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# Summary Report: Baseline Study of the Rural Non-farm Economy in Romania

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# Summary report: Baseline study of the Rural Non-farm Economy in Romania

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## Introduction

The focus of this project summary report is on rural non-farm livelihoods in the economies in transition and was prepared as part of the Natural Resources Institute project entitled 'Characterisation and Analysis of the Non-Farm Rural Sector in Transition Economies' (component acronym CEECIS) undertaken for the World Bank and Department for International Development (DFID). This programme of applied policy research began in March 2000 as a result of a Rural Non-Farm Economy (RNFE) workshop held within the World Bank in Washington in June 1999. This document is intended to outline and summarise the main findings and approach taken in our baseline study of the RNFE in Romania.

The NRI research team has conducted three baseline surveys at the household, community and enterprise levels in Romania. The individual household study is mainly based on semi-formal, including *one-to-one interviews* and *focus group discussions* in two communes. Some less formal *participant observation* methods were also employed. The community level data is comprised of: a) secondary data from the regions and the Romanian National statistical Institute; and b) primary data collected on key informants through interviews conducted in the region (mayors, academics etc.). The RNF enterprise data is based on a detailed questionnaire/ survey of 74 non-farm enterprises. The NRI research team have now completed draft baseline interim outputs and the attached draft reports. These focus on the following analyses of the household and enterprise level data, and an outline of the approach and methods used for the fieldwork:

1. Summary Report: Baseline Study of rural non-farm livelihoods in Romania.  
*Junior Davis*
2. Conceptual Issues in Analysing the Rural Non-Farm Economy in Transition Economies.  
*Junior Davis*
3. Approach and methods used for the fieldwork conducted in Romania.  
*Junior Davis and Monica Janowski*
4. Non-Farm Employment in Small-Scale Enterprises in Romania: Policy & Development Issues  
*Junior Davis and Angela Gaburici*
5. Factors affecting Household-level involvement in Rural Non-Farm Economic Activities in two communities in Dolj and Brasov *judete*, Romania.  
*Monica Janowski and Ana Bleahu*
6. Determinants and constraints of rural non-farm diversification in Romania: A county level analysis (1<sup>st</sup> draft).

NRI Researchers visited Romania in September 2000, consulting key stakeholders and policymakers including the Ministry of Agriculture, the Ministry of Finance, the Academy of Economic Sciences and the Institute of Agricultural Economics. Relations were established with two research partners in economics and in social development (Angela Gaburici of the Academy of Economic Sciences; and Ana Bleahu of the Institute for the Quality of Life, Romanian Academy) and the baseline survey fieldwork was planned and carried out between December 2000 and February 2001.

## I. Terms of reference

1. The main goals of the CEECIS rural non-farm economy (RNFE) component are (1) to improve understanding of the dynamics of the RNFE in providing employment and income diversification opportunities in Romania, Armenia and Georgia, and (2) to promote mechanisms for integrating research results into relevant policy processes. The purpose of the attached baseline studies which are based on: in-depth household participant observation and focus group studies; community and rural non-farm microenterprise level questionnaires being administered as part of the baseline survey, is 1) to establish what types of non-farm activities are currently being engaged in within the communities studied, and by whom, and 2) to generate hypotheses relating to the dynamics of involvement or non-involvement in different forms of non-farm economic activity.

## II. Main issues/ problems for the RNFE in Romania

The key problems for the RNFE in Romania include the following:

- There are many problems, in terms of long-term unemployment, low incomes and lack of economic opportunity;
  - Rising incidence of poverty, social dislocation, alcohol related deaths, suicide and crime in rural areas
  - The main cause of poverty is low and irregular wages and high levels of open and hidden unemployment resulting from economic decline, reflected in a dramatic increase in inequality.
  - Levels of human capital, in terms of education and skills, are often significantly lower than in urban areas;
  - Health and other social services are not adequate;
  - A whole range of infrastructure including roads, telecommunications, water and waste management are in need of upgrading;
  - A lack of access to suitable rural finance and micro-small to medium sized enterprise (MSME) credit facilities; and
  - There is very little support for business in the form of information and mutual organisation.
2. Rural poverty in Romania is both deepening and growing (Milanovic, 1998). An additional issue related to rural poverty concerns the measurement of rural incomes. Most of the assessments of poverty conducted in the region have been

based on monetary indicators. This tends to show that rural incomes are lower than urban averages and peasants are almost universally poor. However, if one considers self-consumption and income in-kind the picture is less clear (see Davis and Gaburici, 1999). The 'new' rural poor of Romania are sometimes highly educated with work experience. They face a paradox of declining job opportunities resulting from the restructuring of former state owned enterprises (SOEs) and a slow influx of private investment into new ventures.

