

### Key points

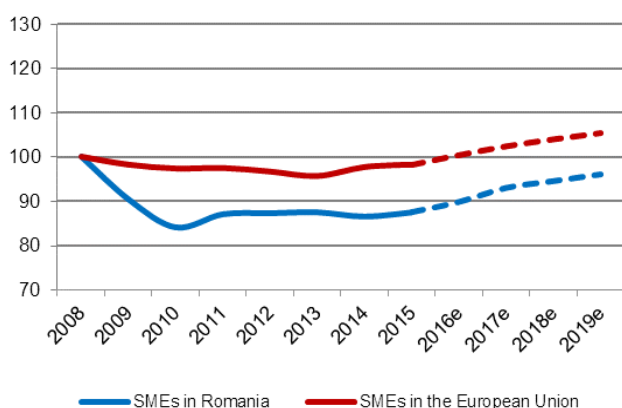
**Past & future SME performance**<sup>1</sup>: SMEs account for slightly more than half of value added and almost two thirds of employment in Romania's total 'non-financial business economy'. In 2013-2017, the value added of Romanian SMEs rose by 28.8 %. The overall outlook for SMEs remains positive and may even reach double-digit growth in most sectors in 2018-2019 in terms of value added. In contrast, employment growth is predicted to continue at a more modest rate, about 1.6 % annually in 2017-2019. By 2019, 88 000 new SME jobs are forecast to be created, almost seven times the total estimated for large companies.

**Implementing the Small Business Act for Europe (SBA)**: Romania's SBA profile continues to present a mixed picture. As with last year, entrepreneurship is the only area where Romania scores above the EU average, while the country performs in line with the EU average in 'second chance', 'responsive administration', 'state aid & public procurement' and 'internationalisation'. By contrast, four areas are below the EU average: access to finance, environment, single market and skills & innovation. In fact, Romania is one of the weakest performers in the EU in single market and skills & innovation. During 2017 and the first quarter of 2018, Romania implemented a variety of new policy measures covering 9 out of the 10 SBA principles.

**SME policy priorities**: The focus of SME policy priorities should be on skills & innovation and single market. Improvements in these areas would also lay the foundations for progress on 'internationalisation' and 'access to finance', and further, on promoting exports, encouraging private investments and alternative sources of financing, and boosting ICT skills. Smart regulation, such as open and transparent decision-making and systematic impact assessment of legislation on SMEs, also needs to be further developed and applied. Moreover, better digitalisation in both the public and private sectors would help Romania to become more competitive and improve its growth prospects.

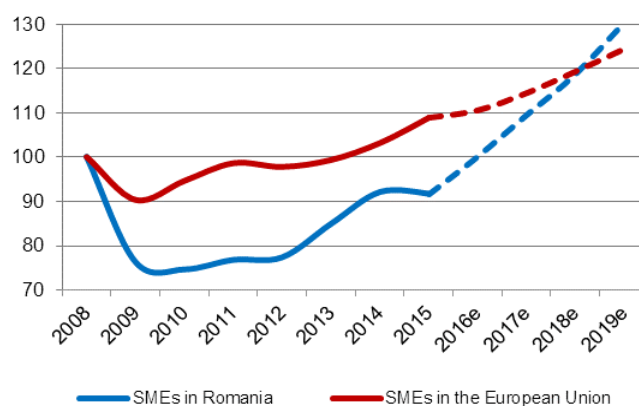
#### Number of persons employed in SMEs

(Index: 2008=100, estimates as from 2016 onwards)



#### Value added of SMEs

(Index: 2008=100, estimates as from 2016 onwards)



### About the SBA fact sheets

The Small Business Act for Europe (SBA) is the EU's flagship policy initiative to support small and medium-sized enterprises (SMEs). It comprises a set of policy measures organised around 10 principles ranging from entrepreneurship and 'responsive administration' to internationalisation. To improve the governance of the SBA, the 2011 review of it called for better monitoring. The SBA fact sheets, published annually, aim to improve the understanding of recent trends and national policies affecting SMEs. Since 2011, each EU Member State has appointed a high-ranking government official as its national SME envoy. SME envoys spearhead the implementation of the SBA agenda in their countries.

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## 1. SMEs — basic figures

Class size	Number of enterprises			Number of persons employed			Value added		
	Romania		EU-28	Romania		EU-28	Romania		EU-28
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	426 629	88.4 %	93.1 %	917 449	22.4 %	29.4 %	11.0	16.7 %	20.7 %
Small	45 731	9.5 %	5.8 %	912 188	22.2 %	20.0 %	11.0	16.7 %	17.8 %
Medium-sized	8 431	1.7 %	0.9 %	870 977	21.2 %	17.0 %	11.8	17.9 %	18.3 %
<b>SMEs</b>	<b>480 791</b>	<b>99.7 %</b>	<b>99.8 %</b>	<b>2 700 614</b>	<b>65.8 %</b>	<b>66.4 %</b>	<b>33.9</b>	<b>51.3 %</b>	<b>56.8 %</b>
Large	1 664	0.3 %	0.2 %	1 402 445	34.2 %	33.6 %	32.1	48.7 %	43.2 %
Total	<b>482 455</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>4 103 059</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>66.0</b>	<b>100.0 %</b>	<b>100.0 %</b>

*These are estimates for 2017 produced by DIW Econ, based on 2008-2015 figures from the Structural 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). The advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities.*

SMEs account for slightly more than half of value added and almost two thirds of employment in Romania's total 'non-financial business economy', posting figures of 51.3 % and 65.8 % respectively. This is lower than the respective EU averages of 56.8 % and 66.4 %. The main SME sectors in Romania are *wholesale and retail trade* and *manufacturing*, together contributing almost half of overall SME value added and more than half of SME employment.

In 2013-2017, the value added of Romanian SMEs rose by 28.8 %, greatly exceeding the 19.7 % value added growth of large businesses, with 9.3 % of this SME increase in value added

achieved in 2016-2017 alone. However, SMEs lagged behind the 9.3 % growth of large companies in terms of employment, with a lower increase of only 6.2 % in 2013-2017. As a result, SMEs showed higher productivity growth in comparison to large firms. Nevertheless, SMEs labour productivity — measured as value added per worker — is still below productivity in large firms and is relatively low, at less than a third of the EU average.

