

EFFICIENT MANAGEMENT OF NON-AGRICULTURAL ACTIVITIES FOR A SUSTAINABLE DEVELOPMENT OF RURAL ENTREPRENEURSHIP

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Abstract:

The non-agricultural economy (small and medium-sized enterprises in industry, services, rural tourism) has a low share in Romania's rural area. To start a business in the countryside can be both an advantage and a risk. The investments in the non-agricultural and food economy, while contributing to gross value added increase through the processing of agricultural and non-agricultural raw products from local resources, have another great advantage, by creating new jobs and by using and maintaining the local (rural) labour, revitalization of rural localities, mainly those in the less-favoured and remote rural areas. The paper presents aspects of the management of small and medium enterprises in agriculture and services, in order to create a concrete analysis framework for sustainable development in rural areas. The socio-economic analysis based on current data and future forecasts is the basis in drawing conclusions on the possibilities of encouraging a sustainable entrepreneurship in the less-developed regions and also for the economic revitalization.

Keywords: management, entrepreneurship, non-agricultural activities, rural development.

JEL Classification: M10, L26, R33.

1. Introduction

The Romanian rural economy is mainly an agricultural economy, as the share of agricultural economy is 60.5% compared to 14.1% in EU. Most farmers practice part-time agriculture, insufficiently spending the working time on agricultural activities. In total Romanian rural area, the non-agricultural economy (SMEs in industry, services, rural tourism) has a low share, while the rural tourism, except for certain mountain zones and the Danube Delta is poorly developed.

The investments in the non-agricultural and food economy, while contributing to gross value added increase through the processing of agricultural and non-agricultural raw products from local resources, have another great advantage, by creating new jobs and by using and maintaining the local (rural) labour, revitalization of rural localities, mainly those in the less-favoured and remote rural areas.

Time occupancy is an imperative for development not only at part-time farm level, to which it could provide additional incomes, but also at the level of the entire national economy. This is a complex process, which presupposes, besides the diminution of the employed population in agriculture, through its attraction into other sectors, the pluriactivity development, the involvement of part-time farms into other non-agricultural activities (Popescu M., 2001).

The diversification of the rural activities and the creation of new alternative income sources or additional incomes represents the main possibility to increase the degree of real-time occupancy. By diversification we understand any activity generating incomes, which does not comprise any agricultural work, but it is linked to the farm. This one refers, among others, to: tourism, accomodation and other leisure time activities, folk crafts, processing of farm products, wood processing, aquaculture, energy production from renewable sources for the market, contracts for renting the working equipment (Feher A., Goşa V., 2011).

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By putting the investments in the rural area, for the development of the SME sector in the non-agricultural economy and in processing the primary agricultural products, should become a permanent activity of the local authorities; in this respect, under the process of economic decentralization and subsidiarity in decision-making, in the rural localities (or the rural areas), with labour surplus, certain industrial village micro-zones should be established, with financial support from the county or regional authorities, by equipping them with all the necessary utilities for the industrial activities (electric power, thermal energy, gas, water supply, sewerage networks, access and interior roads, telecommunications, etc.), similar to those that were created in the EU rural areas a long time ago (Oțiman P.I. (coord), 2011).

The information and findings of this article were obtained through selective research-specific methods. The research followed the following process and stages: identification of the researched issue, research framework delimitation, information collection, data processing, analysis and interpretation, drawing up the conclusions. Secondary research and desk research played an important role in this article. This consisted, on one hand, in the identification of other studies and articles on the same subject, and in the processing of certain statistical data, on the other hand. Hence, the information sources used can be classified into governmental sources (statistic, ministerial and from research institutes), and non-governmental sources (independent publications).

2. The economic and social development of rural areas

The development potential available in the case of Romania is an important one, which can be exploited by applying appropriate strategies in areas identified as being cost effective and yet underdeveloped until now. One such area is rural economy, where resources exist, but they are insufficiently known or used at their full potential.

Rural areas represent a resource that is not enough put into value, they cover 87% of the country, and approximately 45% of the total population. The general trend is a steady decrease in the number of inhabitants in rural areas and a still continuing expansion of the urban environment.

Labor force in agriculture and forestry, according to the latest data provided by the National Statistical Institute, totals about 19% of total employment, while in the other countries of the European Union much lower levels can be found: 4.7% on the average in EU and the rest ranging from 5.5% in Hungary to 14.7% in Bulgaria.

However, Romania's rural areas are characterized by a demographically aged population, and the educational level is much lower than in urban areas. Poverty is high and the vulnerability of these regions increases together with a decreasing income level, rising unemployment and population ageing.