### III. What we have done

- Conducted interviews with members of selected households and held focus group discussions, involving community key stakeholders and existing microenterprises in the villages concerned, and consulting members of key informant households/firms and other households in the village as appropriate in order to cover the areas specified in Davis and Janowski (2001).
- Reviewed results from the household interviews and focus group discussions, and those provided by the Principal Research Partner from the community-and enterprise level survey
- Identified and obtained copies of secondary literature and existing research and included discussion of this in the appended reports
- Written a Baseline Survey report based on data from fieldwork, including a presentation of locations and survey methodology for the research, and an analysis of the Household, Community and Enterprise level Baseline Survey data as well as a discussion of all relevant literature.

### IV. Overview of main findings

3. Investigations of the current RNFE situation in Romania, Armenia, and Georgia are likely to provide very different pictures of types of employment/income activities undertaken, distribution of time and income between activities, motivations, barriers and prospects. These differences need to be interpreted in the context of the respective current stage of reform and economic development reached in both the rural sector and economy wide. The differences in activities and context will also imply different potential growth patterns. In Romania particularly and Armenia to some extent, current RNFE development potential may be less constrained by the business environment and more constrained by farm structure and the influence this has on the commercialisation of agriculture.
4. With the resumption of economic growth, as incomes rise, there will be a need to allow for a shift in patterns of demand towards industry and then services. This does not mean that agriculture declines as the economy grows, but that the share of agricultural output in total output will decline. So growth in agricultural output will be slower than growth in other sectors, once the economy resumes economic growth at the national level. Since agricultural productivity starts at a very low level, it can be expected to rise, probably faster than in some other sectors, so constant or slowly rising output (in agriculture) will continue to be accompanied by major job losses. In the short-medium term the growth of the rural non-farm private sector will exacerbate current economy-wide trends of higher income dispersion than that in the former state sector. Therefore many of the low-paid in the new non-farm micro small-medium sized enterprises (MSMEs) are paid or earn less than state employees (when they are paid). A dualistic economic structure is developing where good jobs in the new RNFE private sector require better educated, skilled and younger people than most former state employees, which displaces backward industries and agriculture. The long-term unemployed throughout the region are becoming a large reserve of less-employable labour.

5. There remains a question as to whether the RNFE should be left to itself – with national governments and their agencies merely ensuring that the institutional and other reforms continue to progress – or whether it requires positive support/ intervention. We would argue that the latter would be helpful, possibly even essential, but intervention needs to be informed by a clear conception of what the rural sector is likely to look like 10 to 20 years into the future. In many transition economies, particularly in the CIS, the simple combination of markets and a minimalist state is not enough to engender both economic growth and poverty reduction. In many CIS countries (for example, Moldova, Central Asia, Armenia and Georgia) there remains limited evidence of resumed economic growth solving the problem of mass poverty. Nonetheless, we still maintain that the RNFE in transition economies should be viewed as an integral part of a growth strategy for the economy and not as a defensive survival strategy. Economic growth in the Czech Republic, Hungary and Slovenia has achieved some welfare and poverty improvements by: (i) adopting a more gradualist approach to economic reform and institutional change; and (ii) export-oriented and service sector growth, which does not fully displace backward domestic producers.
6. The main lessons from research to date suggest that the factors essential for growth of the RNFE in transition economies are: improvements in levels of education; in rural physical infrastructure; in access to capital and credit; in the land market; and in the business environment for MSMEs. The involvement of local actors is important, and the heterogeneity of the RNFE must be recognised, with policies adjusted accordingly. However, there is a lack of data and information on the RNFE, diversification, part-time farming and non-farm income in the transition economies, which needs to be addressed so that appropriate rural policies can be developed.

## V. Household livelihood diversification and the RNFE

7. Rural non-farm activities were found to be very important in supporting household livelihoods, and to be complementary to farming activities. Most of the households studied were engaged in both. It was found that the households perceived as highest status and most successful were successfully involved in both agriculture and non-farm activities. The poorest were scratching a subsistence living through farming and supplementing this by means of various informal and illegal activities.
8. The reasons for involvement in non-farm activities varied according to the level of different types of capital. Poor households, without either material or human resources, are involved in non-farm activities due to *distress-push* factors; better-off, higher-status households are involved due to *demand-pull* factors.
9. ‘Relational capital’, a form of social capital, was found to be vital in building non-farm activities in both communities. Effective social networks and high status in the community are the factors that have been most important in building

successful independent non-farm activities for some households. Households, which lack relational capital, were found to be among the poorest in both Rotbav and Motatei-Gara.

