mansi and Achla (2013) sustain that in order to overcome the challenges faced and promote rural entrepreneurship, support roles are required, such as: Infrastructural development by the government to increase the possibility for business service provider and industrial sector to enhance the entrepreneurship of women, Micro-finance assistance by government to rural women in larger scale, Marketing assistance by marketing the products, Conduction of trade fairs specifically to advertise the work of rural women entrepreneurs [8].

CONCLUSIONS

Rural entrepreneurship still encounters a large number of vulnerabilities. There is a need to create the means for the rural entrepreneurs to have access to finance, professional advices and support and to benefit from a better and modernized infrastructure. Moreover, we consider that should be ensured the support for network development in the rural areas to facilitate a dynamic economic environment for all the implicated parties.

Our opinion is that rural SMEs are the solution to generate an economic dynamic, flexible and diversified environment. 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. To facilitate the innovation process for the rural SMEs we should ensure a transparent and facile knowledge transfer, provide the necessary means for the access to research and development for the companies acting in those regions, and to education and professional development and training for the labor force and for the entrepreneurs.

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