FOSTERING RURAL TRANSFORMATION IN ROMANIA: ENTREPRENEURSHIP, LAND REFORM AND INSTITUTIONAL CHANGES

Alin CROITORU¹, Flavius MIHALACHE²

Abstract: The article analyses the employment structure in Romania’s rural areas during the post-transition period, focusing on entrepreneurship and public policies designed to support economic development within rural settings. These two mechanisms of economic and social change are explored using official statistics from Eurostat and the National Institute of Statistics, as well as survey data. Particular attention is paid to rural policies adopted due to the implementation of the Common Agricultural Policy (CAP). Since Romania has joined the European Union, CAP has become the core framework for promoting the agricultural sector and implicitly rural development. Rural Romania’s employment structure is no longer dominated by the category of self-employed people in agriculture and we can notice a general increase of the number and percentage of employees with wages. Building on prior research which revealed the precariousness of the self-employment in subsistence agriculture and the challenges of integrating these people on the labour market, we emphasize the gradual decrease in absolute and relative terms of this category of self-employment as a major trend in the rural employment structure. At the same time, the paper contributes to the general debate on entrepreneurship and its transformative effects by looking at the specific profile of Romanian entrepreneurs in agriculture, employing the distinction between opportunity and necessity driven entrepreneurship.

Keywords: rural environment, entrepreneurship, employment, self-employment, rural development

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Alin Croitoru’s work was supported by a grant of the Romanian National Authority for Scientific Research and Innovation, CNCS/CCCDI – UEFISCDI, project number PN-III-P1-1.1-PD-2016-0659 within PNCDI III.
Objectives and theoretic framework

This study explores the importance of certain processes of transforming the Romanian rural areas during the period of transition, starting with the changes noticed in the employment structure of the rural population, the intricacies of the land reform and the analysis of the institutions involved in the management of the rural development programs. The analyses regarding the evolution of occupation structure focus on self-employment and entrepreneurship, highlighting the coordinates of this type of activities and the premises for its future evolution. At the same time, we briefly describe the framework of the policies aiming to reform and support the rural environment, implemented in Romania, after 1990. In order to accomplish these objectives, we use various official national and European documents, we monitor the evolution of the main synthetic indicators regarding the occupation and the economic activities in the rural areas, and we analyse the results of an international study centred on entrepreneurship (Global Entrepreneurship Monitor – GEM).

Previous analyses and studies on the economic situation of the rural areas and on the coordinates of the labour market point to several structural problems, which outline a chronic situation of underdevelopment (Bíró, 2015; Davidova, 2011; Feher, Goşa, Raicov, Harangus, & Condea, 2017). The over-employment of the population in the subsistence agriculture is the defining element for the Romanian rural environment in the post-socialist period (Ciutacu, Chivu, & Andrei, 2015; Ciutacu et al., 2015; Fredriksson, Bailey, Davidova, Gorton, & Traikova, 2017). The preponderantly agricultural occupations, which are often non-formal and in subsistence agriculture (Fredriksson et al., 2017; Otiman, 2012; Tudor, 2015), are seen as a result of the economic difficulties experienced by the entire population during the transition period, as a consequence of the difficult economic environment (Cace, 2006; Preoteasa, 2008). We will contribute to this general debate by analysing official statistics and the longitudinal evolution of the employment structure of rural population.

Empirical studies focused on self-employment and entrepreneurship revealed that rural and urban areas provide different business opportunity structures and individuals decisions are dependent on distinct economic forces (Faggio & Silva, 2014). This is directly related to individual motivations behind employment choices and business initiatives and there is an increasing literature which acknowledge significant differences between opportunity driven and necessity driven entrepreneurship (Maritz, 2004, Block & Wagner, 2010; Deli, 2011; Fossen & Büttner, 2013; Fairlie & Fossen, 2018). Literature related to opportunity driven entrepreneurship derives its conceptual framework mainly from the classical legacy (Schumpeter, 1939, 2008; Sombart, 1915; Weber, 1978), while researchers focused on necessity driven entrepreneurship pointed out the structural determinants and opened new lines of inquire. Necessity is a driver towards entrepreneurship for those individuals who are forced by circumstances to engage into self-employment or entrepreneurship due to the lack of employment opportunities (Haas, 2013; Serviere, 2010). Both theoretical lines can contribute to the analyses of the economic evolution of the rural Romania and the focus of this paper on legislative measures and institutional transformations can benefit from both theoretical lines mentioned above. Romania can constitute an excellent site of research due to its
high developmental gaps between rural and urban areas (Kulcsár & Brădățan, 2014; Sandu, 2011).