Romania's *information and communication* sector has performed very strongly in recent years. In 2013-2017, SMEs in this sector generated growth of 41.9 % in value added and 22.3 % in employment. The subsectors of *computer programming* and

*information services*, in which SMEs accounted for 56.3 % of value added in 2017, are growing even faster, generating a combined additional 58.1 % in value added in the same 2013-2017 period. These two subsectors are among the most dynamic sectors in Romania, representing favourable opportunities for foreign investors<sup>2</sup>. Overall growth in these subsectors has been positive since 2010 in terms of value added, with a doubling of the workforce since 2010, in line with a doubling of the number of start-ups<sup>3</sup>. In 2017 a total of 14 500 companies were registered in these two subsectors, comprising over 100 000 employees, with SMEs responsible for almost two thirds of this employment. Overall, the growth of the sector is based mainly on service exports<sup>4</sup>, with investors attracted by a relatively inexpensive and highly qualified workforce.

The *construction* sector has been negatively impacted by a decline in public investment in infrastructure projects<sup>5</sup>, resulting in the insolvencies of many large companies<sup>6</sup>. Consequently, in 2013-2017, the value added of large companies fell by three quarters. In contrast, the number of SMEs, as well as the amount of SME value added, both increased: by 12.5 % and 16.9 % respectively. Nonetheless, of the almost 565 000 workers employed in construction in 2008, less than 385 000 were still in employment in 2017. However, although SME employment in this sector is still below its 2008 level, rising by 1.4 % in 2013-2017 for all firms, the respective increase for SMEs is higher, at 4.0 %. In contrast with the deteriorating situation for large companies, SMEs have benefited from the relaunch of the residential construction sector and access to financial programmes supporting entrepreneurship, including various EU funds for SMEs<sup>7</sup>.

In 2017, SMEs accounted for 69.4 % of total value added in *wholesale and retail trade*. This share has been falling consistently: in 2013 it was 71.8 %, down from 76.8 % in 2008. The sector as a whole reported strong growth of 55.8 % in 2013-2017 in terms of value added, with SMEs in the sector growing by 50.7 %. However, this rate was slower than the 68.9 % growth for large firms. In 2017, SME value added finally exceeded the pre-2008 level, whereas large firms had already surpassed this threshold in 2014. In terms of employment, in 2013-2017 large firms generated an increase of 13.2 %, against a rise of only 1.3 % in SMEs. These developments can be explained by substantial structural changes in Romania's retail market, which is now dominated by four major chains<sup>8</sup>. As a result, the number of small and medium-sized retailers fell steadily in 2008-2016, resulting in a dramatic reduction of the market share held by traditional food chains run by SME entrepreneurs<sup>9</sup>. Although the number of SMEs in the sector has increased since 2016, SMEs will continue to lose their market share due to the much stronger growth of large companies. As a

consequence, the SME share of total value added is likely to decrease towards the EU average of 66.0 %<sup>10</sup>.

In 2017, the number of business registrations was the highest in recent years, an increase of 29.0 % against 2016<sup>11,12</sup>. In the same period, deregistrations fell by 24.6 %, bringing the figure close to the 2013 level<sup>13</sup>. However, insolvencies increased by 4.3 % in 2016-2017<sup>14</sup>. In 2017, the net annual increase (i.e. registrations less deregistrations) in the total cohort of firms was 54 404 — the strongest yearly growth in the five-year period between 2013 and 2017<sup>15</sup>. The main growth drivers were:

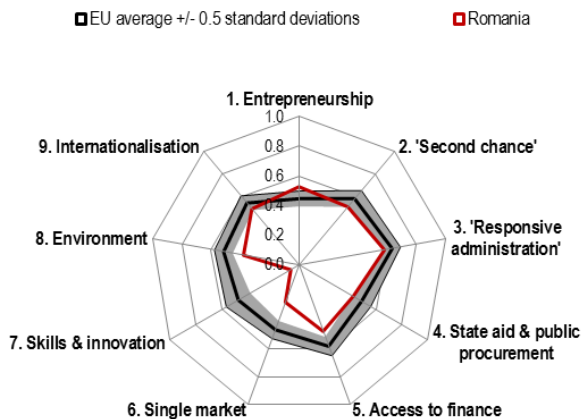
- government initiatives providing financial support for start-ups<sup>16</sup>;
- the simplification of income tax procedures for micro-enterprises<sup>17</sup>;
- the elimination of some taxes and tariffs for company creation<sup>18</sup>;
- the encouragement of new companies in specific sectors such as research and development<sup>19</sup> and agriculture<sup>20</sup>.

Additionally, the emergence of new businesses has been driven by increased consumer demand resulting from an increase in public-sector pay and pensions, combined with a rise in the minimum wage.<sup>21</sup>

In 2015, only 2.3 % of all Romanian firms in the 'business economy'<sup>22</sup> with at least 10 employees could be classified as high-growth firms<sup>23</sup>; this is substantially lower than the EU average of 9.9 %. In fact, in the same 2015 the number of high-growth firms fell even further, by 4.1 %, in the background of 2014 as many firms in *manufacturing* and in *wholesale and retail trade* dropped out of this category. However, in the same period there was a rise in the number of high-growth firms in the *construction*, *information and communication* and *accommodation and food services* sectors, in which an additional 29, 11 and 14 firms respectively became high-growth firms.

The overall outlook for SMEs — as for the country's non-financial business economy as a whole — remains strongly positive, and may even reach double-digit annual growth in most sectors in 2017-2019 in terms of value added. In contrast, employment growth is predicted to continue at a more modest rate, about 1.6 % annually in 2017-2019, a higher increase than that of large companies. By 2019, 88 000 new SME jobs are forecast, almost seven times the total estimated for large companies.

## 2. SBA profile<sup>24</sup>



Overall, Romania's SBA profile continues to have a mixed picture. As in the previous year, the only dimension in which the country performs above the EU average is entrepreneurship. The country performs in line with the EU average in 'second chance', 'responsive administration', state aid & public procurement and internationalisation. By contrast, four areas are below the EU average: access to finance, environment, single market and skills & innovation. Since 2008, Romania's performance has improved significantly in entrepreneurship, made very good progress in access to finance and good progress in 'responsive administration', but broadly stagnated in skills & innovation and 'second chance' and deteriorated in single market.

Romania's SBA profile has remained relatively constant since last year. However, there have been divergent changes in two areas. On one side, access to finance has recently fallen below the EU average — mainly due to the increase in the proportion of rejected loan applications and unacceptable loan offers and an increase in bad debt loss, whereas venture capital investments, equity funding and business angel funding remained below the EU average. On the other side, Romania has made good progress in environment, partly as a result of the public support to SMEs for their resource-efficiency actions.

During 2017 and the first quarter of 2018, Romania implemented a substantial number of policy measures addressing a total of 9 out of the 10 policy areas under the Small Business Act (SBA). No additional policy measures were announced over the same reference period.