10. There is considerable emphasis on cooperation in both villages. This is based on different foundations, including neighbourliness. However, ethnic and religious factors were found to be important in building relational capital because they are bases for strong social networks. Villagers were found to have changed religious affiliation, in some cases, in order to tap into this potential. Working abroad, an important way out of poverty could be facilitated through utilizing religious and ethnic ties.
11. Households which are able to earn a surplus of cash outside agriculture, which does not have to be used for the purchase of everyday food and other articles, tend to invest this in farming.



## VI. Community/ County level findings on the Romanian Rural Non-Farm Economy

12. More than 45% of Romania's population lives in the rural environment, in localities known as "communes". A commune is made up of several small villages, but there are also communes that consist of a single larger village. The rural area in Romania is considered to be *the administrative territory of the 2,685 communes in the country*. Sadly, the past communist regime left an unfortunate inheritance in the rural area: vast mono-agricultural areas with poor infrastructure and with many villages deprived of elementary conditions for a decent living (piped and potable water, electricity, gas etc).
13. In Romania, annual precipitation varies considerably, therefore vast agricultural areas located in the south and south-eastern parts of the country are frequently afflicted by drought. In these conditions, the annual variation of average yields/ha is extremely large, and the income of small private farms is falling (particularly in the drought years) below the limit of subsistence. It is clear that the expansion of non-agricultural activities (which are by their own nature influenced to a far lower extent by the natural factors) can reduce livelihood vulnerability.
14. We found that diversified farms which perform non-agricultural activities obtain average annual incomes approximately 25% higher than those based exclusively on agricultural activities.
15. The natural resource base has significantly influenced the study population's occupational structure. For example, in the communes Voila and Moeciu (from Brasov county) with large forest areas, lumber processing, furniture production and logging activities predominate. In the villages from Dolj-county where farming is the primary occupation, most non-farm activities are linked to agricultural product processing, and other services for agriculture. Most ethnic minorities (Hungarians, Germans and Gypsies) are employed in the agricultural sector (50%), and in other seasonal (unskilled) labour activities (10% of the surveyed community population).
16. Most people in our survey have had more than one job. Secondary employment is probably under reported in official Government statistics.
17. Most migrants from our surveyed communities are male (70%) and go to rural areas in Greece, Italy and Spain for farm work. Those who migrate to urban centres go to Germany, Yugoslavia (construction jobs) and Italy. Other survey village migrants go to Turkey and Hungary for both urban and rural jobs in construction, services, cross-border trading activities and farm work. Most migrants spend on average 230 days per annum abroad. Therefore remittances are a very important source of non-farm income for rural households.
18. Migration *from* the survey villages within Romania is mainly to urban centres for largely unskilled jobs. Migration *to* the surveyed villages is mainly from within the more mountainous and depressed regions of Romania (particularly migration to Brasov). These internal immigrants are mainly women (55%) who stay for around

100 days per annum and provide unskilled (cleaning, etc.) and seasonal agricultural labour.

19. In addition, there are two basic community level problems identified throughout this study: (i) Disorientation, lack of information and lack of demonstration effects for successful/ sustainable community action for improvement of infrastructure, communal facilities and rural services; and (ii) Isolation and despondency, particularly among the young and pensioner populations.
20. One measure to be undertaken in order to address the first problem (Ref: 19.i) is to identify successful communities and to promote a successful project or model of rural non-farm development, which the local community established (demonstration effects). The way in which this is implemented must take into account the mentality of the local community, including the inclination towards an oral culture. Modern media and informal traditional networks should be employed at the same time to disseminate valuable experience about successful rural development activities.
21. The opening-up of isolated communities (Ref: 19.ii) and the development of better connections with urban centres mean the identification of immediate, low-cost means of overcoming the lack of infrastructure. This could include: “the village van” - a car belonging to the village and used for all kinds of transportation outside the village: transport of children to school, producers to the market, teachers and doctors from the town to the village, emergency calls etc. Scholarships for children to continue education outside the village, especially after 8th grade would also be useful in this regard.
22. Improvements in infrastructure remain an important factor for the future development of rural communities and the RNFE. Macroeconomic stability, investment, institutional change and a sound legal and regulatory environment were also identified as being important by respondents.