Insights provided by opportunity driven entrepreneurship point out the important role played by visionary individuals who are able to transpose creative ideas in businesses (Dimov, 2007, 2011). These individuals are characterized by certain entrepreneurial qualities and they are eager to benefit from market opportunities (Kirzner, 1992; Shane, 2000), but the relationship between business ideas and their implementation into market setting include also a series of structural characteristics (Croitoru, 2013, 2017). The specificity of the national context offered unique opportunities for people able to enterprise within tough economic and social contexts seriously affected by the communist inheritance and the delayed transition towards market economy (Stoica, 2004, 2012).

In this paper we refer to the rural evolution, starting with the point of general collapse of the co-operative property and agriculture (Swain, 2013) towards the point Romania became part of the EU. Multiple economic, political and social phenomena overlapped during the Romanian tormented transition (Rusu, 2008); within the paper, we place the emphasis on the reconfiguration of the land property and the employment opportunities in rural areas. The successive measures for land (re)distribution as well as drastic decline of the employment opportunities in former communist industrial facilities (Varga, 2014; Voicu, 2005) forced a significant part of the rural population to choose between engagement into subsistence agriculture (Popa, 2010), international migration (Sandu, 2010; Șerban, 2011; Croitoru, 2015, 2018; or various forms of precarious employment (Preoteasa, 2015). Each of these premises generated specific pathways of development at individual, community and national level.

Framework of public policies for supporting the rural environment

Main stages

During the first years of post-communist transition, Romania’s lack of sustainable policies in order to support the vulnerable rural population or to favour the economic development of the rural areas seriously affected the employment opportunities from these areas. The social and economic problems of the rural environment have been approached rather through national policies (Mihalache and Croitoru, 2011; Pricina 2012, Preotesi, 2016). Looking back to the post-communist period, one may identify three large periods in the evolution of the Romanian rural environment, accompanied by different views regarding the ways the state should get involved in the processes of social change.

Firstly, policies addressing the rural population during the first decade after 1990 were dominated by the theme of returning the land properties and of transforming the agriculture on private property basis. The return of the land was difficult and required several stages (Hartvigsen, 2014; Sabates-Wheeler, 2001). The decision to disband all agricultural cooperatives and state farms, stipulated by Law 18/1991, caused a series of
social and economic effects, which affected both the economic coordinates of the agricultural and industrial sector, and the standard of life of an important category of the rural population (we refer mainly to the population that was working in the state farms or in units of the agro-food industry). This period witnessed the establishment of the economy on new bases. During the first stage, transition stalled the development of the rural localities, reduced the activities in the non-agricultural sectors, increased poverty and produced new social phenomena, as subsistence agriculture (Mathijs & Noev, 2004; Tudor, 2015). The governmental responses to the problems of the rural were non-systematic and weak in the ‘90s. The main element of the public debate was the optimal way of returning the properties nationalized during the communist period. The only positive evolutions concerned the start of national programs for the development of the rural infrastructure, but the progress was also limited (Marin, 2015).

