

DEVELOPING ENTREPRENEURSHIP IN RURAL AREAS - A SOLUTION TO REDUCE TERRITORIAL DISPARITIES IN ROMANIA

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Summary

Entrepreneurship and implicitly the process of setting up and developing small and medium-sized enterprises in rural areas are at low rates and is not a real alternative to agricultural activity in peasant households in Romania.

The lack of entrepreneurial initiative in non-agricultural activities hampers the progress of rural communities and thus maintains the largest rural-urban gap in the EU.

The evolution is unsatisfactory, even though programmes for the establishment and development of SMEs in rural areas have been operationalized in each Community budget cycle in which Romania has participated.

But for successful rural entrepreneurship support policies, it is necessary to target areas and settlements that do not have reliable and easy resources for non-agricultural activities and where free initiative is not based on local comparative advantage.

However, the focus and effectiveness of policies and programmes with domestic or Community funding depends on knowing the state of entrepreneurship in rural areas and the local material and human resources that can be grasped in non-agricultural activities.

The social and economic gaps between rural and urban areas in Romania have been deep and relative at the same amplitude for many years. Entrepreneurship is one of the main solutions for reducing them, but its development in rural areas is limited by the state of infrastructures, the quality of human capital and, last but not least, by the low demand, in line with the low incomes of rural inhabitants.

Keywords: entrepreneurship, self-employed, active professionals, rural environment, rural/urban gaps

JEL Classification: L26, R11, R58

1. European policies for entrepreneurship

The risk of poverty remains a topical issue for the European Union after decades of Community social cohesion policy. The global economic crisis of 2007-2009 and the current health crisis are exacerbating poverty and social disparities between vulnerable and developmentally advantaged regions and areas. Just before the economic and health crisis, the European Commission proposed new directions for monitoring and mitigating social and economic disparities. For faster social convergence and to reduce the risk of poverty, the European Commission has proposed, for example, a substantial increase in the financial contribution from the European Social Fund to promote social inclusion and the fight against poverty. But the allocation mechanisms do not change substantially: there is no option for an active policy, targeting funds especially to vulnerable settlements and areas and prioritizing projects according to local potential. The inter-conditioning between development and poverty reduction projects is also still insufficiently adapted for complementarity of their territorial effects. Finally, it would also be worth highlighting the limited attention paid to rural areas in Community programmes that exceed those for agriculture and rural development.

Among the solutions to streamline European support for cohesion and development envisaged in the Community budget cycle 2021-2027, the European Commission considered that improving the complementarity of the Common Agricultural Policy (CAP) with other

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Community policies was an important line of action¹. 'CAP is one of the many EU policies contributing to the prosperity of the rural area and needs to improve **its complementarity with other EU policies**, such as cohesion policy, which also provides substantial funding in rural areas. Intensified coordination between these policies would result in simpler mechanisms to achieve the objectives and less red tape for administration and citizens as stated in the 'Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions' on 'The future of the food and agriculture sector' (Brussels, December 12, 2017, COM (2017) 713 final).

It is also important that this document devotes an important space 'to strengthen the socio-economic fabric of rural areas' by developing entrepreneurship and attracting new farmers, given that 55% of its citizens live in rural areas of the EU as a whole.

Proposals for regulations of the European Parliament and of the Council for the reform of the Community agricultural policies in the light of the Multiannual Financial Framework (MFF) for the period 2021 to 2027 address both rural development issues: effective inter-conditioning with other EU policies and balanced territorial development. Thus, in the proposal for a 'Regulation of the European Parliament and of the Council on the financing, management and monitoring of the CAP and repealing EU Regulation No 1306/2013' of June 2018 (COM 339 final), coherence with other Union policy areas is addressed in terms of environment and climate change, health *and* digital technology.

Some of the specific objectives of the new common agricultural policy, applicable from 2021 to 2027, outlined in the abovementioned documents are:

- Attracting young farmers and facilitating the development of enterprises in rural areas;
- Promoting employment, economic growth, social inclusion and local development in rural areas, which implicitly highlights the major role of rural entrepreneurship.

