

RURAL AREA – AN UNTAPPED OPPORTUNITY FOR ENTREPRENEURSHIP DEVELOPMENT ?

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Abstract

Romanian rural area faces a violent lack of entrepreneurship initiatives, which can generate negative economic and social phenomena, with medium and long-term effects, such as: the decreased living standards of people in rural areas, the migration of young people from rural areas, which generates psychosocial problems among children who have to stay with their grandparents, the sharp decrease of interest for agriculture and, thus, the decrease of GDP ratio from agricultural activities, the lack of education among rural people etc. Under these circumstances, the paper tries, through documentation, analysis and processing statistical data, to quantify the development level of entrepreneurship in rural areas in Romania, compared with developed EU countries (such as: Germany, Great Britain, France etc.), in order to reveal the gaps in this sector. To increase the relevance of the analysis, the paper also analyzes the possible causes that can stimulate or repress the expression of entrepreneurship and its implementation in Romanian and European rural areas, such as: different levels of fiscal pressure, the existence, effectiveness and efficiency of programs implementation for stimulating and supporting entrepreneurship in general and in rural areas, in particular, the different business culture etc. These results generated from the research will finally create a set of premises for adopting international best practices and develop pragmatic solutions and programs to increase entrepreneurship, which can leads to new business initiatives in the Romanian rural area. In conclusion, for a quality of life growth and a decrease of negative social and economic phenomena with medium and long-term impact, it is necessary an increase of the living standards, done by increasing the opportunities for entrepreneurship in agriculture and rural areas. Specifically, there are needed investments 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 for medium and long terms.

Key words: entrepreneurship, fiscal pressure, rural development, agri-food sector

INTRODUCTION

The Romanian rural areas face a series of economic and social problems mainly generated by the drastically migration of the active population, due to lack of opportunities and profitable economic activities, which generate negative effects on medium and long term. The purpose of this research is to snapshot the current situation of the development level of entrepreneurship in Romania, compared with developed countries in the EU and, on this basis, to highlight opportunities for future development of entrepreneurial initiatives in rural areas. Through its subject, the paper makes an important contribution to the scientific knowledge on the degree of entrepreneurship development in rural areas and by generating

the premises for stimulating entrepreneurial initiatives in rural areas.

MATERIALS AND METHODS

The research study called for a series of established research methods; among them: data analysis and survey questionnaire. Statistical data analysis was used to reveal the gaps between Romania and the EU developed countries, but also to analyze the tax burden in Romania and the EU. The statistical data on which the analysis was conducted were taken from official sources, such as Eurostat statistics, National Council of SME's (CNIPMMR) statistics and data gathered from The National Institute of Statistics. The questionnaire survey was conducted in Baleni village, from Dâmbovița County, on a sample of 384 people, with a margin of error of $\pm 5\%$.

RESULTS AND DISCUSSIONS

1. The analysis of entrepreneurship gap between Romania and the EU

The gaps of entrepreneurship manifestation between Romania and the EU Member States are identified in a suggestive manner by analyzing the number of enterprises per 1000 inhabitants. Table no. 1 shows the number of SMEs per 1000 inhabitants in Romania and in the EU in 2011.

Table 1. Number of SMEs/1000 inhabitants 2011

Indicator	Total	
	ROM	UE
No. SMEs	452.171	20.796.192
SMEs/1000 inh.	21.11	41.39

Source: INS, Eurostat, Own calculation

From the table data analysis it can be seen the existence of significant differences in terms of the manifestation of entrepreneurship in Romania and the EU, expressed in the number of SMEs per 1000 inhabitants. It is thus seen that in 2011, in Romania the number of SMEs per 1,000 inhabitants is 21.11, 96% lower than the number registered in the EU 27, 41.39.

The causes of this phenomenon, which has a negative economic and social impact, especially on medium and long term, are multiple and diverse, ranging from lack of entrepreneurial culture, inadequate implementation of incentive programs for entrepreneurship development, inadequate fiscal policies applied, (with impact on tax burden) etc. Next, there are considered and analyzed some of these causes, in order to counter them and to identify and promote opportunities for the development of entrepreneurship in rural areas in Romania.