## VII. Main factors influencing the economic activity of non-farm rural enterprises

23. After 1990, macro-policies in rural areas were characterized by a lack of any model of efficiency in agriculture. Even where solutions were identified at the local level, they were not followed by dissemination on a larger scale. This is why there are comparatively few rural microenterprises; small mainly viable activities operating in isolation had a limited impact on the life of the local community.
24. Rural non-farm MSMEs began operating in the Romanian countryside in 1990; this is expanding and becoming more diverse. 57 per cent of surveyed private firms were established in the first 5 years following the collapse of communism (1990 - 1994) and the remainder during 1995 - 2000.
25. The most common legal form of private rural enterprise is the Limited Liability Company (LLC) (69.9 per cent of the sample). At the same time, certain agricultural associations also began performing non-farm activities.

26. We identified 11 different non-farm MSME fields of activity. The most numerous are the trade/ service companies (34 per cent of the sample). The entrepreneurs' preference for this field was strongest in the early years of transition (1990-1994).
27. The lack of capital and limited access to credit has a negative impact upon the development of those non-farm activities that require major capital investment for machinery and equipment procurement. Thus, the number of enterprises for agricultural produce processing and services for agriculture is still small, and this area of business activity needs further investment.
28. Most MSME labour comes from the owner/manager's family, although depending on the firm's turnover non-family members are hired. 65 per cent of firms from our sample have a full-time employee from outside the family. The enterprises from the LLC and Sole-trader groups mainly utilise part-time family or non-family labour. Only certain family members (mainly wives and children) contribute part-time or occasional un-paid labour.
29. The typical size of Romanian non-farm rural firms is small. By transforming different worker categories into *Standard Full-time Workers*, we estimated the total number of employees. The average number of standard full-time workers in our survey is 4.6 per enterprise with a range between 0.5 and 40 full-time standard workers. At the end of 1999, their share capital ranged from US\$65 to US\$4,370 per enterprise.
30. Where firms have only one owner they are usually also the manager. In joint-stock companies (which have several owners), the effective enterprise manager is also one of the joint owners, while the main decisions are taken collectively. We found that 79 per cent of owner/ managers work between 31 - 80 hours per week, while others (6.8 per cent of the sample) work more than 80 hours. The average age of the owner/ manager is 44 years.
31. For some firms we found a decline in real terms of both turnover and net profit per enterprise during the period 1998 - 1999. However, 88 per cent of the firms in our sample reported a net profit in 1999/ 2000.
32. Most MSME RNFE products, goods and services are confined to local markets. Only two MSMEs exported products within Romania beyond their home county. Looking at the factors conditioning access to RNF enterprise the demand for local services is limited in sparsely populated rural areas and where incomes are low. For tradables, access to markets will be crucial.

#### *Additional MSME sample survey findings*

33. On the basis of our statistical analysis and regression model, the following main factors were identified as being an important influence on the economic activity of non-farm rural MSMEs:
34. *MSME relationships with the financial market.* This factor has a direct impact upon invested capital and the annual expenditure of the MSME. Our statistical analysis shows that the firms which received credit in the last 5 years made a net profit higher than those without credit. Access to capital allowed the firms to invest more capital in the MSME, thus increasing their volume of business.
35. We also found some correlation between the manager's level of education and labour productivity. The value of turnover per Full-time Standard Worker is 3

times higher in the MSMEs where the manager is a university graduate, as compared to firms where the manager graduated from a primary or vocational school.

36. The general level of economic development where the enterprise is located may affect the prospects and financial performance of a firm, but to a lesser extent than internal factors such as access to capital, annual expenditure, the legal form of the enterprise, time spent in agriculture and the level of management education, skills and experience.

## VIII. Next steps: towards a strategy for promoting the RNFE in Romania

37. Lanjouw and Feder (2000) review the main lessons emerging from recent research on the RNFE of Latin America and point to a series of major lessons for policy makers. The relevance of these lessons to Romania is assessed as follows:
38. We agree with Lanjouw and Feder that markets left to themselves will not provide sufficient stimulus for socially desirable non-farm development, and that government policy should reflect this. We found both demand from the poor and key stakeholders for greater government intervention and investment (for example in infrastructure) to develop the RNFE and reduce poverty. However, this intervention must be undertaken with a clear conception of what the RNFE and agricultural sector is intended/likely to look like in 10 to 20 years time.
39. Social infrastructure is very important, but we would place less emphasis on further investment in education than Lanjouw and Feder (2000). Although the returns to education among the surveyed MSMEs are high (especially in highly productive jobs), most rural Romanians are comparatively well educated as compared to their Latin American counterparts. We would propose more emphasis be placed on specific interventions to encourage training and re-training, which are directly targeted at the needs of the market economy (e.g. Information Technology, accounting etc.) and which in the short-run could achieve impressive results and strong demonstration effects in terms of business growth.
40. We agree with Lanjouw and Feder's (2000) emphasis on the need to promote the RNF private sector through microfinance including group-lending schemes. These are gradually been introduced in Romania and appear to be working well. Lanjouw and Feder (2000) also note the importance of institutional development and a sound regulatory environment. This is vital in Romania, where institution-building should be seen as a central component of a "pro-poor strategy" as the poor have been the victim of weak democratic, legal and market institutions (e.g. Pyramid Schemes). We would go further by proposing the development of more bottom-up initiatives (welfare rights organisations disseminating information, support for self-help groups etc.) building on existing NGOs with experience in this area. While taxation can be a problem (this would also include inter-enterprise arrears), this is probably less important for MSMEs in the RNFE of Romania, as most simply avoid paying tax.