Notwithstanding the reservations raised about the priorities of the European rural development programmes and the structure of Community funds, where non-agricultural rural entrepreneurship is not regarded as the most effective way forward for rural communities, it should nevertheless be pointed out that funds have always been allocated for this purpose. However, Romania has not made sufficient use of European policies for entrepreneurship. There are numerous examples. As such, it was only in 2020, the final year for the 2013 to 2020 multiannual budget, that the Managing Authority of the Operational Programme for Administrative Capacity (MA OPAC) launched the call 'Support for the establishment of social enterprises in rural areas' the main purpose of which is the direct support of non-agricultural activities, processing and distribution of agricultural products obtained by small producers from carrying out individual agricultural activities. As can be seen, in this project there are limitations on the beneficiaries but also on the scope of entrepreneurship (non-agricultural activities in the agri-food chain and not non-agricultural activities themselves that improve the economic profile of rural settlements) which are not a prerequisite for the development of rural entrepreneurship in truly non-agricultural activities.

The fact that the National Rural Development Plan (NRDP) also includes investments for the establishment of non-agricultural activities in rural areas is not an argument for

¹ It should be noted, however, that in the 2013-2020 Community budget cycle convergence support was linked to other components of development through a vision of the 5 EU Funds and Investment Funds (ESIF) including a unified regulation of their operation and use. The use of the structural funds (European Regional Development Fund, European Social Fund and Cohesion Fund) for rural programmes was also possible in the implementation, which multiplied the available sources, including for entrepreneurship (see European Commission Guide 'European Structural and Investment Funds, 2014-2020', Luxembourg, 2016, ISBN 978-92-79-39447-8)

limitations on the type of beneficiary businesses. That is precisely why the European Commission stressed the need to improve the complementarity of rural programmes.

In this context, it is worth mentioning that the NRDP (*The National Rural Development Programme 2014-2020 provides strategic support for the granting of EU non-repayable funds, responding to the objectives of the Partnership Agreement on Competitiveness, Local Development and Poverty Reduction through 14 rural development measures with a financial allocation of EUR 9.4 billion of which EUR 8.0 billion from EAFRD and EUR 1.4 billion national contribution*) objective of non-agricultural rural development has also been implemented through the 'Rural Non-Agricultural' programme, which finances 100% of European funds any entrepreneurship project in non-agricultural activities (from industrial activities, tourism activities, to services, including IT or medical). But this programme also had failures in implementation: out of the nearly 130 projects proposed for funding in 2017 (with a funding request of about EUR 20 million), about half are projects for the construction or modernization of hostels or agrotourism boarding houses, given that tourism demand in Romania is low.

In the hope of improving entrepreneurship of the rural population, it would also be worth stressing that Romanian entrepreneurs will have at their disposal, in the next 2021 to 2027 budget cycle, more than EUR 3 billion from cohesion funds for new businesses, both in urban and rural areas.

The latest 'Country Report on Romania' (from 2020) of the European Commission stated that one in three Romanians is at risk of poverty or social exclusion, the most vulnerable groups being the most exposed. In this context, the Country Report stresses that '*access to basic services remains problematic **which deepens the gap between rural and urban areas**, regional disparities and inequalities. The potential of the social economy is not sufficiently valued*'. These conclusions indirectly respond to the need to increase entrepreneurship in rural areas.

2. Gaps between rural and urban areas

The role of non-agricultural entrepreneurship and rural development, as a result of the private initiative, in reducing the social and economic disparities between the village and the city is widely recognized, but its efficiency through the territorial structuring of private initiatives was neither a scientific nor empirical concern. Even statistics do not provide information on SMEs and entrepreneurship residence environments.

The gap between rural and urban areas in Romania has not developed satisfactorily, being among the highest in the European Union. Poverty dependencies are complex and cannot be explained only at macroeconomic level, by the different distribution of income and resources or by the level of development, which otherwise have a historical determination. The higher risk of poverty in rural areas, the social and economic disparities against the city also come from the mono-economic structure of many rural settlements, based on the activity of self-employed agricultural workers and not on entrepreneurship and market economy.

46% of Romania's population lives in rural areas, a population characterized by a high degree of inactivity, underemployment and unemployment. Temporary activity in agriculture is not a viable solution but entrepreneurship and the development of non-agricultural activities. It is worth noting the high stability in the last 10 years of the structure of the total and employed population by residence environments, which shows an improvement in the capacity of the rural environment to provide acceptable incomes for a decent living, based also on a certain progress of entrepreneurship. Since 2009, the share of the population residing in rural areas has been 46.1 to 46.3%. The share of the labour resource and its employment in rural areas remain high and close to the share of the resident population in

rural areas (Chart no. 1). In 2018, the population aged 18 and over, in the total population of this age represented 45.8%, and the employed population had a share of 45.1%.