The period between 2000 and 2007 did not bring major changes in the situation of the rural environment and of the rural population. The new pathway of improved economic stability and the resumption of economic growth brought along some progress in occupation and in the standard of life for the population, but the poor profitability of the family farms continued to be one of the central problems of the rural economy and emigration became a strategic decision for larger categories of Romanians (Sandu, 2010). The problems caused by the dependence of large categories of people on the subsistence agriculture worsened, while gaps in the regional development were increasing (Sandu, 2011). At the social level, the Law 416/2001 regarding the guaranteed minimal income (VMG) produced its most important effects among the categories of vulnerable population, by setting the grounds for a framework of institutional support for the poor families (the targeted population lived in rural and urban area as well). Previous studies highlighted the fact that most of the beneficiaries of the Law 416/2001 were either rural dwellers, or inhabitants from small towns (Preotesi, 2016). Another Law of that period, 247/2005, regarding the reform of property, stipulated a lifelong fee of 100 euro/ha/year for the landowners aged 62+ who decided to sell their land (the fee was of only 50 euro/ha/year if the land was leased). This law aimed to encourage land aggregation and to establish a younger age structure of the landowners, but its effects were limited. On the one hand, the law was criticised for the low amounts that it has stipulated, and on the other hand, its enforcement has been difficult due to the subsequent changes in the normative framework.

A significant adjustment of the policy framework supporting the rural population and then reorganisation of the agricultural sector occurred after 2007, when the National Plan for Rural Development (PNDR) started. The framework of public policies gained some coherence under the pressure of the conforming to the framework of Common Agricultural Policies (CAP). Even though important criticisms can be formulated against this type of program (Marquardt, Wegener, & Möllers, 2010; Şerban & Juravle, 2012), the structural funds and, particularly, the PNDR programs allowed the consolidation of consistent mechanisms supporting the entrepreneurial initiatives in the rural environment (Cace, Cace, & Nicolăescu, 2012; Petrescu, 2015; Princină, 2012). Supporting changes to the rural economic structure, through public policies, is obviously a long-term process. At the level of public policy, the stimulation of
association between the small agricultural producers and the development of their entrepreneurial skills was a central topic of debates both during the pre-accession period, and after joining the European Union. The agricultural associations, which in the public debate were labelled as viable forms of aggregating the agricultural entrepreneurial initiatives, did not benefit, nonetheless of a real support from the policy-makers. The measures supporting association were limited to the adoption of the normative framework for the functioning of this sector (Law of the agricultural cooperation, 566/2004; Law 1/2005 regarding the organisation and operation of cooperation), and to several other stipulations favouring the activity of these forms of association, restricted, particularly to the public interventions financed through PNDR 2007 – 2013 and PNDR 2014 – 2020.

**Main institutions involved in the implementation of the rural development programs**

The implementation of certain measures stipulated by the CAP, supporting the agriculture and rural development, is done through the activity of two governmental agencies subordinated to the Ministry of Agriculture and Rural Development, having complementary activity: The Agency for Rural Investments Financing (AFIR) and The Agency for Payments and Intervention in Agriculture (APIA). These organisations have complementary roles and developed a structure of territorial units spread in all the counties of Romania.

The Agency for Rural Investments Financing (AFIR) was established in 2014 by the reorganisation of an older organisation (The Agency of Payments for Rural Development and Fishery – APDPR), assuming its tasks in the implementation of pillar II of the Common Agricultural Policy, the programs intended to support the social-economic development of the rural areas. Both small agricultural producers and commercial companies, NGOs and local authorities were among the beneficiaries of AFIR programs. Besides the central bodies, the agency has 8 regional centres and 41 county offices. The receipt and selection of FEADR projects financed by PNDR, monitoring and control of the funded projects and management of the payments for the running programs, are among the main assignments of the agency. Practically, AFIR is the institution responsible for PNDR implementation, for the execution of all the intervention programs supporting the economic activities, quality of life improvement and the modernisation of villages.

The Agency for Payments and Intervention in Agriculture (APIA), on the other hand, is an organism established in 2004, playing a role in the implementation of the system of direct payments, subsidies granted to the agricultural producers according to the pillar I of the Common Agricultural Policy. The period 2004-2007 was dedicated to the accumulation of experience in the implementation of the financial programs for the rural environment, which subsequently assumed the sections of guaranteeing and orientation associated to the European Agricultural and Guarantee Fund (EAGF), and also managing the Financial Instrument for Fisheries Guidance (FIFG). To this purpose, the law establishing the Agency stipulated that the number of positions must exceed 1,000 by 2007, which allowed APIA to establish a large operational staff in the
territory (42 county offices), with a matching impact in running public rural development projects.