The areas which saw the most significant progress in 2017 and the first quarter of 2018 were 'responsive administration', followed by skills & innovation and entrepreneurship. More specifically, five measures were implemented under the 'responsive administration' principle, focusing on fiscal aspects (reductions in taxes for example) and other institutional and administrative measures to strengthen relationships with the private sector, for example through the creation of an Advisory Committee for Entrepreneurs.

A mix of financial and legislative measures was implemented on skills and innovation. Four measures focused on financial support for the development of research and innovation, and one fiscal measure was adopted to increase incentives for research, development and innovation (RDI) activities by exempting innovative start-ups from income tax for up to 10 years.

Measures implemented under the entrepreneurship principle mainly consisted of educational programmes supporting the development of entrepreneurship culture. One measure was adopted to provide financial support to Romanian citizens living in the country and also to those living abroad who want to set up new companies in Romania.

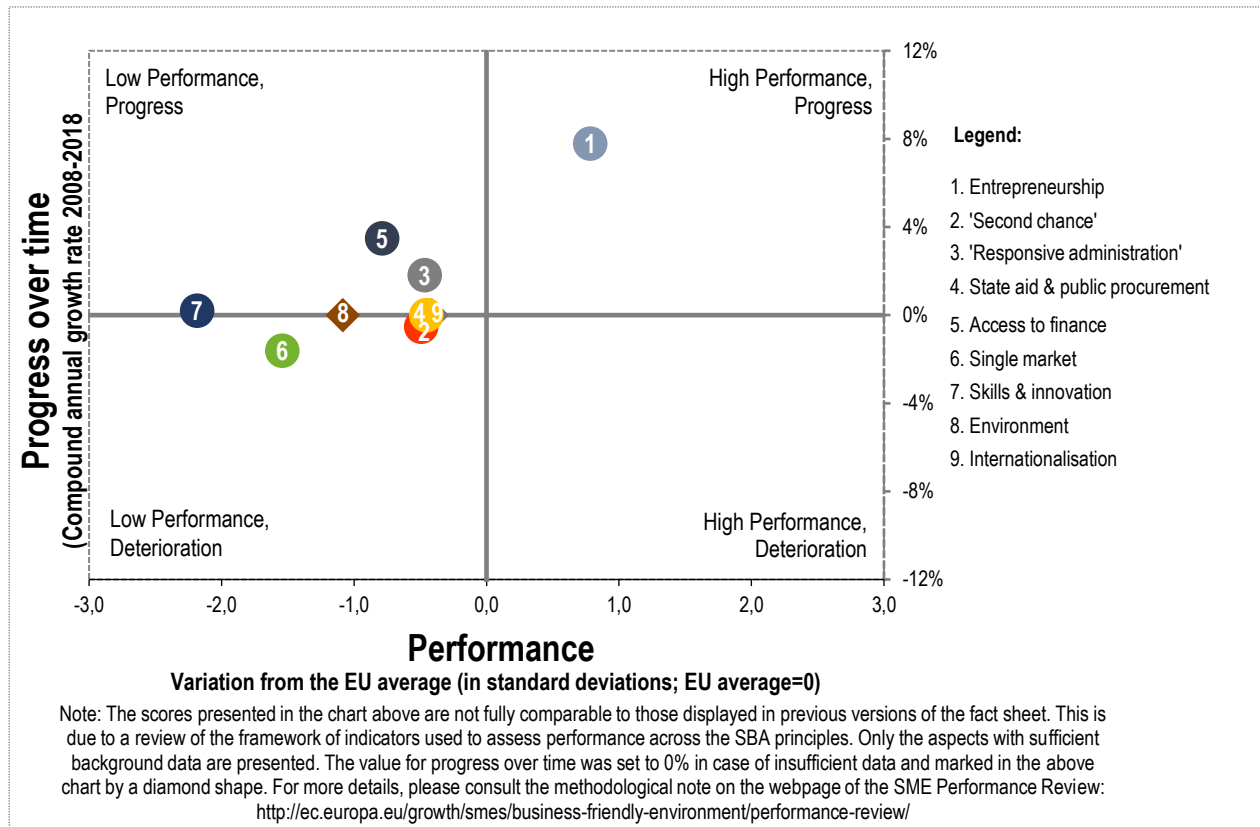
On state aid & public procurement, two additional measures were implemented to further simplify public procurement legislation and procedures. In addition, two measures were introduced to support the development of start-ups in Romania and to encourage and stimulate the development of SMEs.

As for the environment, two measures were implemented, one to promote a circular economy and one to reduce carbon emissions. On internationalisation, additional instruments to help promote Romanian SMEs in new markets were put in place and a new export promotion programme was launched, as well as new SME export promotion agencies.

However, limited progress was reported on 'second chance', with only one measure implemented during the current reference period. Thanks to this measure, the new 'Prevention Law' (Law 270/2017), entrepreneurs will now start to receive advice on how to restart their business, for example via the newly launched and dedicated online platform [prevenire.gov.ro](http://prevenire.gov.ro).

The single market is the area which experienced the least progress during the reference period since no significant measure was adopted or announced for it.

## SBA performance of Romania: state of play and development from 2008 to 2018<sup>25</sup>



## 3. SBA principles<sup>26</sup>

### 3.0 'Think Small First'

The 'Think Small First' principle is meant to be a guiding principle for all policy- and law-making activities. It requires policymakers to take SME interests into account at the early stages of the policy-making process. The principle also calls for newly designed legislation, administrative rules and procedures to be made simple and easy to apply.

Progress in this area has practically stalled during the past 3 years. This stagnation followed an encouraging spurt of reforms starting in 2014, such as the Law for SMEs, approval of the methodology for the 'SME test' and the establishment of a consultative body to assess economic impacts of legislative initiatives on SMEs.

However, the 'SME test' is still not used systematically by the public authorities, nor has it been accompanied by an implementation strategy. At the same time, the 'one-in, one-out' principle, which establishes that the introduction of new administrative burdens for SMEs must take place simultaneously with the elimination of existing ones, has not yet been fully put into practice. Nor has the 'only-once' principle been put into practice, as companies are still asked to provide the same information to different authorities.