### *Specific recommendations include:*

1. Reducing the intermediary chain between rural producers and urban markets.
2. Encouraging the emergence of producer organisations in rural areas.
3. Encouraging the creation of rural centres of law, technology and financial/accounting consultancy.
4. A programme of support for young people in rural areas, including professional courses and training in information technology, foreign language skills etc.

5. Encouraging the development of agro-tourism through advertising (on both a national and an international scale, as appropriate to the tourist potential of an area) and the network of *pensions* and hostels, which already exist.
6. Better infrastructure (investment in roads, power, water, and telecommunication services).
7. Better adjustment of the school curriculum to rural life in order to create more professional opportunities for young people, including farm and non-farm independent activities. Vocational training programs could also be developed which are aimed at under 16 year olds, for example through the 'piloting' of job experience schemes.
8. Encouraging the development of local agricultural product processing industries and locally owned networks for selling these products on urban markets. The establishment of centres for the quality control of products and centres for veterinary control that would provide quality certificates for the local products (for example organic certification schemes).
9. Development of appropriate microfinance packages aimed at MSMEs in Romania.
10. Future rural development programmes such as SAPARD<sup>2</sup> need to be "pro-poor". Current donor and government assistance in the RNFE could be audited as a whole to assess the wider implications and their internal consistency from the perspective of a poverty reduction strategy or "pro-poor" approach. This could thereafter be systematically monitored and appraised with the help of local specialists who are sensitive to local conditions (see Hare and Davis, 1996).
11. More assistance should be focused on helping the Romanian poor to help themselves by supporting both investment programmes and reinforcing social networks through the development of participatory social organisations. The participation of the rural poor in the development of their communities and improved access to financial resources (such as SAPARD) is essential to the RNFE and may be facilitated through training and capacity building programmes.

## IX. Future RNFE policy and research questions

The following RNFE policy and research questions mainly follow from Paper 2 focusing on "Conceptual issues in analysing the RNFE in Transition Economies". These are issues which will need further policy analysis and research as they reflect existing gaps in knowledge and understanding in transition economies. Some are factual and context-specific questions unrelated to central issues, while others are the 'big' questions of the RNFE touching on growth, investment and income:

1. Are RNFE activities novel, or the continuation of either old 'informal sector' activities, or activities previously performed by other socialist local enterprises or households? Or are they delivering goods and services that used to be delivered by non-local firms – which would be equivalent to import substitution (IS). Does IS work (i.e. boost income) at the regional level?

2. Are RNFE products and goods confined to the local market, or also exported? Is there a link, as hypothesised, between tradability of goods and services, and capital investment and employment opportunities?
3. Is the RNFE stimulated by labour mobility, or does it mainly depend on local labour?
4. Are RNF MSMEs started as a result of urban-rural migration, or because of declining profitability on farms? To what extent do local labour markets reflect trade-offs in local employment between farms and RNFE activities, or between urban and RNFE activities?
5. Are locals or recent immigrants more successful in RNF livelihood diversification? Does integration into local society, or in a stratum of it, matter? If it does, this would indicate the importance of networks and social capital.
6. Are there spillovers from successful RNFE? Do these go through production linkages, or through labour linkages? What are the multipliers in the different linkages?

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## Endnotes

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<sup>1</sup> The author is a Senior Economist at the Natural Resources Institute, UK. The author would like to thank Prof. Martin Hebblethwaite and Prof. Paul Hare for their comments on an earlier draft of this report.

<sup>2</sup> A special fund of 520 million Euro per annum over the period 2000-2006 was agreed at the Berlin Council for special assistance between all the CEEC applicant countries for agricultural and rural development (SAPARD).