The gap between rural and urban areas is primarily economically dependent, which is not mitigated by the degree of employment but by the type of employment.

Of the total households, those in which employed persons live represent about 65%, the share being slightly higher in urban than in rural areas (66.1% compared to 64% in 2019). Within households with employed persons, the urban-rural gaps show that in the rural environment the biggest difference occurs in the case of households with at least 3 employed persons (8.4% in the urban environment and 16.6% in the rural environment), which shows that **employment with low incomes or without agricultural incomes represents a disadvantage and not a solution for a decent living**. An explanation is also given by the fact that unpaid family workers¹ (95% of whom are in rural areas, respectively in agriculture), amounting to about 686 thousand persons, represented in 2018 almost 8% of the employed population.

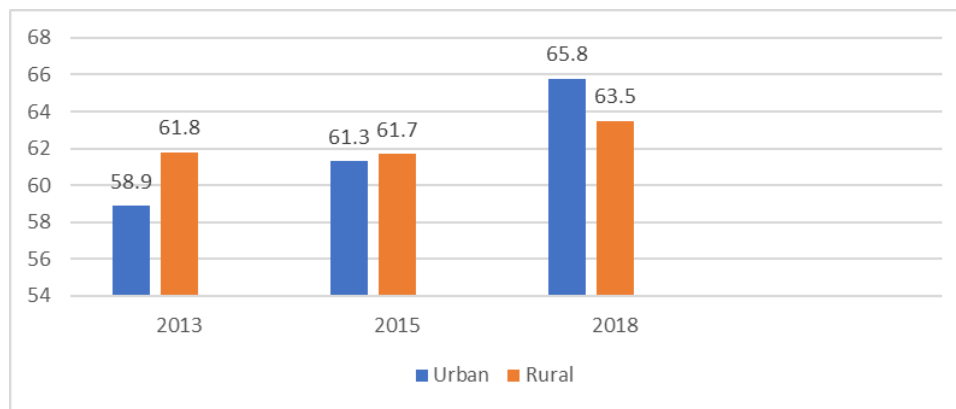


Chart no. 1.- Employment rate of the working age population (%)

Source: Statistical research on the workforce in households, NIS, 2019

For a summary image of the territorial social disparities, it should be pointed out that the incomes of households (highlighted by their average monthly level per person) in rural areas were around 62% of the average income per person in urban households in 2018. In the same year, the average monthly income per person in the North-East region represented 79.6% of the national average and 89.5% in the case of the South-East region.

In other words, in 2018 the average incomes per urban household were 45.4% higher than those of rural households. Significantly, the sources of this income differ substantially, which is an additional argument for a new role for entrepreneurship in non-agricultural activities in rural areas.

Thus, in the urban environment in 2018, household incomes accounted for 74.7% of wages, 17.5% of social benefits, and incomes in kind accounted for 4.3% of the total.

In rural areas, the main source of household income was agricultural production, which accounted for 18% of total income. Most of them consisted of the equivalent value of the consumption of agri-food products from own resources (13% of the total incomes), the money incomes from agriculture providing only 5% of the total incomes of rural households.

¹ Since 2011, self-employed workers and unpaid family workers working in agriculture are considered employed only if they own agricultural production (not necessarily agricultural land) and at least part of it is destined for the market or covers more than 50% of the total household consumption.

Moreover, the polarization of welfare gains achieved during robust economic growth in recent years is worrying and is another argument for a new vision in territorial development policies, so that entrepreneurship and the creation of new companies in rural areas become priorities.

Household income inequality has increased. The analysis of the average income per decile reveals a gap of 1:5.8 in 2018 compared to 1:4.4 in 2017 and 1:4.2 in 2015, between the average incomes per first decile household and the average incomes per last decile household (households with the highest incomes).

3. Rural entrepreneurship in Romania

Although there is no statistical or administrative information on the level of rural entrepreneurship in Romania, its status and evolution can be indirectly assessed both on the basis of business owners or on their own account and by the number of active professionals, especially in the counties with an agricultural profile.

An indirect assessment of rural entrepreneurship is provided by employment in the rural non-agricultural sector, which also has its source in the jobs created by the rural non-agricultural business environment. According to some estimates, rural non-agricultural employment accounts for around 20% of rural employment, but around 37% of total income associated with rural employment [5].