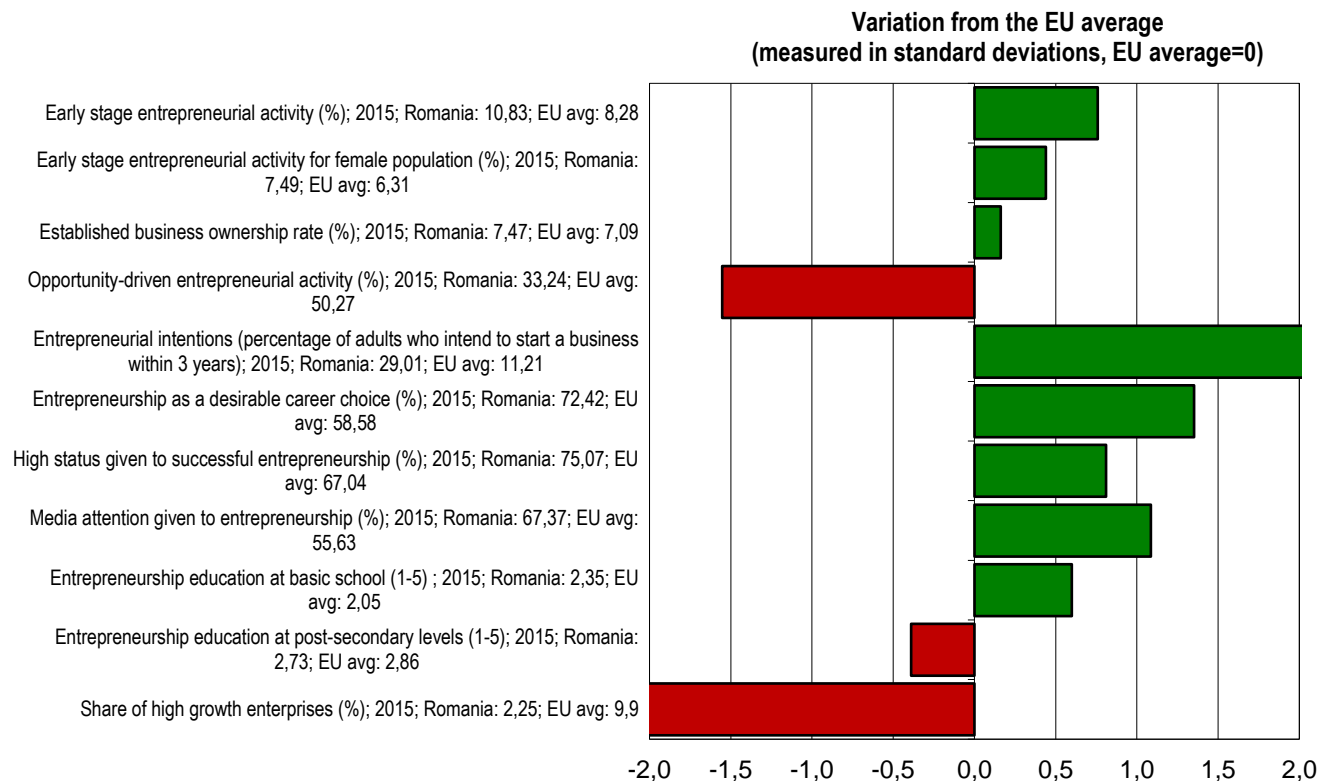
Recent policy efforts have targeted micro-enterprises. Two important measures that fall under the 'Think Small First'

principle were implemented during 2017 and the first quarter of 2018:

- New amendments were made to the Tax Code and Tax Procedure Code (*Noi modificari aduse Codului Fiscal and Codului de Procedura Fiscala*), offering tax relief to micro-enterprises that have reinvested profits.
- Measures to support the business environment and eliminate social inequalities (*Masuri pentru sustinerea mediului de afaceri si eliminarea unor inechitati sociale*<sup>27</sup>) were also implemented to further support the establishment and development of micro-enterprises, stimulate RDI activities and encourage investment in infrastructure.

In addition, and as outlined in the 2017 SBA fact sheet for Romania, Government Emergency Order No 3/2017, which introduced measures to support business environment and to eliminate some social inequities, increased the revenue threshold for income tax applicable to micro firms from EUR 100 000 to EUR 500 000, thus changing one of the conditions for complying with the definition of micro-enterprise.

## 3.1 Entrepreneurship



**Note:** Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Romania performs above the EU average in entrepreneurship — sustaining the substantial achievement it has achieved over the years. In particular, the share of adults who intend to start a business within 3 years was the highest in the EU, exponentially growing from 6.3 % in 2009 to 29.01 % in 2015. However, the country scores particularly low for the share of high-growth enterprises, posting the second worst score of all EU countries.

Promoting entrepreneurship has been one of the key priority areas for Romanian policymakers since 2008. Policy measures focused not only on school education (e.g. to boost the entrepreneurial mindset, to introduce new entrepreneurship curricula and implement teacher training programmes), but also on funding programmes addressing a wide range of target groups such as young entrepreneurs, students, women and the unemployed. As a result, the entrepreneurial skills of young people were improved, new companies were set up, and mentoring and coaching activities were organised.

Despite the progress on entrepreneurship, in Romania the conditions for scaling up start-ups are not yet conducive enough. However, steps are being taken to improve this, mostly via multiannual public financing programmes. The government allocated around EUR 200 million for scaling up businesses through the multiannual 'Scale Up' programme.

Overall, during 2017 and the first quarter of 2018, additional measures were adopted to further promote entrepreneurship:

- The 'Diaspora Start-up Programme' (*Programul Diaspora Start Up*<sup>28</sup>) was launched by the Ministry of European Funds to provide financial support (up to EUR 40 000) to Romanian citizens living abroad wishing to set up a new company in Romania.
- The measure entitled 'Student Entrepreneurship Societies in Higher Education System' (*Societati Antreprenoriale Studentesti in sistemul de invatamant superior*<sup>29</sup>) was implemented by the Ministry of National Education to support the growth of entrepreneurial spirit and culture at universities by promoting the creation of student entrepreneurial societies. These organisations provide support on how to prepare business plans and funding requests and how to organise events.
- The measure entitled 'Education, Scholarships, Apprenticeships and Youth Entrepreneurship Programme' (*Programul Educatie, burse, ucenicie si antreprenariat pentru tineri*<sup>30</sup>) was launched by the National Agency for Community Programmes in the Fields of Education and Vocational Training. This measure offers financial support