In its activity, The Agency for Payments and Intervention in Agriculture (APIA) used three major sources of funds: the European Agricultural Guarantee Fund (EAGF), the European Agricultural Fund for Rural Development (EAFRD), and funds from the state budget for objectives complementary to PNDR (national payments in the plant and animal sectors, state aids for agricultural insurance, the lifelong revenue program etc.)

Entrepreneurship and employment in rural areas

General framework
The economic dimension of the Romanian rural world is currently undergoing a process of reconfiguration. The traditional agricultural practices, although persisting, are in an obvious decline. The agricultural sector is increasingly dominated by the great exploitations or farms. The process of large property consolidation is revealed by the official data. At the same time, for the peri-urban areas, there are manifest signs pointing towards a process of diversification of the rural economy, by the development of the non-agricultural sector. Research on Romania’s metropolitan areas explored the serious challenges of collaboration between urban and rural administrations within the national legislative framework (Stănuş, 2011) and pointed out that outcomes of this process are highly dependent on local political actors (Stănuş, 2018). Also, a significant number of rural localities were transformed in small-urban municipals (Mihalache, Croitoru, 2014) and this process has also a series of unanticipated consequences and limited access to PNDR funds for these new urban entities.

Within this context, the evolution and specificity of the Romanian rural entrepreneurship are related to the specific coordinates of the rural areas, being difficult to identify regularities or national models of evolution. Some rural occupations are more or less suitable for the development of individual entrepreneurial practices, while others are rather closer to associative organization. Take, the example of a village with tradition in vegetable growing: it is very likely that the villagers develop a system by which a large number of households (organised on the principles of family association) have licence of producers and sell their vegetables on the markets from neighbouring towns/communes. On the other hand, the rural areas, in which the cereal crops are dominant, may be organised around some large agricultural exploitations (either associative forms in which the land is leased, or there are several entrepreneurs who bought large areas of agricultural land). Thus, the analysis of the Romanian rural, and the identification of the premises that can generate rural development must take into account the strong regional specificity (Sandu, 2011). Beyond the peripheral or non-peripheral location of the rural localities in relation with the centres where the resources concentrate, one should also consider the economic, cultural and social characteristics associated to the regions where the rural locality is situated.
Official INS data allow us outlining a general image of the evolution of occupation among the rural population (Table 1). In absolute figures, the occupied population significantly decreased between 2002 and 2017, particularly in non-standard occupations (self-employed workers and unpaid family workers). At the same time, the population of employees increased, mostly on the background of a higher offer of poorly skilled and paid jobs, in sectors such as the processing industry, merchandising and constructions. The number of rural dwellers employed in industry increased by almost 100 thousands people between 2012 and 2017. Over the same time span, the number of people employed in constructions increased by more than 200 thousands people, while in the merchandizing sector, the increase was of about 160 thousands people (INS, Tempo). We are thus speaking of a progress in the occupational structure of the rural population, even though, for that time, this process may seem a modest one.

Table 1. Evolution of the main categories of work participation of rural population, in 2002 – 2017 (thousands of people)

<table>
<thead>
<tr>
<th>Category</th>
<th>2002</th>
<th>2007</th>
<th>2012</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>1.482</td>
<td>1.545</td>
<td>1.506</td>
<td>2.003</td>
</tr>
<tr>
<td>Owners</td>
<td>32</td>
<td>30</td>
<td>24</td>
<td>27</td>
</tr>
<tr>
<td>Self-employed</td>
<td>1.747</td>
<td>1.610</td>
<td>1.446</td>
<td>1.208</td>
</tr>
<tr>
<td>Unpaid family worker</td>
<td>1.343</td>
<td>1.151</td>
<td>1.009</td>
<td>0.619</td>
</tr>
<tr>
<td>Member of an agricultural company or cooperation</td>
<td>213</td>
<td>352</td>
<td>No data</td>
<td>No data</td>
</tr>
<tr>
<td>Total</td>
<td>4.626</td>
<td>4.341</td>
<td>3.987</td>
<td>3.901</td>
</tr>
</tbody>
</table>