It is the structure of the employed population by **occupational status** that best reflects the state of entrepreneurship in rural areas and the impact of public policies and the absorption of European funds for business development. **In rural areas, however, private initiative is common and natural behaviour, even if it is located in the agricultural sector**, since the number of self-employed workers (employers, self-employed workers and unpaid family workers) is very close to the number of employees.

Table no. 1- Employed population by professional status in 2018

	Total economy	Urban	Rural
Total employed population	8.689	4.769	3.920
Employees	6.497	4.432	2.065
Employers	92	64	28
Self-employed	1.412	233	1.179
Unpaid family workers	688	40	648

Source: Statistical research on the workforce in households, NIS, 2019

In 2018, across the economy, the 3 occupational categories employed without employment contracts accounted for 25.2% of the employed population. In rural areas, these categories represented 47.3 of the employed population. At the same time, 87% of the 2.1 million self-employed and family workers in the national economy lived in rural areas.

In 2018, self-employed workers accounted for 30.1% of the employed rural population and employers only 0.7% (in urban areas the proportions were 4.9% and 1.3% respectively)¹.

¹ According to the International Statistical Methodology (BIM) the concepts of 'employer' and self-employed workers are similar in that they express the exercise of an activity in their own individual business or unit (legal person); the difference is given by the fact that employers have one or more employees for their own activity and self-employed workers carry out their activity without employing any employees (helped only by unpaid family members); therefore, in statistical analyses often the two categories are assessed together.

For an assessment of rural entrepreneurship in non-agricultural activities it is worth mentioning that out of a total of 1.2 million self-employed workers in 'agriculture, forestry and fisheries' about 1.1 million people. It results in only a number of private entrepreneurs in non-agricultural activities in rural areas of about 130 thousand (employers and self-employed workers), respectively 3.3 of the population employed in rural areas, half compared to the proportion in urban areas of about 6.7%.

Private entrepreneurs¹, including mainly self-employed workers, who have formalized their work in accordance with the Government Emergency Ordinance No. 44/2008 on the pursuit of economic activities by authorized natural persons, individual enterprises and family enterprises, represents (on the whole economy) only 2.1% of the number of active economic operators (enterprises and private entrepreneurs).

The low number of private entrepreneurs, especially in rural areas, is partly offset by the development of micro-enterprises. As a result, while the number of private entrepreneurs increased by only 6.9% in the period 2014 to 2018, the number of enterprises increased by 18.8%. On the positive side, the dynamics of agricultural enterprises (20.5 thousand in 2018) of 22.4% which means the expansion of the market economy in this sector and a certain specialization that will favour the development of rural entrepreneurship over time.

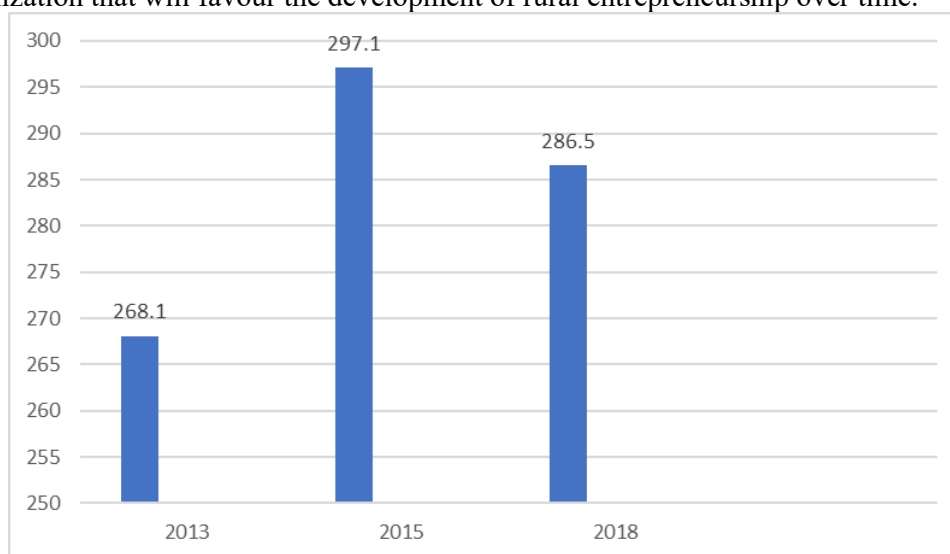


Chart no .2 - Number of private entrepreneurs in the economy - thousand units

Source: NIS, Statistical Yearbook of Romania 2019

Regarding the number of private entrepreneurs (entrepreneurship model), the reduced dynamics resulted from the fact that from 2014, when a maximum of 299 thousand entrepreneurs was reached, the number decreased year by year to 286.5 thousand units in 2018.