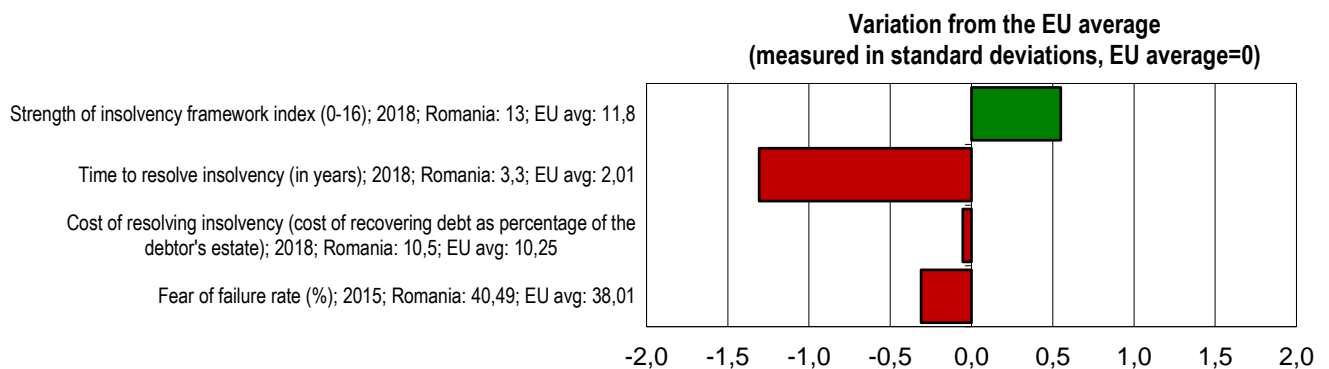


to promote entrepreneurship education and training, particularly at higher education level. It also aims to foster cooperation and partnerships between different education centres at national and international level:

- The 'Educational framework plan for lower secondary education — new curriculum' (*Plan Cadru Educational pentru gimnaziu — curricula noua*) was launched by

the Ministry of National Education to boost the mathematical and technological skills of future entrepreneurs through the inclusion of a compulsory subject on technological education and practical application at the lower secondary level'.

## 3.2 'Second chance'



**Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.**

'Second chance' refers to ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly. Romania continues to score in line with the EU average on this principle. Although the cost of resolving insolvency has been more or less constant since 2009, fear of failure fell from 52.8 % in 2009 to 40.5 % in 2015. The greatest challenge for Romania in this area is to reduce the time required to resolve insolvency procedures, which has been static at 3.3 years since 2008, the third longest in the EU.

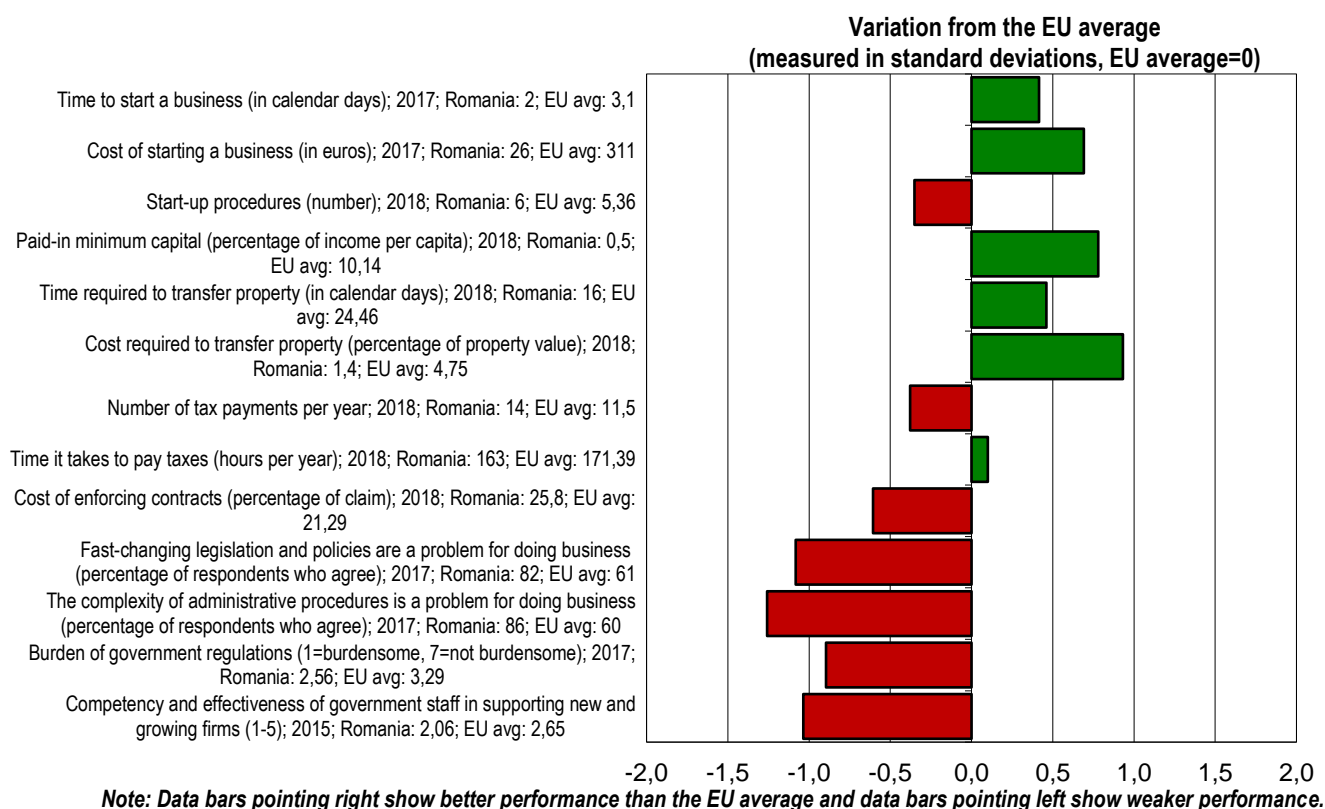
Limited policy progress has been achieved in this principle since 2008, with few measures implemented. Indeed, failing in

business is still considered a 'serious' failure by entrepreneurs and a barrier for future business plans<sup>31</sup>.

