

THE ROLE OF THE AGRO-FOOD SMEs FOR THE DEVELOPMENT OF THE ROMANIAN RURAL AREAS

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Abstract

The importance of the development of the Romanian agro-food SMEs sector becomes a more and more important market feature for our country. Our research main purpose would be to investigate and analyze the role to be played by the Romanian SMEs in the agribusiness as an important factor that can generate and increase the development of the Romanian rural areas. On this path, we are going to study the present state of the Romanian agricultural sector and also the way in which we could stimulate the development of the SMEs in this sector as one of the most important triggers for growth of the rural areas.

Keywords: SMEs, agro-food sector, rural development, Romania.

Introduction

Most of the debates focusing on the realities of the Romanian agriculture, were directly or indirectly discussing the opportunities and also the threats that this sector has to face nowadays. The undoubtedly importance of the development of the Romanian rural areas with relevant EU consistence increasingly usually took the floor of the debate. The dynamic economic environment has generated important changes at the level of the Romanian agriculture and agro-food sector determining major

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new implications from the agribusiness point of view. On our path we can underline the important role to be paid by the SMEs companies and by the entrepreneurial spirit in the rural areas as one of the most important factor that can determine and sustain on the long run the development and the diversity of the Romanian rural areas.

Our view on the matter starts with the thorough analysis of the development of the agro-food SMEs due to the fact that it is widely recognized the important role that the Small and Medium Sized Enterprises are playing in the economic development of a country. Therefore, we must recognize also the role they are playing on the level of performance and future prosperity of the Romanian rural areas.

In our paper we have conducted our research based on theoretical elements combined with official statistical data provided by the Romanian Ministry of Agriculture and Rural Development, The National Institute of statistics of Romania and other relevant scientific and academic sources, reports and analysis, along with recent publications and newspapers presenting and describing the investigated topic.

The development of the agro-food SMEs in Romania outlook

The EU membership, the impact of the crisis and the new roadmap priorities reshaped without doubt the Romanian rural areas and its agricultural sector. The country encountered from this perspective many new opportunities but also an important number of barriers and risks. One of the main challenges faced by our country resides in its attempt to increase the competitiveness level of the agricultural sector along with the competitiveness level of SMEs that are playing a vital role on this path of developing a long run sustainable agro-food sector.

The literature identifies as special feature that the SMEs bear, attributes like: a factor of macro- and micro - economic balance, a source of generating new jobs, creating new industries and meeting the needs of the consumers, promoting technical innovations, stimulating competition, facilitating functioning of large enterprises, etc.¹

¹ Patricia Rațiu, Maria Mortan, „Analysing the potential of rural SMEs in the context of sustainable economic growth”, in *Revista Economică*, 66:2, 2014, p. 144, [<http://economice.ulbsibiu.ro/revista.economica/archive/66213ratiu&mortan.pdf>], 5 May 2015.

For our study we have chosen to investigate one of the most important sectors having a strategy importance on the path of the economic development of a country. From this perspective, the already mentioned important role that the SMEs are playing will be the focus of our further analyses.

We should begin by underlining the fact that the European food sector is also dominated by SMEs companies which are in this case diversifying and increasing the level of performances of the economic European environment.

The European food and drink industry is nowadays the largest manufacturing sector with a turnover reaching 956 billion Euro, and generating 4.1 million jobs.² Thus, European Member States are constantly encouraging the development of the business environment through a competitive SME sector able to respond more flexibly to a constant changing and increasing demand and market. This being said, we should state that one of the specifications made by the EU retailers is to set SME specific support programs along with a SBA recommendation that are encouraging the coaching of SMEs by large companies to facilitate for these companies a better both domestic and foreign market access.³

These realities have led to a constant development of the entrepreneurial activities, and sustainable development not only in the urban regions but also in the rural ones.

The statistics are indicating that, at the level of the EU market, the SMEs account for 21.6 million SMEs in the non-financial business sector (99%), employing 88.8 million people (2 employees out of 3) and generating 3,666 trillion in value added, figures that sustain the importance of a coherent policy to support these companies on their road to development.⁴

² Food Drink Europe, *Priorities for the Development of an EU Industrial Policy for Food. Competitiveness Report 2012*, 2012, p. 6, [http://www.fooddrinkeurope.eu/uploads/press-releases_documents/FINAL_competitiveness_web.pdf], 20 May 2015.

³ European Commission, *Report on the Competitiveness of the European Agro-Food Industry*, 17 March 2009, pp. 44-45, [http://ec.europa.eu/enterprise/sectors/food/files/high_level_group_2008/documents_hlg/final_report_hlg_17_03_09_en.pdf], 20 May 2015.