In the structure, even if the disaggregation proposed by the National Institute of Statistics is not the most appropriate, meaning that most services are aggregated in a single division², it can still be estimated that private entrepreneurs in services (excluding trade) represent 61% of the total.

¹ According to the statistical definition, private entrepreneurs include Self-Employed Persons (SEP), individual enterprises or family enterprises, established under EGO no. 44/2008 but also liberal professions as defined by special laws; according to the law, private entrepreneurs can employ one or more people, in which case they would be assimilated to employers.

² See the structure published in the Statistical Yearbook of Romania 2019, published by the NIS in 2020, ISSN 1220-3246.

Table no. 2-Structure by activities of private entrepreneurs in 2018
-% of the total-

	Total entrepreneurs	Independent persons
Industry	7.6	7.4
Trade	34.4	31.8
Hotels and restaurants	3.9	3.8
Tourism	0.2	0.2
Transport	8.7	8.9
Other services	45.2	47.9

Note: Private entrepreneurs do not include self-employed people in agriculture

Source: NIS, Statistical Yearbook of Romania 2019

A profile of rural [2] entrepreneurs shows that most private entrepreneurs have businesses in the field of agri-food production, construction, trade and rural tourism, which in fact means private initiative coverage of the entire cycle of capitalization of local agricultural production. Because of this, a wider development of rural entrepreneurship is limited, and its expansion can only be achieved in certain rural areas, with tourist potential or where household incomes are higher, such as in rural settlements near county seats.

According to the records of the National Trade Register Office (ONRC), the number of active professionals, including Self-Employed Persons and active legal persons (enterprises) is higher than that of active economic operators highlighted by the INS due to the broader scope¹. It is therefore appropriate to carry out the evaluation of entrepreneurship separately by the 3 methods (employment, private entrepreneurs and active professionals), without correlation between statistical or administrative data. However, for a comparative picture, the analysis in this Article will refer in particular to 2018 and in the case of ONRC data.

Entrepreneurship, illustrated in the ONRC records, in particular through **self-employed persons**, has recorded a lower dynamic in recent years than that of professionals active legal persons (companies). As a result, in 2020 the number of active Self-Employed Persons, of 393.6 thousand, was only 1.4% higher than the number of Self-Employed Persons in 2017.

In the same period, the number of companies increased by 19.1%. As a result, the share of the number of Self-Employed Persons in total active professionals decreased from 30.8% in 2017 to 27.5% in 2020 (Chart no. 3.)

¹ In the statistical system, the enterprise may comprise several active professionals, which is statistically a group of legal units that is constituted as an organisational entity for the production of goods or services benefiting from decision-making autonomy, especially in order to ensure its current resources.

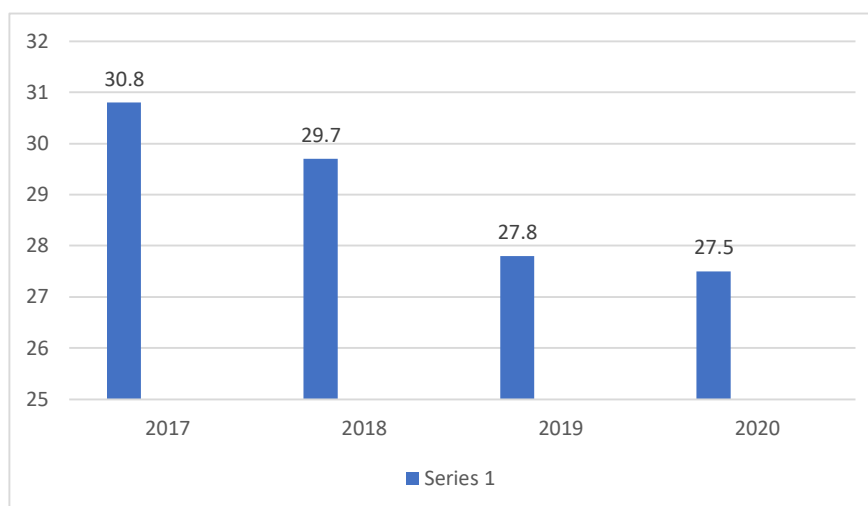


Chart no. 3 - Share of the number of Self-Employed Persons in total active professionals (%)

Source: ONRC, Annual Statement of Active Professionals, 2017-2020

In this context, it should be noted that the number of active professionals (especially Self-Employed Persons) in agriculture has increased by 2.2%, which shows that the progress of entrepreneurship in rural areas is far from satisfactory.