Only one measure was implemented in 2017. The Prevention Law (*Legea Prevenirii*<sup>32</sup>) aims to prevent the automatic application of sanctions for acts that minor offences (*contravenții*) constitute offences. Public authorities also plan to begin advising entrepreneurs on how to restart their business. In this respect, the [prevenire.gov.ro](http://prevenire.gov.ro) online platform is already operational and provides information to businesses on preventing minor offences.<sup>33</sup>



### 3.3 'Responsive administration'



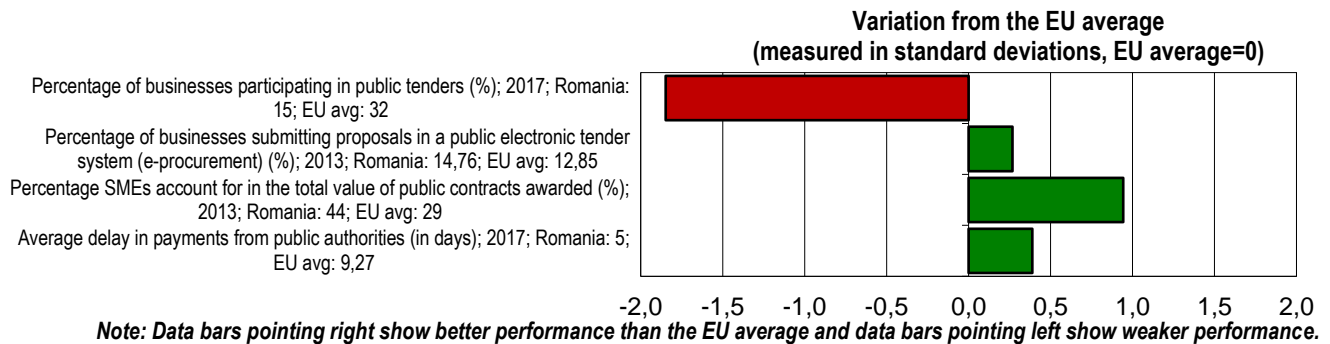
'Responsive administration' refers to public administration being responsive to the needs of SMEs. In this area, Romania performs in line with the EU average. Although little progress was identified since last year, Romania has made significant progress since 2008 for certain indicators. For instance, the cost<sup>34</sup> of starting a business fell from EUR 112.5 in 2008 to EUR 26 in 2017 and the time to pay taxes fell from 230 hours in 2011 to 163 in 2018. Progress has also been made on the time required to transfer property, which improved from 21 days in 2017 to 16 days in 2018. However, important indicators on the cost of enforcing contracts, on fast-changing legislation, on the complexity of administrative procedures and on the burden of government regulations all remain well below the EU average.

Administrative burdens, as well as complexity and legislative instability, are still considered to be important factors negatively impacting the business environment. These areas can be addressed with improved e-government services. Improvements in this area are expected following the recent launch of the startup.gov.ro online platform, which offers guidance and advice, and the launch of the GovITHub (ithub.gov.ro) governmental programme.

During 2017 and the first quarter of 2018, the government took steps to further eliminate administrative fees for the establishment of companies (*Eliminarea de taxe si tarife pentru infiintarea de SRL*). In addition, the Ministry of Business Environment, Commerce and Entrepreneurship adopted additional institutional and administrative measures to strengthen authorities' partnership with the private sector, including the establishment of SME agencies aimed to attract investments and promote exports<sup>35</sup>. The Ministry's administrative capacity was increased to develop and implement an evidence-based policy-making system<sup>36</sup>.

It is also worth mentioning that the World Bank Group Flagship Report published at the end of 2017 made special mention of Romania regarding a reform making it easier to do business. Specifically, in property registration Romania improved the quality of land administration by digitising ownership and land records. Overall, this reform also aims to reduce regulatory complexity and cost<sup>37</sup>.

### 3.4 State aid & public procurement



Romania's performance on state aid & public procurement is below the EU average. On one side, Romania has one of the lowest average delays in payments from public authorities in the EU. On the other side, the share of businesses participating in public tenders is the country's weakest indicator, falling from 30 % in 2013 to 15 % in 2017.

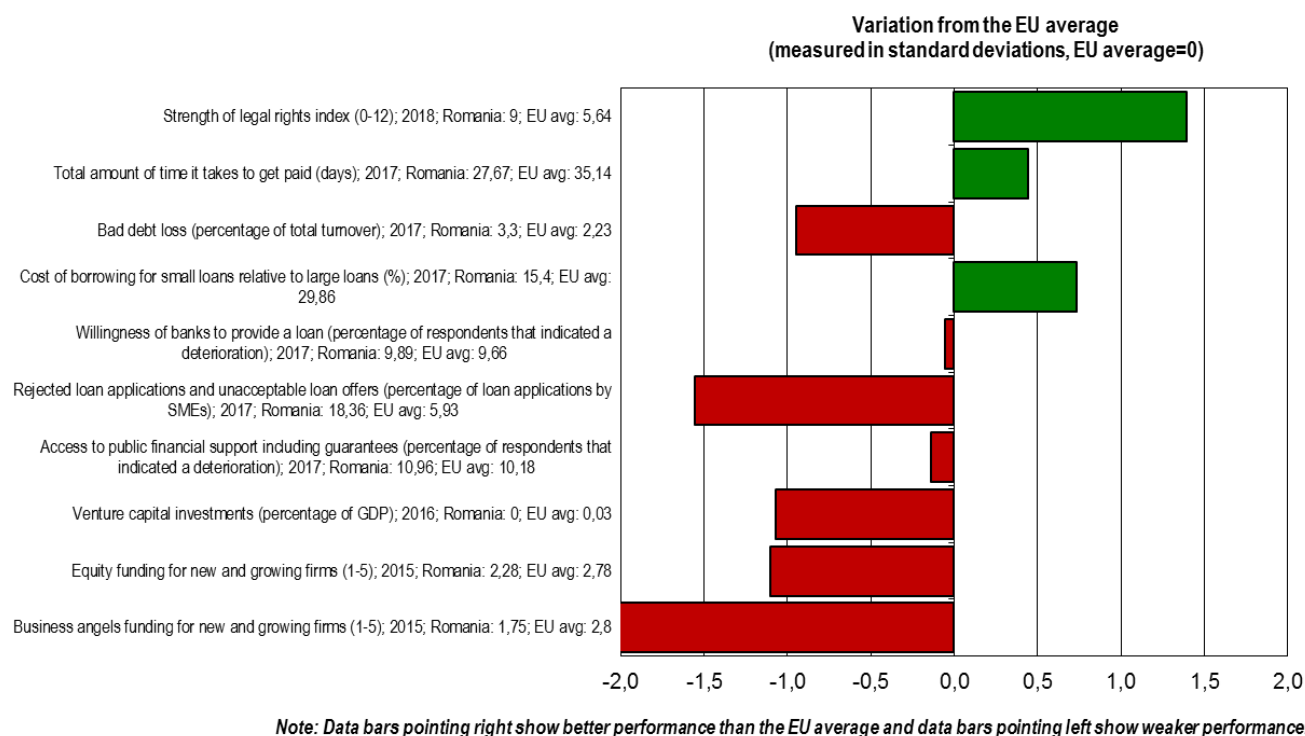
Since 2008, limited policy progress has been observed under state aid & public procurement. Major achievements include the creation of the National Agency for Public Procurement and the development of the 2015-2020 national public procurement strategy. However, key actions in the latter strategy need to be improved. A major new state aid scheme was also launched in 2017 to stimulate investments by SMEs.