⁴ Patrice Muller, Dimitri Gagliardi, Cecilia Caliendo, Nuray Unlu Bohn, Demetrius Klitou, *A Partial and Fragile Recover. Annual Report on European SMEs 2013/2014*, European Commission, July 2014, p. 6, [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/supporting-documents/2014/annual-report-smes-2014_en.pdf], 29 May 2015;

To draw a parallel in order to try and determine the state of the Romanian economic rural environment we are going to present a few facts and figures that characterize the on the ground realities from our country.

The Romanian general profile in terms of the main percentages is not very different from the European one, the SMEs companies remaining the backbone of our economy. The figures are indicating that we base our economy on small and medium size enterprises, 426,295 in number, counting for 99.7% from the overall companies, providing 2 708 806 jobs (66.7% of the employment) and generating 26 billion Euros (49.4% %) of the economic value added.⁵

Taking into consideration the dimension of the Romanian rural areas, the percentage of the population living in this regions, and the importance of the agriculture for the national economy, it is easily to recognize the importance of the rural economy as a generator of development.

For instance, MADR states that 87,1% of the Romanian territory is situated in the rural areas, fostering 45,0% of the Romanian total inhabitants (18,3% in 2012 being over 65 years old). The same report indicates that the non-agricultural SMEs acting on the rural areas have still a low percentage (18,1% in 2011) and a low work force absorption capability.⁶ In 2011 in Romania were 85,497 SMEs companies out of 435,788 total SMEs (19,6%).⁷ Between 2012 and 2013 the SMEs in the non-financial sector in Romania have had a positive development in terms of the number of firms, employment, and value added with more than 3%.⁸

The SME density was at the city level of 23.66 per 1,000 inhabitants followed by the rural situation where the figures had only reached 9,64 per 1,000 inhabitants.⁹

⁵ European Commission, *2014 SBA Fact Sheet – Romania*, 2014, p.2, [http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2014/romania_en.pdf], 20 May 2015;

⁶ Ministry of Agriculture and Rural Development, *Analiza socio-economica a spatiului rural romanesc*, pp. 1-2, [http://www.madr.ro/docs/dezvoltare-rurala/Descrierea_generala_a_situatiei_economice_actuale_4_11_2013.pdf], 20 May 2015;

⁷ Patricia Rațiu, Maria Mortan, *op.cit.*, p.153;

⁸ Patrice Muller, Dimitri Gagliardi, Cecilia Caliendo, Nuray Unlu Bohn, Demetrius Klitou, *op.cit.*, p.19;

⁹ Ministry of Agriculture and Rural Development, (2013), *Analiza socio-economica în perspectiva dezvoltării rurale 2014-2020*, July, pp. 49-50, [<http://www.madr.ro/docs/dezvoltare-rurala/programare-2014-2020/analiza-dezvoltarii-rurale-agricultura-iulie-2013.pdf>], 25 April 2015;

The agriculture is still providing in Romania a large number of workers that are usually earning modest and insufficient venues, workers that should be relocated to other sectors such as agribusiness where they can be hired by the entrepreneurs in SMEs companies diversifying this way the number of opportunities for the rural employees.

Some of the authors consider that „Romania needs a multifunctional, competitive agriculture, at the same time complementary to the agriculture of the other EU Member States”.¹⁰ This desiderate can be supported by stimulating the entrepreneurial spirit of the investors in the rural areas in order to increase the demand for the agricultural products and sustain the development of the rural areas.

Challenges facing entrepreneurship development in the Romanian rural areas

In terms of the future development of the rural areas entrepreneurship, we cannot overlook the major challenges that Romania has to face. For instance the on the ground realities show a rather poor infrastructure in terms of highways, roads and public transportation, and also reflected in the lack of basic services available for the inhabitants like water supply, electricity, information and telecommunication, health, cultural or educational services, etc.

The OECD identified a few challenges mentioned in the report from 2005¹¹ that are still current barriers in the process of the development of the Romanian rural areas. Between the mentioned barriers we find: declining employment opportunities mainly in agriculture, aging population (combined with an outmigration of the young people) and in-migration of the retired people) and the difficulty in maintaining facilities in a range of business services.

¹⁰ Paun Ioan Otiman, “Sustainable Development Strategy of Agriculture and Rural Areas on Medium and Long Term”, in *Agricultural Economics and Rural Development*, Year V, no. 1-2, 2008, p. 5, [ftp://www.ipe.ro/RePEc/iag/iag_pdf/AERD0802_4-18.pdf], 29 May 2015;

¹¹ David Smallbone, *Fostering Entrepreneurship in the rural areas*, OECD Report, Part II, Key Policy Issues in Entrepreneurship and SME development, Chapter 5 – Rural Entrepreneurship, 2005, p. 3, [http://www.oecd.org/site/cfecpr/42203059.pdf], 29 May 2015;

Moreover, we should underline the fact that there are important differences between the urban regions and rural regions in terms of entrepreneurship, business environment, size of the market and also sometimes size of the business, sectorial mix, innovation performance of the SMEs, labour characteristics (including the migration phenomenon), business premises, access to information and finance (due to the high level of poverty existing in the Romanian rural areas), entrepreneurial culture and attitudes (for instance here we can mention the lower level of education, the low propensity to start a business in the rural areas, etc.), etc.