1.1 Comparative analysis of fiscal pressure

In order to identify the starting points in determining the tax burden gap between our country as a full member of the European Union from January 2007 and the rest of the Community, we considered necessary to develop a comparative analysis of tax systems practiced in the European Community and setting of a comparison between Romania and

EU-27 averages in the evolution of the main tax revenue, the tax burden and the effects of fiscal policies practiced on entrepreneurship development.

Table 2 presents the evolution of tax revenues in the European Union, from 2008 to 2012.

Table 2. Fiscal revenues in UE (%GDP)

	2008	2009	2010	2011	2012
Directs	12.3	11.5	11.2	12.6	13.0
Social contributions	10.7	11.1	10.9	12.9	12.9
Indirects	13.6	13.3	13.5	13.1	13.5
Total fiscal pressure	36.6	35.9	35.6	38.6	39.4

Source: EC – Report „Taxation trends in UE 2012”; Comisia Europeana – „Statistical Annex of European Economy”, Spring 2012

As a methodological framework, our approach was based on the average values determined by simple arithmetic average values of registered or predicted tax revenue in the 27 Member States of the European Union. Direct taxes are not containing social security contributions. Indicators are represented by shares in GDP of fiscal policy variables analyzed.

The average values recorded for the period 2008 - 2012 for the three fiscal taxes are: for direct taxes 12.08%, 11.70% for social security contributions and 13.4% for indirect taxes.

We see a clear delimitation of these three categories, which have relatively linear trends and are almost parallel. Thus, indirect taxes are clustered around the average value of 13.5%, overall being down almost insignificant, from 13.6% in 2008 to 13.1% in 2011 and a slight increase projection for 2012 up to the level of 13.5% of GDP. Direct taxes are clustered around the average value of 12%, overall having a fluctuating trend during the period 2008 to 2012 and registering a growth projection. The level of social contributions are grouped around the average value of 11.7%, with an overall upward trend in 2008-2012, mentioning that the estimate of revenue from social contributions for 2012 maintained at the same level indicator in 2011 (12.9%).

We conclude that the evolution and trends for

the EU 27 is increased to indirect taxes and lower direct taxes and social security contributions mandatory. The three categories of elements are relatively close to an additional of 2-3% for indirect taxes. It can be appreciated that in the EU, the relatively low tax burden and the trend of decreasing direct taxation is a measure for stimulating entrepreneurship initiatives.

Table 3 presents the evolution of tax revenue and the level of the tax burden in Romania from 2008 to 2012.

Table 3. Fical revenues in Romania (%GDP)

	2008	2009	2010	2011	2012
Directs	6.7	6.5	6.2	5.8	6.0
Social contributions	9.3	9.4	8.8	8.8	8.8
Indirects	12.0	11.0	12.3	12.6	12.7
Total fiscal pressure	28	26.9	27.3	27.2	27.5

Source: EC – Report „Taxation trends in UE 2012”; Comisia Europeana – „Statistical Annex of European Economy”, Spring 2012

The current macroeconomic situation of Romania is characterized by a high current account deficit, a tight labor market with high unemployment and inflation rates, above the EU-27, also amplified by frequent and unjustified changes from the central administration. Under these circumstances, we consider it appropriate to analyze the evolution of tax revenues in our country during 2008 - 2012, to study its influence on the development of entrepreneurial initiatives. The average values recorded for the period 2008-2012 for the three tax categories are: 6.24% for direct taxes, 9.02% for social security contributions and 12.12% for indirect taxes. The evolution of these tax categories for our country is much different than the EU27 average and is characterized by a greater magnitude of changes much more frequently than in other countries. Thus, Romania, mandatory social contributions have become the second category tax as a share of GDP. Average for

each category is well below the EU states. Direct taxes decrease was from 6.7% in 2008 to 5.8% in 2011, meaning a reduction of almost one percentage point. Indirect taxes increased from 12% to 12.7% in 2012 (year in which was registered the highest value of this indicator).