Source: INS, Tempo database

The rural entrepreneurial sector is poorly developed and mostly circumscribed to agricultural and commercial activities. The official statistics are rather limited, but allow sketching the main characteristics of the rural entrepreneurship. The typical rural entrepreneur is a mature person, usually a man, most of the times owner of an agricultural commercial company, or of a rural shop.

Even though the differences started to decrease during the recent years, we can still speak of under-representation of the rural entrepreneurs compared to the urban ones (Table 1). In 2017, there were some 27,000 rural entrepreneurs and more than 63,000 urban entrepreneurs. In absolute figures, the most favourable period for the rural entrepreneurship was 2005-2009, when their number exceeded 30,000. The global economic crisis affected deeply this category of population; there was a massive decreasing of the entrepreneurial activities (for instance, in 2011 there were just 24,000 entrepreneurs, significantly less than in 2009). The post-crisis increase of the number of entrepreneurs was slow, and the catch-up process has not yet finished.
By gender, the statistics show that women account for less than 30% of the total entrepreneurs (specific gender inequalities within Romanian labour market were emphasized also by several studies – e.g. Morândău, 2015; Croitoru, 2018). By groups of age, more than 50% of the entrepreneurs are aged 35-49 (Chart 2). The young people are less involved in such activities, both because for a long time there were no tailored programs supporting the start of businesses, and because of social and economic constraints (Drăgoi et al., 2017; Olah & Flora, 2015; Pricină, 2012; Cace, Cacești Nicolăescu, 2012). Several other factors exist behind the poor representation of the young people among the entrepreneurs, some pertaining to their personal options and opportunities. Migration is one such factor (Sandu, 2010; Șerban, 2011). Many of the people who migrate in search of work are young persons, and this bears an influence on the perspective of entrepreneurship development resulting in a shrinking number of possible entrepreneurs.
Exploring entrepreneurship in agriculture

The research focused on entrepreneurial practices extended significantly during the last years and Global Entrepreneurship Monitor (GEM) is the flagship venue for international comparative research in this field. The GEM’s datasets are made available to the public three years after collection and at the moment of our study the most recent data were collected during 2015. We use these survey data in our article mainly for exploring some essential features of entrepreneurs who owned businesses in agriculture in Romania.

The complex methodology behind GEM is detailed by Reynolds et al. (2001) and Bosma, Wennekers and Amoros (2012). For exploring some characteristics of the Romanian entrepreneurs in agriculture, we extracted from the total sample only those respondents who own businesses at the moment of the survey (2015). Based on this methodological decision we had a total sample which included 251 entrepreneurs and around 20% of them were in agriculture. The sample is not representative for the total population of entrepreneurs from Romania but allow us to employ some comparations between those who own businesses in agriculture and those who operate in other niches of the market. Firstly, we introduce the main characteristics of the sample using descriptive statistics. This general image makes the reader aware of several limits of this sub-sample. Secondly, we use a logistic regression model for emphasizing some significant predictors for business owners in agriculture.
The data presented in the Table 2 offer the main descriptive features of the sample using a comparative perspective. We can note that the general level of education within our sample of entrepreneurs is higher compared to the level of the general population (2011 National Census revealed a share of 14% with tertiary education). The share of male entrepreneurs is 57% within our sample and the average age is around 42 years. Around 40% from the total sample is involved in business to take advantage of business opportunities, while others had mixture motivations or were driven towards entrepreneurship by necessity. All these variables are introduced as predictors in the logistic model presented in the Table 3, for testing the significant relationships with the status of entrepreneur in agriculture.

