

ROMANIA

1. Introduction


Romania has a vibrant entrepreneurial environment and a large pool of IT talent that could further contribute to its development. Despite these strengths, Romanian SMEs are significantly lagging behind in innovation and digitalisation and face major challenges in terms of administrative burden. In addition, Romanian SMEs face both a lack of skilled workers and an overall lack of manpower.

Small and medium-sized enterprises (SMEs) in Romania have experienced an economic slowdown due to the COVID-19 pandemic. However, the slowdown was relatively mild, because of national and EU policy measures taken to fight the pandemic and to support the economy. In 2020, SME value added declined by 0.5% and SME employment increased by 1.1% compared to 2019. However, several sectors were badly affected, such as *manufacturing*, where both SME value added and SME employment dropped by 10.5% and 5.4%, respectively. In *accommodation and food services*, SME value added fell by 36.0%, although SME employment grew by 1.1%. In contrast, the *information and communication* sector performed very strongly, with SME value added increasing by 13.0%, although SME employment declined by 2.6%¹.

For 2021, SME value added is expected to increase by 6.3% and SME employment is forecast to grow by 1.1%. Combined with the fact that 2020 did not show a sharp overall downturn either, Romanian SMEs are expected to exceed their 2019 level by 5.8% in value added and by 2.1% in employment in 2021².

SMEs play an important role in Romania's 'non-financial business economy'. In 2020, their contribution to total value added was 55.9%, slightly higher than the EU average of 53.0%, while their contribution to employment was 66.1%, roughly in line with the EU average of 65.2%. However, SME productivity, measured as value added per person employed, was only EUR 16 500, less than half the EU average of EUR 40 000. SMEs in Romania are relatively larger than the EU average – in 2019, they employed an average of 5.2 people compared with the EU average of 3.7³.

Figure 1: Number of enterprises, persons employed and value added in 2020



	Number of enterprises			Number of persons employed			Value added		
	Romania		EU-27	Romania		EU-27	Romania		EU-27
	Number	Share	Share	Number	Share	Share	€ Billion	Share	Share
Micro	466 507	89.6%	93.3%	983 278	24.2%	29.6%	16.0	20.1%	18.7%
Small	45 022	8.6%	5.7%	905 280	22.2%	19.7%	14.5	18.2%	17.0%
Medium-sized	7 674	1.5%	0.9%	801 687	19.7%	15.8%	13.9	17.6%	17.3%
SMEs	519 203	99.7%	99.8%	2 690 245	66.1%	65.2%	44.4	55.9%	53.0%
Large	1 525	0.3%	0.2%	1 379 371	33.9%	34.8%	35.0	44.1%	47.0%
Total	520 728	100.0%	100.0%	4 069 616	100.0%	100.0%	79.4	100.0%	100.0%

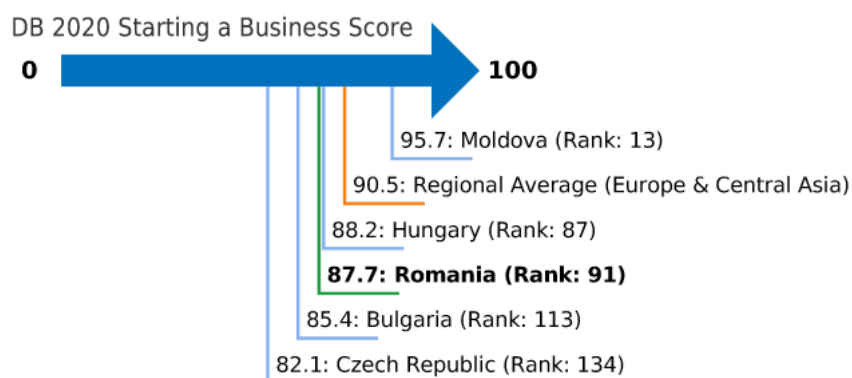
Source: These are estimates for 2020 produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term Business Statistics Database (Eurostat). The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed).

2. Key strengths

Romania performs above the EU average in entrepreneurship

Romania performs well in early-stage entrepreneurial activity, which has seen a very positive trend over the last decade⁴. Appetite for entrepreneurship is growing, especially among young people, with one in two wanting to become an entrepreneur⁵. The World Bank's Doing Business (DB) 2020 study also assessed the entrepreneurial performance of the country.