The share of agriculture in the rural economy is about 60%, rural economy representing a primary one. As regards the share of agriculture in the gross value added, Romania has the highest value in this category among the EU-27 member states.

Official reports place this business in the category of the main provider of jobs and economic development. They are the ones that determine the level of competition on the market, as well as the strategic dynamic pricing, product quality or even promotional trends. From the total Romanian of small and medium-sized enterprises, the largest as number of entities remain those that belong to the sector of services. The agriculture and forestry sector is only on the last place in the overall ranking of SMEs.

The Romanian rural space is facing a series of drawbacks, in spite of its potential. These are reflected in all its components: rural economy, services, dwelling infrastructure and leisure infrastructure, training and education, administrative capacity, demographic capacity, health, schooling, culture, etc. The rural population is a decreasing population

(mainly among the young people) and ageing population, with a negative demographic trend and a high share of the rural population being under poverty or social exclusion risk.

The rural areas in Romania are affected by the significant lack of infrastructure and by its deficiencies, which adversely impacts both the economic development and the quality of life. The most important needs are related to: roads, drinking water supply, public sewerage system, waste management, electric power, thermal energy, access to internet, education and training, access to health services.

At the same time, a low graduation level of the primary education system can be noticed and a school abandonment trend in compulsory education, higher than in urban areas, mainly among the poor families and gypsy minorities, as well as a *weakly developed entrepreneurial culture*, characterized by the absence of basic managerial knowledge, which generates low labour productivity as well as low incomes per household (also due to the dependence of the rural population on subsistence farming).

The poverty level in the Romanian rural areas is high, being influenced by the very high share of the subsistence and semisubsistence farms, and also by the fact that most farmers on such of farms do not have other income sources. For the diminution of the poverty level and of the social exclusion risk, the development of *innovating strategies for the generation of jobs and prosperity in the rural and agriculture environment* is necessary.

3. Small and medium-size enterprises in the rural area

The analysis of SMEs (small and medium-sized enterprises) in the rural area reveals their low capacity to address the needs of supplying jobs for the rural population. Both the rural economy, in its entirety, and the agri-food economy, as important element of the rural economy, have extremely different structures in Romania compared to the European Union (not to speak about its absolute value) (Table 1).

Table 1. % Rural economy structure, %

	Rumania	UE
Agriculture	60.5	14.1
Food industry	15.8	20.5
Tabacco industry	1.7	3.2
Fisheries	0.1	2.5
Agri-food economy	(78.1)	(40.3)
Forestry economy	(6.3)	(8.2)
Extractive industry	2.6	4.1
Processing industry	3.1	5.2
Industrial economy	(5.7)	(9.3)
Agro-tourism services	0.1	4.4
Other services	9.8	37.8
Economy of services	(9.9)	(42.2)
Non-agricultural economy	(21.9)	(59.7)
TOTAL	100.0	100,0

Source: Otiman (coord.), 2011

Business development in Romania has great differences across regions, with regard to the small and medium-sized enterprises as well. Entrepreneurship is poorly developed in rural Romania, as a result of the insufficient operation of material resources, of the deficient education, of the low level of utilities, as well as of the massive migration to the urban areas and to foreign countries, mainly in the case of young population.

The analysis of SMEs in the rural areas reveals their relative low capacity to respond to the requirements related to the supply of jobs for the rural population.

Out of total SMEs, more than 50% carry out trade activities. The explanation for this strong orientation to trade activities is determined by the following: shorter period for investment recovery, lack of capacities and abilities, impossibility to carry out other production activities out of the lack of capital for advanced techniques and technologies. Thus, a need appears to support SMEs from other sectors, which can have a much more positive impact at the rural economy level, mainly in the agro-processing sector.

Processing of agricultural products by farmers in SMEs is needed in order to sell the agricultural production under increased economic efficiency.

4. Support for non-agricultural activities

At present, the rural people can diversify their activities by handicraft, services or other non-agricultural activities with funding allocated under the *National Rural Development Program 2007-2013*.

Measure 312 – “Support to the creation and development of micro enterprises” included in Axis 3 “Improving the quality of life in rural areas and rural economy diversification” gives rural people the possibility to make the following types of investments:

Investments in non-agricultural production activities such as:

- Light industry (leather goods, footwear, wool, furs, knitwear, household appliances, odorants, etc.);
- Industrial processing of wood products – starting from timber (e.g. furniture);
- Fine mechanics, machinery assembling, tools and household appliances, package manufacturing, etc.