The level of global tax burden in Romania was 27.2% in 2011, about eleven percentage points lower than the EU-27 (38.6%). In 2011, Romania was ranked the second smallest in terms of tax burden among EU countries, ahead only Bulgaria (26.7%). In 2011, Romania was ranked third in the EU in the share of indirect taxes in total tax revenues. Indirect taxes were in 2011, 46.3% of total tax revenue compared to EU-27 average of 33.9%, while the share of social contributions accounted for 32.3% (compared to EU-27 33.4%) and direct taxes only 21.3% (compared to the EU-27 32.6%). During the crisis, the tax rate decreased by two percentage points, mainly due to an accelerated decline in VAT revenues. In 2009, short-term economic outlook for Romania were negative, characterized by a large drop in GDP (6.6 percentage points), compared to 2008. However, growth rates of duty in 2009 and the growth of VAT rate in 2010, has provided higher revenues from indirect taxes, which offset the continuing decline in tax revenue from direct taxes and social contributions.

If we try to find a correlation between fiscal policy practiced and lack or weak expression of entrepreneurship in our country, maybe we should refer to repeated legislative changes (both reported in the modification of VAT and excise duties, the introduction of flat tax and health contributions - in our country, only in 2008 there have been three changes in health benefit structure, which also continued in 2009-2011, not only in terms of rates but also in terms of tax base), errors of law application, excessive bureaucracy and the large fiscal and para-fiscal obligations that SMEs have to bear.

This reality is amplified by the fact that most taxpayers feel the aggression of the Romanian legal system as taxation in Romania.

Although is comparable with other member states, it can not be assessed without taking into account that the economic performance of SMEs in Romania is much lower than in other EU developed countries. Also, in our country there are a large number of taxes, special taxes and mandatory contributions that emphasize the perception of a higher tax burden.

It is, therefore, highlighting one of the major causes of poor manifestation of entrepreneurship in our country: the lack of adequate fiscal policies to stimulate entrepreneurial initiatives in urban and especially in rural areas.

1.2 Programs for stimulating entrepreneurship in rural areas

In recent years, the EU 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.

At EU level, the stimulating of entrepreneurship is further promoted by the launch and implementation of EU policies dedicated to this purpose, such as: Europe 2020, the Small Business Act for Europe, Action Plan for the development of entrepreneurship in the EU, with 2020 horizon.

Although supporting the development of small and medium enterprises (SMEs) is a priority at EU level and at national level, since this category of operators is more dynamic and flexible to market changes, most programs for stimulating entrepreneurship in rural areas in Romania have a strong bureaucratic character and are not well applied, so their results are weak.

The main programs which are currently trying to stimulate entrepreneurship 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 (PNDR).

The program for stimulating the creation

and development of micro enterprises by young entrepreneurs is a program run by the Government through the Agency of Implementation of programs and projects for SMEs (AIPPIMM).

The objective of this program is to stimulate the creation of new micro-enterprises, to growth the potential to access funding and to develop entrepreneurial skills of young people for their involvement in private economic structures.

The program aims to:

- develop entrepreneurial skills based on knowledge and on the optimal management of resources in order to adapt quickly to the changes caused by globalization of markets;
- stimulating and supporting start-ups and development of new companies (start-ups) by facilitating their access to finance;
- facilitate youth access to funding sources.

Initiated in 2011, the program awarded so far about 2000 funding for newly established microfirms to little as needed for revitalization and stimulate the SME sector.

THE START Programme is also a program run by the Government through the Agency of Implementation of programs and projects for SMEs (AIPPIMM).

The program objective is to stimulate start-ups, small and medium enterprises, improve economic performance of existing ones, increasing the potential to access funding and develop business skills of entrepreneurs for their involvement in private economic structures.

The Measure 312 from PNDR's overall objective is sustainable development of rural economy by encouraging non-agricultural activities in order to increase the number of jobs and additional income in rural areas. 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.

2. Actual situation of entrepreneurship in rural areas

Next on the study, a survey questionnaire was conducted on a sample of 384 people from the village Baleni in Dâmbovița County, to emphasizing entrepreneurship level of these people.

Through six questions were assessed personality characteristics of each respondent, such as: availability to accept risk, creative and innovative spirit, level of aspiration, confidence, sense of initiative and perseverance and the ability see opportunities. The evaluation of responses for determining entrepreneurship was performed as follows:

- Most “a” answers – highly developed entrepreneurial spirit;
- Most “b” answers – developed entrepreneurial spirit;
- Most “c” answers – weak developed entrepreneurial spirit;
- Most “d” answers – undeveloped entrepreneurial spirit.

The answers centralization is given in the below table and figure.