Figure 2: Starting a Business in Romania and comparator economies – ranking and score



Source: World Bank Group, Doing Business (DB) 2020, Economy Profile of Romania, 2019⁶

The study shows that Romania has increased its score in 'Starting a Business' by almost 4 points, from 83.9 points 2019 to 87.7 points in 2020⁷.

Policy efforts have been introduced to support entrepreneurial activity. Romania introduced a reform making it easier to do business: voluntary value added tax registration was allowed, which is less time consuming than mandatory registration⁸. Policymakers also specifically target young people through the programme 'INNOTECH Student' – launched in 2020 – which offers Romanian college students financial support to carry out their entrepreneurial projects⁹.

Romanian SMEs now enjoy better access to public funding

Public financial support to businesses has significantly improved over the last decade, and is now in line with the other EU countries¹⁰. Public support to companies and SMEs has greatly benefited from access to the European Structural and Investment Fund (ESIF). In the 2014-2020 period, Romania received EUR 30.8 billion from the ESIF, of which 5.3% was allocated to thematic objectives 01-03 supporting SMEs (including support to R&D activities or the ICT sector) through two operational programmes – the 'Competitiveness' programme and the Regional programme – amounting to approximately EUR 1.64 billion¹¹. An additional EUR 550 million has been mobilised under the European Regional and Development Fund for financial support to SMEs through the provision of working capital and capital for productive investments.

Despite progress in this area, Romanian SMEs and entrepreneurs face many difficulties in financing their businesses. These include Romania having the highest average interest rate for small loans in the EU¹² and an underdeveloped alternative finance ecosystem, with little access to equity funding, business angels or crowdfunding¹³.

The Romanian Government is trying to improve access to finance and it is offering several financial support schemes to SMEs to help them improve their economic competitiveness and strengthen their market position. For example, the National Credit Guarantee Fund for small and medium-sized enterprises – together with the Ministry of Public Finance and in cooperation with financing partners – designed three new programmes to help SMEs overcome the economic consequences of the pandemic: i) SME INVEST Romania; ii) SME Leasing of equipment and machinery; and iii) SME Factor¹⁴.

Romania has a large pool of IT talent

According to the European Commission's Digital Economy and Society Index (DESI), Romania ranks 5th in the EU for the number of ICT graduates – 5.6% of all graduates, above the EU average of 3.6%¹⁵. The country has a pool of 139 000 developers, the 2nd largest in Central and Eastern Europe, which could herald the start of a new generation of successful ICT start-ups¹⁶.

However, Romania still has an annual shortage of over 15 400 programmers. The ICT sector is affected by the migration and 'brain drain' trends in the country, which may be partly caused by comparatively low salaries – high by Romanian standards, but among the lowest in the sector globally¹⁷.

3. Key challenges

Romanian SMEs perform below the EU average in innovation

Romania is considered a modest innovator, performing 50% below the EU average in the European Innovation Scoreboard 2020. Romania is among the countries in the EU whose innovation performance has decreased the most, i.e. 5.7 percentage points. Romania is the worst EU performer in the 'Human Resources' innovation dimension. However, Romania outperforms three other moderate innovators in the EU in the 'Innovation-Friendly Environment' innovation dimension. Romania also performs better than five moderate innovators in the EU in the 'Finance and Support' innovation dimension¹⁸.

Romania's greatest barriers in its transition to an innovation-based economy are the lack of human resources, and insufficient investment in R&D, as the country has low amounts of public and private expenditure in R&D¹⁹. Having spent just 0.48% of GDP in R&D activities in 2019, against the 2020 country target of 2%, Romania remains the EU's worst performer in R&D spending. Public R&D investment was 0.2% of GDP while private expenditure was only 0.28% of GDP. According to the latest Community Innovation Survey (CIS), Romania has the lowest share of innovative businesses in the EU, including the lowest share of innovative SMEs, and only 2.1% of the country's businesses undertake R&D activities, far below the EU average (22.6%).

Romanian SMEs are lagging behind in digitalisation

According to European Commission's DESI, Romanian businesses have low levels of digitalisation – with only 23% of businesses sharing information electronically, and only 8% using social media, below the EU averages of 34% and 25% respectively²⁰.

Romanian SMEs' participation in e-commerce also needs to be stepped-up significantly, as only 11% are selling online and only 6% are selling online cross-border, below the respective EU averages of 18% and 8%²¹.

