

## CONSIDERATIONS ON BUSINESS ENVIRONMENT DEVELOPMENT IN ROMANIAN RURAL AREAS

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**Abstract.** *Small and medium enterprises play a vital role within the economy of a country, representing a source of entrepreneurial and innovation skills that greatly contributes to the achievement of gross domestic product and employs a large part of the labor force. The rural economy is more developed and dynamic, as it has a structure more diverse, and the share of non-agricultural economy is higher. The purpose of this article is to perform a radiography on the business environment in Romanian rural areas by identifying the main strategic ways for stimulating entrepreneurial spirit.*

**Keywords:** *small and medium enterprises, rural areas, rural economy, development*

### INTRODUCTION

The business environment is the main component that defines entrepreneurial behavior. In conception of Max Weber the entrepreneur is an individual characterized by positive definition of the situation, with a great capacity for risk acceptance and a high valuation of labor.

Micro, small and medium enterprises (SMEs) play a crucial role in the economy of a country. They are a source of entrepreneurial skills, innovation and contribute greatly to achieving the GDP and employs a large proportion of the workforce.

*"The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million"*(Excerpt from Article 2 of the Annex of Recommendation 361/2003 / EC).

The national legislation that establishes criteria for defining micro, small and medium enterprises in line with European regulations is the Ordinance no. 27 of 26.01.2006 amending and supplementing Law no. 346/2004 regarding the establishment and development of small and medium enterprises.

Under the new regulations, small and medium enterprises are classified according to the number of employees, annual net turnover and total assets they hold in the following categories:

- a) **micro** - have up to 9 employees and an annual net turnover or total assets up to EUR 2 million, equivalent in lei;
- b) **small** - have between 10 and 49 employees and an annual net turnover or total assets of up to EUR 10 million, equivalent in lei;
- c) **medium enterprises** - have between 50 and 249 employees and an annual net turnover of EUR 50 million euros, equivalent in lei, or total assets not exceeding the equivalent in lei of EUR 43 million.

Respecting the threshold on the number of employees is a prerequisite to classify SMEs. For the other two criteria, namely, the turnover and value of total assets, an SME may choose to meet either on the turnover threshold of one year or one relating to total assets. It is not necessary to satisfy both criteria and may exceed one of them without losing SME status.

The new definition offers this choice because, by their nature, enterprises in the trade and distribution have higher turnover than in production. Allowing the choice between this criterion and the total assets, which indicates the creditworthiness of companies, provides SMEs engaged in different types of economic activity equal treatment.

### MATERIALS AND METHODS

The paper deals with business environment development in rural areas in Romania and, in this respect, the study is based on processing of national and international statistical data. The authors also make some strategic ways to follow for stimulating rural entrepreneurial spirit in Romania.

The structure and dynamics of the business environment are analyzed on the basis of specific indicators designed to capture general trends in the quantitative and structural development of business initiatives and to highlight those characteristics of dynamics and structure on which corrective interventions are needed.

The indicators used in this analysis are the followings:

- A. *The density of active enterprises per thousand inhabitants* is considered a good indicator to reflect the ability of a territory to be/ not to be attractive to business initiatives.
- B. *Dimensional structure of active enterprises by number of employees*, which reveals the ability of labor force absorption from the local market.
- C. *The structure of active enterprises by residence areas and activity sectors*, which reflects the diversification degree of business environment and thereby its ability to economically exploit the local resources.

### RESULTS AND DISCUSSION

The rural space of Romania consists of the administrative surface of the 2,861 communes which regroups 12,956 villages. The related surface for rural space as delimited in this way totals 223,055,000 ha, representing 87.1% of the country surface. The rural population is about 9.63 million people, meaning 44.9% of the total population. The number of rural households is of 3,311 thsd (45% of total households in the country) and the number of housing is 3860 thsd (45.8% of total number of housing) (NIS, 2013). This space is the repository of the vast majority of economic resources: raw materials for industry, agricultural resources, forestry, tourism and spas.

The general trend of business environment evolution in Romania is of contraction, the total number of active enterprises recorded a decrease of 17.5% in the 2008-2012 period, with a slight increase in 2012 compared to 2011. Many businesses were closed during the economic crisis that began in 2008, and corrective interventions are needed to stimulate business environment, interventions that this negative trend to be stopped and its course to be reversed.

Table 1

The dynamics of active enterprises (national level)

	2008	2009	2010	2011	2012
<b>Active enterprises, of which:</b>	<b>554967</b>	<b>541696</b>	<b>491805</b>	<b>452010</b>	<b>472187</b>
- Micro	495019	485714	438400	394059	413783
- Small	48131	45791	43805	47737	48215
- Medium-sized	9939	8577	8047	8605	8549
<b>- Total SMEs</b>	<b>553089</b>	<b>540082</b>	<b>490252</b>	<b>450401</b>	<b>470547</b>
- Large enterprises	1878	1614	1553	1609	1640
<b>No. of active enterprises / 1000 inhabitants</b>	<b>27.02</b>	<b>26.59</b>	<b>24.29</b>	<b>22.43</b>	<b>23.49</b>

Source: Processing after National Institute of Statistics, TEMPO online databases

<https://statistici.insse.ro/shop/index.jsp?page=tempo2&lang=ro&context=55>

The direct consequence of business environment contraction is the decrease of *active enterprises density per thousand inhabitants*, from 27.02 enterprises active in 2008, at 22.43 enterprises active in 2011, with a slight increase in 2012.

Of the 470,547 active SMEs nationally, only 14% operate in rural areas, which are mainly micro enterprises, but without the absorption potential of labor force surplus, with a minimum contribution at the formation of rural economy.