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

Services for the rural population, such as:

- Tailor’s shop, barber’s shop, shoemaker’s;
- Internet services;
- Mechanization, transport services (other than the procurement of transport means), phyto-sanitary protection, sanitary-veterinary services and artificial insemination of livestock;
- Machinery, tools and household appliances repair services.

Investments in renewable energy production by the procurement of renewable energy production equipment.

Measure 121 – “Modernization of agricultural holdings” under Axis 1 - “Improving the competitiveness of agricultural and forestry sector” also enables farmers to get financial support for the consolidation of agricultural holdings and increase their economic efficiency.

This measure has as a *general objective* the increase of the agricultural sector competitiveness by a better use of human resources and production factors and meeting the national and EU standards.

The specific objectives refer to:

1. Introduction and development of new technologies and procedures, production diversification, adjustment of production profile, quantity and quality to market requirements, to ecological products market included, as well as the production and use of energy from renewable sources;
2. Adapting the agricultural holdings to EU standards;
3. Increase of incomes on supported agricultural holdings;

4. Support to members of producers' groups or of other association forms in order to encourage the association phenomenon.

The operational objectives refer to the following: promoting investments on agricultural holdings in the crop and animal production sectors for new buildings and/or modernization of existing agricultural buildings on the territory of farms and of related utilities, procurement of new machinery and equipment, establishment of new plantations, etc.

The eligible investments under the measure are the following:

1. Construction and/or modernization of buildings used for the on-farm agricultural production, including those for environment protection;

2. Construction and/or modernization of internal or access road infrastructure in the agricultural sector, including utilities and fittings identified as necessary by the feasibility study or the justification report;

3. Construction and/or modernization of dairy farms;

4. Construction and/or modernization of glasshouses, of heating stations and irrigation works, ensuring the necessary utilities having in view the respect of environmental conditions;

5. Buying or procurement under leasing conditions of new tractors, harvesting combines, machinery, equipment, installations, tools and implements, specialized equipment and software, identified as necessary in the feasibility study or justification report;

6. Buying or procurement under leasing conditions of new specialized means of transport, needed in the production activity, identified as necessary in the feasibility study or justification report;

7. Replacement of the noble vine plantations at the end of the biological production cycle (minimum 40 years) that are not included in the vine plantation restructuring/reconversion system supported through the European Agricultural Guarantee Fund (EAGF) within the Common Market Organization and establishment of table grape plantations;

8. Establishment of fruit tree, shrub and strawberry plantations;

9. Establishment of vine nurseries, fruit tree and shrub nurseries, other tree nurseries;

10. Investments for the production and sustainable use of energy from renewable sources on the farm;

11. Investments for the establishment of crops of forestry species with short production cycle and vegetative regeneration, for the purpose of renewable energy production;

12. Investments in apiculture, except for those made under the National Apiculture Program;

13. Investments for on-farm processing of agricultural products, comprising equipment for their sale, storage and cooling, etc.;

14. The general costs of the project, according to Art. no.55 of the (EC) Regulation no.1974/2006, such as: fees for architects, engineers and consultants, feasibility studies, fees for issuing the necessary certificates, approvals and authorizations for project implementation, as they are mentioned in national legislation, the procurement of patents and licenses (maximum 8% of the total eligible value of project, if constructions are provided for in the project, and maximum 3% in the case when the project does not provide for carrying out construction works);

15. Necessary investments for adapting the farms for organic farming practice;

16. Investments necessary for reaching conformity with EU standards.

Among the non-agricultural active SMEs at national level, only 18.1% were inscribed in the rural area at the level of the year 2011, which shows a *low share of rural SMEs involved in the development of the non-agricultural activities (industry, services and rural tourism)*. Although in the period 2005-2011, the number of SMEs with non-agricultural activities in the rural area increased by 16%, the effects of the economic crisis

were felt in the last three investigated years, when these units decreased 7492, to reach 77,315 non-agricultural SMEs (secondary and tertiary sectors) in 2011. At the same time, the *density of SMEs per 1,000 inhabitants in the rural area is lower* compared to the national level (9.64 compared to 23.66 in the year 2011).

The access of SMEs to finance remains a problem. From the territoriality point of view, the financing services are, generally, less accessible to the enterprises in the rural area and to those involved in agricultural activities (mainly small farms) and have higher crediting costs. In 2010, the level of the credits granted for agriculture were under 3% of the total credits volume for the non-governmental sector in the economy. In the previous programming period, although the financial mechanisms (guarantee schemes) existed, some of the beneficiaries who signed financing contracts did not succeed in accessing investments credits.