Even if the local realities in the rural regions are mostly favourable to the development of non-agricultural economic activities, offering good opportunities for the rural economy diversification, and good conditions for agro-tourism and bio-tourism development they should be analysed in closed relationship with all the barriers mentioned before, barriers that are for the moment negatively impacting all the opportunities that can arise. By this, we should also be able to distinguish between the nowadays realities that are indicating mostly a Romanian rural subsistence economy that should develop into a competitive one in order to be able to even discuss about a sustainable rural development in our country.

Based on the investigated literature and all of the above mentioned, we can name here a few weaknesses that the SMEs companies usually have. We must recognize that this type of companies are developing their activity based on small quantities of resources and reduced reserves. It is also a fact that the decisions are usually made upon the dependence on the owner of the company who sometimes does not have the access to the needed information or does not take the necessary risks, or does not see all the opportunities that are arising, facts that are affecting the evolution of the economic rural environment. Moreover, the technical level for the SMEs is frequently reduced, registering also a more variable performance level than the larger companies do.¹²

¹² Irina Isac-Maniu, „Territorial Discrepancies Concerning SMEs Performances in Romania”, in *Romanian Journal of Regional Science*, Vol.2, No. 1, Summer 2008, [<http://www.rrsa.ro/rjrs/N2-ISAIC.PDF>], 20 May 2015;

Priorities for the Romanian rural development

The EU states for the 2014-2020 period as CAP priorities, three long-term strategic objectives for policy in order to reach the EU support of rural development (the 2nd Pillar of the Common Agricultural Policy):¹³

- fostering the competitiveness of agriculture;
- ensuring the sustainable management of natural resources, and climate action;
- achieving a balanced territorial development of rural economies and communities including the creation and maintenance of employment.

The rural development represents for our country one of the main priorities that should be based on sustainable, long term rural policy. We consider that on this path the role played by the Romanian SMEs and by the investments generated in the rural areas are key factor for the long term development of this environment. By this, we need to underline not only the economic impact brought by this perspective but also the social and cultural one with real positive implications for all the parties involved in this process.

The Rural Development Programme (RDP) was adopted by the European Commission on 26 May 2015, reaching 9.5 billion Euro for 2014-2020 period, and naming 3 priority areas: *promoting competitiveness and restructuring in Romania's agricultural sector; environmental protection and climate change; and stimulating economic development, job creation and a better quality of life in Romanian villages*. The allocated figures for RDP are representing 8.1 billion Euro coming from the EU budget (including 112.3 million Euro transferred from the CAP direct payments), and 1.34 billion Euro generates by the national co-funding schemes.¹⁴

For the development of the rural areas Romania should favour and encourage the entrepreneurial spirit, should facilitate the access to structural funds, attract investments, increase the international competitiveness of the

¹³ European Commission, *Rural development 2014-2020*,

[http://ec.europa.eu/agriculture/rural-development-2014-2020/index_en.htm], 29 May 2015;

¹⁴ European Commission, *Factsheet on 2014-2020 Rural Development Programme for Romania*, p.1, [http://ec.europa.eu/agriculture/rural-development-2014-2020/country-files/ro/factsheet_en.pdf], 29 May 2015;

SMEs, and modernise the business environment and infrastructure taking into account all the necessary characteristics of the nowadays changing business environment.¹⁵

Conclusions

As in conclusion, we consider that the Romanian SMEs still encounter a large number of vulnerabilities. There is a need to create the means that the rural entrepreneurs have access to finance, professional advices and support and to benefit from a better and modernised infrastructure. Moreover, we should ensure the support for network development in the rural areas to facilitate a dynamic economic environment for all the implicated parties.

We consider that the rural SMEs are a viable solution that can generate an economic dynamic, flexible and diversified environment. They can also represent a solution for the rural employees offering different opportunities and alternatives for the labour force improving also through this the quality of life by reducing the unemployment rate or by reducing the number of workforce implicated in agriculture.

Our attention should be focused not only on the agro-food sector but also on the non agricultural one even if the agribusiness can change also the degree in which we succeed in transforming the raw materials into products with incorporated value added, the non agricultural one can diversify the opportunities available for development.

To facilitate the innovation process for the rural SMEs we should ensure a transparent a facile knowledge transfer, provide the necessary means for the access to research and development for the companies acting in this regions, and to education and professional development and training for the labour force and for the entrepreneurs.

¹⁵ Laura Giurca Vasilescu, Ana Popa, "Correlations between SME sector, investment and sustainable rural development in Romania", in *Buletin USAMV – CN*, 64/2007, p. 6, [<http://journals.usamvcluj.ro/index.php/horticulture/article/view/2078/2001>], 29 May 2015;

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