Tabel 4. Entrepreneurial spirit evaluation in rural areas

Q/A	A	B	C	D
1	64	89	148	83
2	71	92	115	106
3	94	121	75	94
4	101	78	98	107
5	79	87	104	193
6	48	99	141	96
Total	457	566	681	679

Sorce: Own data collection

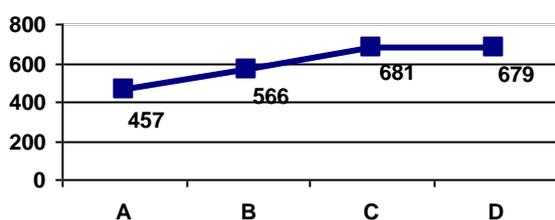


Fig. 1. Entrepreneurial spirit in rural areas

From the analysis of data from the table and figure above it can be seen that, according to the answers given by respondents, the entrepreneurship spirit level is weak (most answers are c) and in some cases it can be seen the lack of entrepreneurship (high percentage of d answers).

Among respondents who have obtained the highest number of responses “a” or “b” (which means a developed or highly developed entrepreneurial skills), mostly are aged between 18 and 35 years, secondary education or higher, most are students or work in technical and economic fields and have monthly household income per capita between 2000 and 6000 lei. Analyzing through gender, the most “a” or “b” answers were given by male respondents.

The study also aimed at showing the respondents' opinion on the causes of weaker entrepreneurship development in rural areas.

By analyzing data obtained from field completion of the questionnaires, it can be observed that, according to respondents the greatest difficulties of entrepreneurship manifestation in rural areas are: the political instability (76.3% of total) economic and financial crisis (74.7% of total), low level of knowledge in entrepreneurship (63.8% of the total) and lack of financial resources for investment (56.5% of total). At the opposite in terms of respondents' perception are: the lack of market information (35.4% of the total) and lack of free time (36.7% of total).

The lack of market information, although in general is a major difficulty for any entrepreneur and a prerequisite for entry into the crisis or even bankruptcy of the business, wasn't framed by respondents among the most important manifestation difficulties of entrepreneurship in rural areas (holding only 35.4% of total). Nevertheless, we consider it appropriate to stimulate rural entrepreneurship by adopting measures to facilitate access to market information by introducing and / or modernization of the internet in these areas and special programs for access to market information.

The difficulty of selling products or services is also a major obstacle in the normal course of business of any type, because without sales company is unable to cover costs and isn't profitable. The difficulty of selling products and / or services in the market is a major obstacle to rural entrepreneurship, according to 52.3% of respondents. The difficult access to market of

rural entrepreneurs, both in terms of food products and other goods and / or services determine most rural residents not to consider starting their own economic activities. **Economic and financial crisis** is one of the major difficulties of entrepreneurship manifestation in rural areas in view of respondents (74.7% of total) as its negative impact was felt in all sectors since 2009, the most affected being the construction sector (where there have been reductions in gross value added by 39.5 percentage points), agriculture (GVA reductions of 35.0 percentage points) and services (with reductions of gross value added by 11.6 percentage points). Under these circumstances, is need to launch and implement measures to reduce the negative effects of the crisis and to stimulate the growth of food and service sector in order to initiate and develop new business in rural areas.

Lower purchasing power of the rural residents was an answer given by 46.3% of all respondents for the weak manifestation of entrepreneurship in rural areas. In order to increase the purchasing power of rural residents is first necessary the food sector recovery (which from the most people ensure their existence) and secondly the rural development, through diversification of activities.

The existence of an inadequate infrastructure for starting and developing a business is another obstacle raised by a relatively high proportion of respondents (50.5%) for expression of entrepreneurship in rural areas. Lack or poor quality of paved roads, which are hampering access to raw material suppliers and to customers in urban areas, the lack of modern networks and high speed internet connections that would streamline the activities, lack of utilities that are necessary for a normal economic activity (eg: energy power without voltage fluctuations) are barriers to entrepreneurship manifestation and realization at the same level as in urban areas where these facilities exist. **Lack of free time** is an obstacle to rural entrepreneurship development raised by a