Two important measures under this SBA principle were implemented during 2017 and the first quarter of 2018. The

first measure aims to simplify the three existing laws on public procurement (Laws 98/2016, 99/2016 and 101/2016) (*Simplificarea legislației achizițiilor publice*), aiming for a more effective and efficient procurement process. The second measure, 'E-Procurement solutions in Romania — Strengthen the use of the European single procurement document and integrate the e-CERTIS service' (*Soluții e-Procurement în România — Consolidarea utilizării DUAE și integrarea serviciului e-CERTIS*<sup>38</sup>), aims to implement and consolidate e-procurement solutions in line with European standards.

Further factors affecting the proper functioning of Romania's public procurement system, such as administrative capacity, transparency, fraud and corruption, are also referred to in the 2018 European Semester country-specific recommendations<sup>39</sup>.

### 3.5 Access to finance



While Romania's overall performance on access to finance was previously in line with the EU average in 2017, the overall performance is now below the EU average. Overall, the picture is mixed. In contrast with a strong performance on the legal rights index (measuring the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders), Romania scores poorly on alternative funding, including business angel funding, where it is among the worst performers in the EU, venture capital and equity financing. The overall drop from last year's score is due to strong declines in traditional funding. Respondents to the Survey on the Access to Finance of Enterprises (SAFE) pointed to a deterioration from 2016<sup>40</sup> to 2017<sup>41</sup> in: (i) the willingness of banks to provide a loan from 9 % to 9.9 %; (ii) access to public financial support from 8.6 % to 11 %; and (iii) rejected loan applications and unacceptable loan offers, with the percentage of rejections and unacceptable offers rising from 6.4 % to 18.4 %. In addition, on late payments, the total amount of time it takes to get paid by customers increased from 24.7 to 27.7 days, and bad debt loss as a consequence of not being paid increased from 2.7 % to 3.3 % of total turnover. A positive development in the reference period is in the cost of borrowing for small loans relative to large loans, which improved from 20.3 % to 15.4 %.

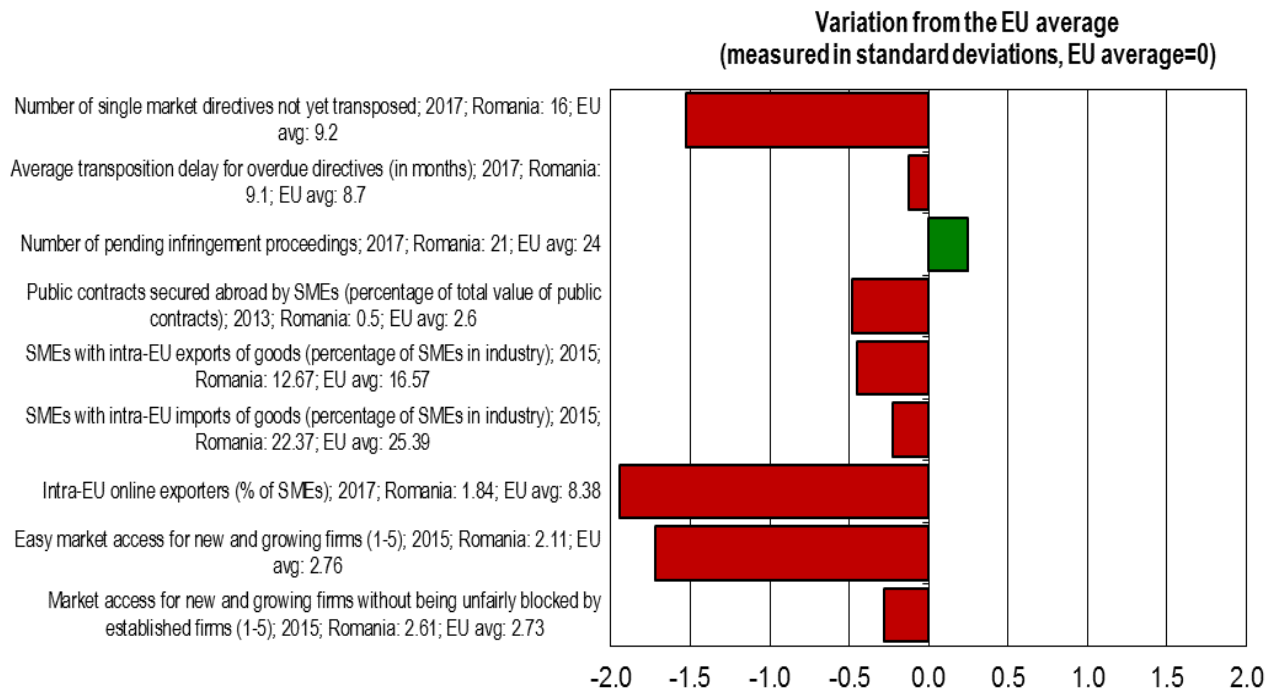
Since 2008 Romania has put in place and continued to implement numerous multiannual public financing programmes. This has included increasing the programmes' budget capacity so to improve access to finance for SMEs and start-ups, with

measures ranging from tax incentives to loan guarantees and grants. In 2016, the government allocated around EUR 200 million for scaling up businesses through the multiannual 'Scale Up' programme (2017-2020). Around 200 companies are expected to benefit from this initiative (up to EUR 1.1 million per beneficiary<sup>42</sup>). Nevertheless, accessing these funds remains difficult for SMEs, partly due to bureaucracy and delays caused by the implementing authorities<sup>43</sup>.

During 2017 and the first quarter of 2018, two additional measures were adopted by the Ministry of Business, Environment, Commerce and Entrepreneurship and the Ministry of Public Finance. First, the 'Start-up Nation' programme (*Programul Start-up Nation*<sup>44</sup>) aims to financially support the establishment of new start-ups and the development of existing SMEs with grants of RON 200 000 (approx. EUR 45 000). The second measure, 'Support programme for SMEs — SME INVEST Romania' (*Programul de sustinerea intreprinderilor mici si mijlocii — IMM INVEST Romania*<sup>45</sup>), aims to provide state guarantee facilities for loans (for investments and working capital) to SMEs by credit institutions.

The Romanian authorities should still consider implementing measures to encourage business angel investments in 2018, especially since Romania lags behind in business angel funding. It is, however, worth mentioning that overall, equity-type financing is deemed a relevant type of funding source for only limited numbers of SMEs<sup>46</sup>.