As previously stated, the territorial structure (by counties) of active professionals is characterized by a significantly lower number of Self-Employed Persons and companies in the counties with an agricultural profile and less developed, which confirms the urgency of multiplying public policies and programmes to support rural entrepreneurship.

Table no. 3- Status of Self-Employed Persons in counties with agricultural profile, in 2019

County	Share of rural population	Share of Self-Employed Persons in total professionals	Self-Employed Persons per 1,000 inhabitants
Total economy			
Out of which:	43.6	27.8	17.2
Călărași	60.0	36.0	15.3
Giurgiu	43.1	24.4	11.4
Ialomița	52.4	37.8	15.0
Ilfov	54.3	10.8	12.2
Teleorman	63.4	35.8	15.4

Source: NIS; ONRC (population on July 1, 2019)

For example, compared to a county average of Self-Employed Persons existing at the end of 2019, of 9,018 Self-Employed Persons, in Călărași there were 4,732 Self-Employed Persons, in Ialomița 4,292, in Giurgiu 3,114, in Teleorman 5,701 Self-Employed Persons.

However, the prospects for the development of entrepreneurship are favored on the one hand by the flow of urban population to the rural environment and on the other hand by the existence of a young population, with enterprise culture. In those counties, the number of

Self-Employed Persons up to 29 years old significantly exceeds the national average. Thus, if Self-Employed Persons up to 29 years of age represented, at the end of 2019, 10.6% of the total Self-Employed Persons, this share was 21% in Teleorman, 23% in Ialomița, 15.7% in Giurgiu and 11.1% in Călărași.

Table no. 4-Structure of urban and rural internal migration flows due to change of residence (Rate per 1,000 inhabitants)

	2013	2015	2018
Total	15.7	16.2	17.4
From rural to urban	5.9	6.2	7.2
From urban to urban	8.8	8.4	9.1
From rural to rural	8.7	7.3	7.8
From urban to rural	10.6	11.0	11.3

Source: NIS Yearbook, Statistical Yearbook of Romania 2019

According to the INS data on internal migration, the flow of population to the rural area (assuming also the change of residence) has been very positive in recent years. Nearly 1.1 million people arrived in rural areas in 2013 to 2018 and about 0.9 million people left rural areas. After 2016, the annual values were even higher. 182.3 thousand people arrived in rural areas in 2018 and 163.1 thousand people left, the total flow being 345.4 thousand people compared to 307.6 thousand people in 2013. Significantly, over 50% (53% in 2018) of the population arriving in rural areas is up to 30 years old.

The structure of flows between urban and rural areas reveals that the highest rate among the various destinations of internal migration is the rate of those who left urban areas to rural areas, namely 10.6% in 2013 and 11.3% in 2018.

Conclusions

European rural development policies, by enhancing non-agricultural activities (in particular those supplementing agri-food flows) and rural entrepreneurship, are duly reflected in the National Rural Development Programmes.

However, European non-repayable funds are insufficient for emerging countries in the EU, where gaps between urban and rural areas are very large. Multiple priorities for social and economic development make national public funds that can be mobilized to stimulate rural entrepreneurship also under need.

The analysis carried out also reveals that the expansion of rural entrepreneurship cannot be done faster due to the negative conditionalities given by the human resource in the rural environment, the incomes and implicitly the lower potential demand than in the urban environment. The establishment of new companies is a much slower process than in the urban environment.

However, these developments can be accelerated through public policies, especially since entrepreneurship and individual activity - specific to peasant households - seems quite appropriate for rural entrepreneurship. As mentioned in the article, the highest number of self-employed workers is found in rural areas.

The qualitative leap in the development of rural entrepreneurship can also be achieved by supporting education, all the more so as the reduced skilled workforce is predominant in rural communities. There is also a significant share of school-age young people, over 16, working in agriculture at the expense of education, as family workers.

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