relatively small percentage of respondents, 36.7% (particularly people employed, aged 26-45 years, who have less free time). Although entrepreneurial business need extra time, especially during the launch and growth period, according to interviewees there are many other important elements that restrict entrepreneurship in rural areas, such as: **lack of financial funds for investment**. 56.5% of the respondents consider that lack of funds for investment is an impediment to entrepreneurship development. In these circumstances, we consider necessary to reintroduce mutual credit system, whereby all actors operating in rural areas (both in food production and other areas) to attract savings and invest jointly in order to increase performance of agricultural or non-agricultural activities performed. This system of cooperatives credit should be organized according to modern principles, but which meet the current requirements of rural entrepreneurs, as the currently lending system which operates by banks is prohibitive and very large burden for the small entrepreneurs in rural areas, no matter of the size or nature of business.

Mutual agricultural credit system should be promoted to provide support in the following ways:

- Support marketing associations and producer groups in modern mutual credit cooperatives;
- Promoting access to mutual savings banks systems and rural credit guarantee funds for agricultural and non-agricultural activities.

Low level of knowledge in entrepreneurship is considered by 63.8% of respondents an obstacle to the manifestation of entrepreneurship in rural areas. In these circumstances it is necessary to facilitate access of rural training programs in entrepreneurship, through which to acquire knowledge and skills in the field and discuss opportunities identified with professionals and experts in entrepreneurship, to guide them until the business grows.

Another impediment to entrepreneurship in rural event is the **unstable political environment**, reason given by 76.3% (the highest rate). It can be seen, therefore, that

frequent changes in the central administration have a negative impact on the citizens and discourages the initiatives to launch economic activities on their own.

The study also regarded the respondents' point of views on the priority measures necessary to be taken in order to stimulate entrepreneurship in rural areas. The most important are presented below.

According to respondents, the most important measures that should be adopted to stimulate entrepreneurship in rural areas are: reducing bureaucracy (51.8%), modernization and infrastructure development (36.9) and running training programs in entrepreneurship in rural areas (32.3%).

Reducing bureaucracy and simplifying financial and accounting operations is a premise for stimulating entrepreneurship and streamline the operational activities of firms, especially in rural areas where the level of knowledge on financial accounting and taxation is lower.

The modernization and development of infrastructure is also a priority condition for the development of enterprises in rural areas so that they can enjoy the same modern conditions of market and information access as in urban areas.

Conducting training programs in entrepreneurship in rural areas is appropriate for the development of new SMEs in rural areas, especially nowadays, when the information and knowledge are essential factors of entrepreneurial success, according to the knowledge based economy.

CONCLUSIONS

The research study revealed the differences between Romania and other European Union countries on the manifestation of entrepreneurship, but also the causes of these gaps (lack of entrepreneurial culture, lack of coherent programs to support entrepreneurship, inadequate fiscal policy etc).

To build a strong economy, Romania should strengthen entrepreneurship and to create conditions for the development of innovative

practices that lead to the creation and development of SMEs, which represent an important factor for economic growth and social development. Achieving this objective is vital to ensure economic sustainability and support the overall progress of society. Although at present the premises for entrepreneurship development in rural areas in Romania are not very favorable, we consider that there are many opportunities that can be exploited to stimulate entrepreneurship on medium and long term. These include:

1. Opportunity to exploit human resources (cheap and medium qualified labor force in rural areas) which are currently social assisted or performing activities abroad our country;
2. Existence of untapped natural resources that can be successfully exploited by reactivation of Romanian traditional industries in the agri-food processing, textile and leather industry, and those related to wood processing and furniture in rural areas;
3. Accessing European funds for the development of small and medium-sized farms and develop alternative activities in rural areas, which will create new jobs;
4. The orientation to new market areas with high demand on intra-Community market, such as the eco-food products.
5. The promotion and development of organic farming systems, through priority allocation of European funds for agriculture and rural development and the gradual reduction of the allocation of funds to large farms of industrial type that can be self-sustaining. In this way, there will be a significant support in action of recovery small and medium-sized farms which need financial funds attracted for development.

To reduce these gaps, and to exploit the opportunities of stimulating entrepreneurship in general and in rural areas, in particular, Romania must invest also in promoting and expanding entrepreneurial culture to create a new generation of entrepreneurs with innovative ideas, who will generate economic performance, in order to provide the opportunity of entrepreneurship asserting to a broader segment of society.

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