The agricultural cooperative sector is not sufficiently developed comparatively to that of the other EU member states, and the trend is decreasing. In the year 2005, the number of the cooperative units reached 108, down to 68 in 2010. Unlike the European cooperatives, the Romanian cooperatives develop their activity in the production sphere and not in the processing or marketing field. As regards, the practice of traditional activities (crafts, folk crafts) by self-employed craftsmen or organized into handicraft associations or cooperatives, in the year 2010, out of 2017 cooperatives, 42.5% were handicraft cooperatives.

The investments in the non-agricultural and food economy in the rural area, besides providing for the gross value added increase through the processing of the raw agricultural and non-agricultural products from local resources, have another great advantage, both in the periods of crisis and recession and in the periods of economic growth, in the sense of creating new jobs, through the use and stabilization of the local rural labour, the revival of the rural localities, especially the revitalization of the rural localities, mainly those in the less-favoured and peripheral areas .

The National Rural Development Program developed **M6 – “Development of farms and enterprises 2014-2020”** policy that supports the non-agricultural enterprises in the rural area.

This measure has two sub-measures:

- 6.2 “Support for the establishment of non-agricultural activities in the rural areas”;
- 6.4 “Investments in the creation and development of non-agricultural activities”.

The goal of the support provided under measure M6 is to stimulate the business environment in the rural area, contributing to the increase in number of the non-agricultural activities, the creation of jobs, and the increase of the rural population incomes. The farmers or the members of the agricultural farms who wish to diversify their economic activities by practicing non-agricultural activities in order to increase their incomes and the creation of occupational alternatives are also had in view.

Sub-measure **6.2 “Support for the establishment of non-agricultural activities in the rural areas”** has in view the following: *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 fostering the maintenance and development of traditional activities.

Under sub-measure **6.4. “Investments in the creation and development of non-agricultural activities”** support is granted for micro enterprises and small enterprises in the rural area, creating or developing new activities in the rural space.

By the diversification of on-farm activities, a balance could be reached between the agricultural activity, other forms of rural development and the preservation of the natural resources, while the multi-functional role of farmers could get new dimensions - food producers or non-food producers, service suppliers, rural entrepreneurs (Popescu, M., 2001).

5. Conclusions

After 1990, the Romanian villages, which had already been subject to transformations and country planning of communist type, continued their degradation process; this process also continues at present, despite Romania being a EU Member State since 2007.

The disappearance of the Romanian village as traditional organization form, with its own specificity, will result in the loss of the Romanian people's identity, and of our identity as nation.

The manifestation of the globalization phenomenon, as well as of the economic crisis effects also lead to the degradation of the Romanian countryside, as the peasant producers tend to become consumer peasants in the large supermarkets..

The rural economy has significant differences across regions, by specific demographic, social and economic characteristics. This differentiation is noticeable mainly as regards the low level of incomes in the Romanian rural area, reflected by the low living standard of the population and the lack of alternative incomes.

The statistical data reveal that agriculture, food industry and forestry are of primordial importance for the rural economy.

The presence of non-agricultural activities, related to the primary sector, and mainly to the exploitation of natural resources and their processing, are not significant in economic terms.

Agriculture restructuring will have a particular impact upon rural economy in general, having in view that agriculture continues to remain the most important activity in the rural area and a main income source on the rural households.

The active population in the rural area, i.e. 46.3% of total rural population, can contribute to the economic growth in the countryside, if adequate stimulating means are identified, calling for the creation of jobs in the non-agricultural sectors, which can absorb the labour force released from agriculture.

In the period 2007-2013 Romania benefits from financial support provided by the European Union through its policy, which is worth over 8 billion euro for investments in agriculture and rural development.

The purpose of rural development programs is mainly to create jobs in the rural area, in agro-processing units, SMEs or in other non-agricultural activities.

At present, in Romania, the economic functions of the rural zones depend almost entirely on the existence of the agricultural activities. This situation explains the need for creating new, alternative jobs, mainly for the orientation of the small farmers or of the family members to non-agricultural and productive activities and for the development of services in the rural space.

The SME analysis in the rural area reveals the low capacity to respond to the need to supply new jobs for the population in the countryside. The small-scale business development is well-known as the most important source of jobs or obtaining incomes in the rural space, both for the already developed economies, and for the developing ones.

In most rural communes, the entrepreneurial needs are weakly represented. This situation severely constrains the capacity of the rural areas to develop according to the existing potential. In an attractive socio-economic context, the creation and promotion of entrepreneurship initiatives addressed to the young people will put into motion a viable mechanism for the development of rural communities.

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