Romania has directed significant policy efforts specifically towards supporting SME digitalisation. In 2020, it launched several support programmes, among others, the National Programme for SME Digitalisation (*Pogramului național de digitalizare a microîntreprinderilor, întreprinderilor mici și mijlocii*), providing financial support for SME digitalisation in all sectors²².

Romanian SMEs suffer from both a lack of skilled workers and an overall lack of manpower

For years, SMEs in Romania have experienced a lack of manpower. One million workers are needed to cover the employment needs of businesses²³.

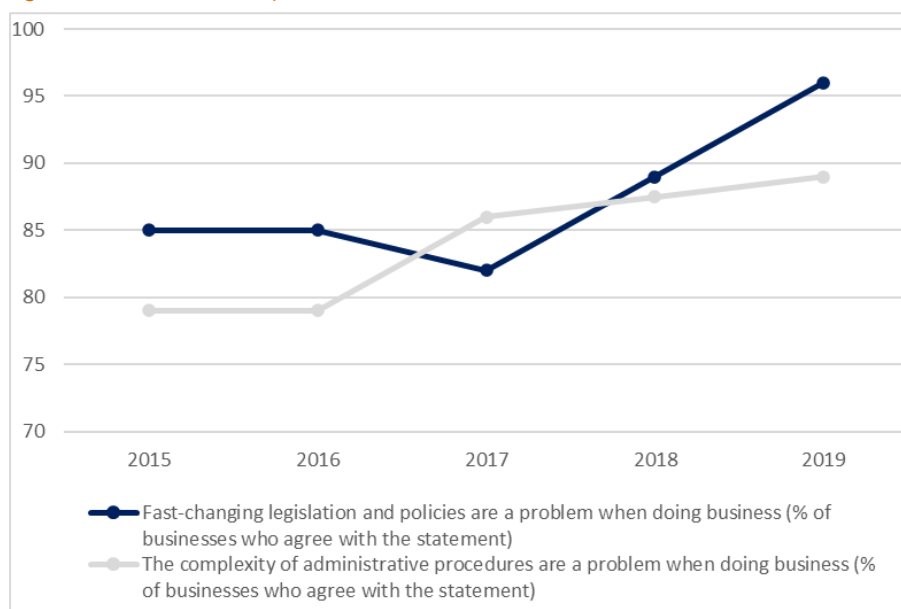
Romania shares this challenge with many other Central Eastern Europe markets – an issue caused by migration and the current 'brain drain'. The need to reskill the workforce, to boost the quality of higher and vocational education and increase low salaries are extra factors²⁴.

In 2020, Romania launched a programme to improve the digital skills of SME employees (*Programului național Competențe digitale pentru angajații din sectorul întreprinderilor mici și mijlocii*), to help SMEs address this issue²⁵.

Administrative burden remain a major challenge for SMEs in Romania

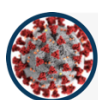
Both regulatory and administrative burden continue to be a significant problem for Romanian businesses. 89% consider the complexity of administrative procedures a problem when doing business and 96% consider fast-changing legislation a barrier – the highest rates in the EU, well above the average of 62% and 63% respectively²⁶. Furthermore, these figures have been increasing since 2017.

Figure 3: Fast changing legislation and complexity of administrative procedures as problems for doing business (% of businesses who agree with the statement)



Source: Flash Eurobarometer "Businesses' attitudes towards corruption in the EU, 2019²⁷

4. Other key SME-related brief insights



IMPACT OF COVID-19 CRISIS ON SMES

Due to the COVID-19 crisis, over 100 000 SMEs needed support during 2020²⁸. The hospitality sector saw a decrease in turnover by approx. 80% compared to 2019²⁹. To activate the economy, the Romanian government published its National Plan for Investment and Economic Recovery. This proposed investments worth EUR 100 billion be made until 2030 in various sectors (including *infrastructure, agriculture and health*)³⁰.



GREEN TRANSITION OF SMES

Romania performs below the EU average in Environment. It continues to underperform in the Eco-Innovation Index with a slightly worsening performance compared to previous years, performing below the average in all indicators. The country fares better and is closer to the EU average in terms of socio-economic outcomes and resource efficiency outcomes, but this performance has worsened since the last report period³¹. In 2020, the 'Electric Up' programme was launched to finance the installation of photovoltaic and charging stations for electric and plug-in hybrid electric vehicle panel systems for SMEs and the hospitality (HORECA) sector³².