Table 3. Logistic regression model – Business owner in agriculture (DV)

<table>
<thead>
<tr>
<th>Variables in the Equation</th>
<th>B</th>
<th>Wald</th>
<th>Exp(B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age (no. of years)</td>
<td>0.007</td>
<td>0.147</td>
<td>1.007</td>
</tr>
<tr>
<td>Household size (no. of members)</td>
<td>0.245*</td>
<td>3.402</td>
<td>1.278</td>
</tr>
<tr>
<td>Tertiary education (YES = 1)</td>
<td>-2.695***</td>
<td>12.7</td>
<td>0.068</td>
</tr>
<tr>
<td>Male (YES = 1)</td>
<td>0.876*</td>
<td>3.397</td>
<td>2.402</td>
</tr>
<tr>
<td>Opportunity driven entrepreneurship (YES = 1)</td>
<td>-0.913*</td>
<td>3.165</td>
<td>0.401</td>
</tr>
<tr>
<td>CONSTANT</td>
<td>-2.478*</td>
<td>5.222</td>
<td>0.084</td>
</tr>
</tbody>
</table>

-2 Log likelihood: 130,612
Cox & Snell R Square: 0.193
Nagelkerke R Square: 0.32
No. of cases: 184

Note: *** p < 0.001, ** p < 0.01, * p < 0.05, + p < 0.1.

The logistic regression model (Table 3) confirms that the entrepreneurs who work in agriculture have a specific profile. Individuals with tertiary education have lower odds ratio to engage into entrepreneurship in agriculture exposed by the negative significant relationship between this predictor and DV. We have also found a negative significant relationship between opportunity driven entrepreneurship and owning a business in agriculture. This can be a clue that businesses in agriculture are motivated by a mixture of reasons in which the lack of employment opportunities play an important role. At the same time, entrepreneurship in agriculture is masculinized within this sample and we have found higher odds ratio for men to own a business in agriculture compared to women. Literature pointed out that entrepreneurial activities have to be analysed in a household context (Carter, Kuhl, Marlow, & Mwaura, 2017), and within this sample, a higher number of household members increases the odds ratio for entering in agriculture. This can be a proxy variable for a traditional model of family (Morândău, 2014, 2015), which is more often encountered in rural Romania.

Conclusions

The transformation of the Romanian rural area during the transition period was marked, before all, by the lack of a coherent strategy to guide the processes of social change. In the field of rural development policies, the accession to the European Union was a turning point that brought a consistent program of support for agriculture and village development (PNDR). Before 2007, the policy makers did not manage to develop and implement an efficient strategy for the rural areas, fact that adversely influenced the rural development processes. Prior research emphasized that these aspects caused long term negative effects linked to emigration. However, our paper revealed significant transformations regarding the employment structure between 2002 and 2017. Even if the general decrease of employed individuals can be linked to emigration and population aging, one can note from the data that the self-employment (mainly in subsistence agriculture) and the category of unpaid family workers constantly decreased, while the total number of employees with wages increased and cumulated over 50% of the working rural population.

In close connection with the lack of sustainable policies, the economic activity and occupational structure of the rural population were characterized, during the transition period, by under-development, which consolidated the gap between Romania and the other former Central and East European communist countries. Despite the progresses achieved after 2012, materialized in the reduction of occupation in agriculture and increase of the number of employees, the under-occupation of the rural population persists. Also, the total share of business owners remains low and there are important differences between rural and urban propensity towards entrepreneurship.

The entrepreneurial sector is under-represented and lacks institutionalized forms of support. Rural entrepreneurship and entrepreneurship in agriculture can assume certain roles in the rural development process, but our analyses point out that many of these entrepreneurs were driven by necessity towards this form of employment. Against this background, their economic impact at local, regional and national levels is limited because of their lack of skills and resources for growth. The bases of the rural
entrepreneurship prove to be weak: low proportion of the entrepreneurs within the total occupied population, their concentration within the agricultural sector and in merchandizing activities, and the poor development of most such initiatives. We consider that the improvement of the rural occupational profile requires measures targeting both a higher employment rate of the rural population, and the encouragement and development of entrepreneurial activities, both agricultural and non-agricultural.

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