The low density of rural SMEs relative to population, of about 7 SMEs/1000 inhabitants is six times lower than the European average (42 SMEs/1000 inhabitants in the EU-27) and three times lower than the national average. Because a sufficiently large number of companies are not activating and there is a lack of a favorable frame for establishing and developing of them, rural SMEs do not contribute significantly at the sustainable economic development of rural areas (Steriu, Otiman et al., 2013).

Starting from the hypothesis that entrepreneurship leads to economic growth and new jobs creation, supporting it has become a priority as a solution to exit the economic crisis and mitigate the risk to continue emphasizing the underemployment of workforce and rural poverty. In the context where 45% of Romania population is in rural areas, encouraging the formation and development of non-agricultural businesses in rural areas should be an absolute priority.

In the 2008-2012 timeframe analyzed, one can distinguish two periods:

- the period 2008-2010, the contraction of the business environment, characterized by massive reduction in the number of active businesses;
- the period 2011-2012, a slight recovery period, based on economic growth in Romania.

*The dimensional structure of the active local enterprises by number of employees* is dominated, as was natural, by the businesses classified within the category of SMEs which represented in 2012, nationally 99.6% of the number of active local units (NIS, 2013), number with 0.2 percentage points higher than the European average (Schmiemann M., 2008). This percentage has remained relatively constant over the entire period before, during and after the global economic crisis.

*The structure of active enterprises by residence areas and activity sectors* shows that businesses that have as activity object the production of goods and services of agriculture or forestry nature are concentrated primarily in rural areas (up to 2/3) while the businesses whose activity profiles are circumscribed to secondary and tertiary sectors are more concentrated in urban areas (up to 75 %, respectively 80%). The economists recognize that the produced value added within the businesses from the primary sector of the economy (agriculture) is much lower compared to businesses that process these raw materials and those who provide services to companies and households. Therefore, this disproportionate distribution of economic activity sectors between the two areas, urban and rural, is unfavorable for the rural space, the opportunities of rural business environment to generate substantial profits being much lower than in urban areas.

**The strategies** to encourage rural entrepreneurship initiative must respond to three major challenges (Steriu, Otiman et al., 2013):

- *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 extrarural 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.

Stimulating the entrepreneurial spirit, according to the Small Business Act for Europe (EC, 2011), is based on three pillars of action shown in Figure 1.

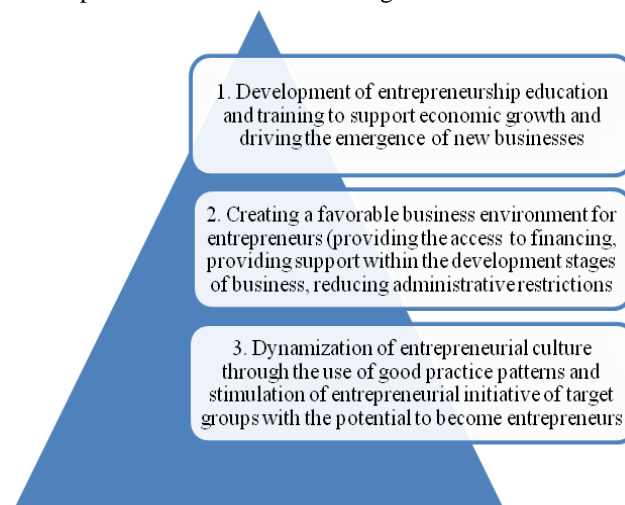


Figure 1. Pillars of Action of rural entrepreneurship development I  
Source: Processing after EC(2011)

1. The first pillar of action covers the following measures (Steriu, Otiman et al., 2013):
  - including among the programs of primary, secondary, professional, and higher education, as well among the adult education, of needed disciplines for skills training necessary for an entrepreneurial spirit development;
  - using structural funds for the revival of entrepreneurship education for youth;
2. The second pillar, of creating a favorable business environment for entrepreneurs, comprising the following steps:
  - the access to financing by creating of some micro-credit schemes and loan guarantee for rural non-agricultural start-ups;
  - providing support for entrepreneurs in the developmental stages of the business through: rural tax systems more favorable for businesses in the early stages; implement a new payment scheme of VAT at collecting for small businesses; designing and implementing a system of adjustments for the payment timing of social contributions for a limited period of time based on some specific situations of the enterprises; providing support for accessing the European Programme for agriculture and Rural Development;
  - reducing bureaucracy and administrative restrictions by: creating of a single point of contact at rural microzone level to obtain complete information for SMEs, licenses,

financial support and public consultancy; simplifying the legislation regarding the employment and implementation of flexible programs of workforce employment.

3. The third pillar of action for the development of entrepreneurship refers to the following measures:

- stimulating the rural entrepreneurship initiatives by disseminating of successful models of businesses and of examples of good practice in order to limit the risks of failure for the small businesses and to increase the confidence of potentially new rural entrepreneurs;
- encouraging the creation of new businesses by the demographic groups under-represented in the entrepreneurial environment: (i) marginalized groups (women, unemployed) by encouraging them to change their perception on their chances of success, (ii) the group of migrants (migrant entrepreneurs and Romanian rural population contained in external temporary migration flows for employment) in order to induce the latter ones to return to the rural space of origine and to exploit the knowledge gained within the activities performed abroad.

### CONCLUSIONS

Development of small and medium enterprises in rural areas of Romania is weak, as a result of insufficient exploitation of natural resources, poor education, low level of utilities, as well as of the phenomenon of massive migration to urban or externally, to other countries of the world, especially from the part of young population.

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. At the same time, these enterprises also have the role of boosting the rural economy, which contributes in this way, through the taxes that are paid to the local budget, to the economic, cultural and social development of communities.

We believe that urban-rural economic balance, without a real policy of economic and financial support and providing important tax breaks for the rural SMEs, still remains an unsolved problem for the Romanian rural area.

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