REGULATORY BURDEN

Romanian SMEs face high regulatory and administrative burden. Political instability is also negatively affecting the business environment and increasing regulatory burden: proposed plans are not always followed through and too many emergency government decisions forgo public

consultation requirements³³. Romania introduced a reform to make the payment of taxes less costly by eliminating five employer-paid taxes and contributions. At the same time, Romania introduced a new work insurance contribution paid by the employer³⁴.



DIGITALISATION OF SMES

Romania performs significantly below the EU average in terms of digitalisation of businesses and in digital public services. However, in 2020 the government set up the 'Authority for the Digitalization of Romania', responsible for developing electronic public services in Romania and implementing the National Strategy on the Digital Agenda 2020³⁵. This reflects the government's commitment to stepping up action in this area.



ACCESS TO FINANCE

The country performs significantly below the EU average in terms of access to finance – with access to risk capital for innovative start-ups and scale-ups remaining very limited. The National SME Credit Guarantee Fund helps SMEs access financing by providing guarantees for financing instruments contracted from commercial banks or other sources³⁶.



MARKET ACCESS

Romania is among the weakest performers in Single market and Internationalisation. Romania is one of the two Member States with the highest transposition deficit of in Single market-related directives³⁷. Romanian SMEs account for a low share of the value of exports to non-EU countries.³⁸ According to a European Commission report, there is a lack of suitable transport infrastructure, which hampers international business.³⁹

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- ¹ The data for 2020 are estimates produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term Business Statistics Database (Eurostat).
- ² The data for 2021 are estimates produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts database and the Short-Term Business Statistics Database (EUROSTAT).
- ³ The data for 2020 are estimates produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts database and the Short-Term Business Statistics Database (EUROSTAT).
- ⁴ Global Entrepreneurship Monitor (2019), *Global Entrepreneurship Report*, available at: <http://www.gemconsortium.org/data/key-aps>
- ⁵ PulzeZ Insights (2020), *One in two young people wants to be an entrepreneur*, available at: <https://www.economistul.ro/stiri-si-analize-business/studiu-insights-pulzez-unu-din-doi-tineri-vrea-sa-fie-antreprenor-19559/>
- ⁶ World Bank Group (2019), *Doing Business (DB) 2020. Economy Profile of Romania*, available at: <https://www.doingbusiness.org/content/dam/doingBusiness/country/r/romania/ROM.pdf>
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- ¹⁰ European Commission (2020), *Survey on the Access to Finance of Enterprises (SAFE)*, available at: http://ec.europa.eu/growth/access-to-finance/data-surveys/index_en.htm
- ¹¹ European Commission (2020), *European Structural and Investment Funds Data. Romania*, available at: <https://cohesiondata.ec.europa.eu/countries/RO>
- ¹² European Central Bank (2019), *Interest rate statistics*, available at: <http://sdw.ecb.europa.eu/browse.do?node=9484266>
- ¹³ European Commission (2020), *Survey on the Access to Finance of Enterprises (SAFE)*, available at: http://ec.europa.eu/growth/access-to-finance/data-surveys/index_en.htm
- ¹⁴ European Association of Guarantee Institutions (AECM) (2021), *SME support in the covid crisis*, available at: <https://www.flipsnack.com/AECMeurope/aecm-covid-brochure/full-view.html>
- ¹⁵ European Commission (2020), *The Digital Economy and Society Index (DESI)*, available at: <https://ec.europa.eu/digital-single-market/en/digital-economy-and-society-index-desi>
- ¹⁶ Cristea, M. (2020), *Romania has the second largest pool of developers in CEE*, available at: <https://business-review.eu/tech/Romania-has-the-second-largest-pool-of-developers-in-cee-212202>
- ¹⁷ Ibid.
- ¹⁸ European Commission (2020), *European Innovation Scoreboard 2020*, available at: <https://ec.europa.eu/docsroom/documents/42981>
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- ²² Government of Romania (2020), *DECISION no. 677 of 14 August 2020 on the approval of the National Program for the digitization of micro, small and medium-sized enterprises*, available at: <http://legislatie.just.ro/Public/DetaliuDocument/229226>
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- ²⁷ Ibid.
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