### 3.6 Single market



**Note:** Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

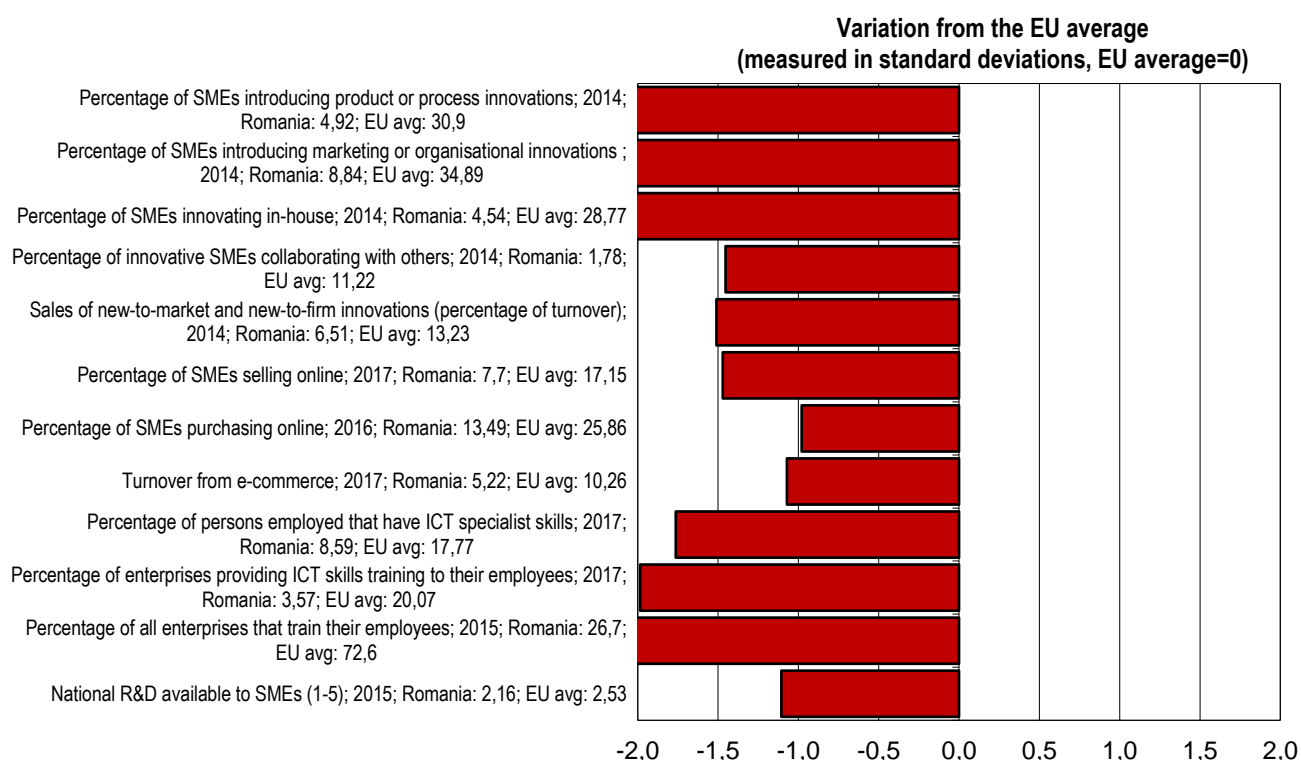
Romania performs below the EU average for the single market and continues to have one of the lowest scores in this area compared to other EU countries. Romania has the lowest share of SMEs with intra-EU online exports. In addition, the country performs poorly in terms of the timely transposition of the Single Market Directives. However, Romania has intensified its efforts in this area within the last year, reducing the average transposition delay for overdue directives from 11.7 to 9.1 months, which is now broadly in line with the EU average.

Overall, the single market principle has shown limited progress since 2008 — with just a few measures implemented over the

last few years. Support measures to help SMEs export to, take advantage of and access the single market are especially lacking, as are policy efforts to transpose the Single Market Directives.

The single market principle is the one that showed the least progress during 2017 and the first quarter of 2018: no significant measure was adopted or announced during this period.

### 3.7 Skills & innovation



**Note:** Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Romania's performance in skills & innovation remained poor and below the EU average, posting the lowest score in the EU. All indicators were below the EU average and in many of them Romania was among the worst-performing EU countries. Moreover, overall performance has stagnated since 2008. The only positive developments can be noted for the share of SMEs selling online, which increased from 7.2 % to 7.7 % from 2016 to 2017, and turnover from e-commerce, which went up from 4.3 to 5.2 % in the same period. However, given that the other EU countries improved their performance even faster, Romania's distance to the EU average has increased. On a positive note, the share of enterprises that train their employees rose from 24.1 % in 2010 to 26.7 % in 2015. However, the share of ICT specialists in SMEs and the share of SMEs providing ICT training to their personnel declined slightly from 2016 to 2017.

Since 2008, the skills & innovation area has shown moderate progress. The national research, development and innovation (RDI) strategy and its implementation programmes (e.g. the 2015-2020 national RDI programme and the 2014-2020 Operational Programme for Competitiveness) have supported the development of the national RDI system, together with other measures such as tax reductions, tax incentives and innovation vouchers.

Several notable multiannual measures developing SME skills and competencies in research and innovation were deployed in 2017<sup>47</sup>:

- RDI transfer from research organisations to economic operators (2016-2018) under programme 2 of the national plan for research, development and innovation;
- financing of high-innovation and tangible projects via innovation vouchers (2017-2018), also under programme 2 of the national plan for research, development and innovation;
- increasing RDI competitiveness of cluster-based enterprises and developing production of innovative products (started in 2017 and ongoing), again under programme 2 of the national plan for research, development and innovation;
- involvement of Romanian companies in various research activities, including those with an international dimension, (2015-2020), under programme 3 of the national plan for research, development and innovation.

Moreover, another two multiannual measures directly linked to the principle of 'entrepreneurship' are also having an impact on 'skills & innovation'. In 2017, the 'Innovation café' continued, with practical collaboration between various stakeholders about innovative ideas and proposals, which directly supports the development of the innovation ecosystem<sup>48</sup>. The second measure, which was concluded in 2017 under the Horizon 2020 programme, outlined key challenges, opportunities and recommendations for Romanian start-ups, scale-ups and entrepreneurial ecosystem in order to reform the national science, technology and innovation systems<sup>49</sup>.

The following measures were also implemented during 2017 and the first quarter of 2018 to provide financial support for the development of research and innovation:

- The 'Innovative Technology' project (*Proiect Tehnologic Inovativ*<sup>50</sup>) aims to encourage private investment in RDI activities to increase the introduction of new products and services onto the market.
- The 'Cluster organisation and development — Innovative Cluster' (*Organizare si dezvoltare cluster — Cluster*

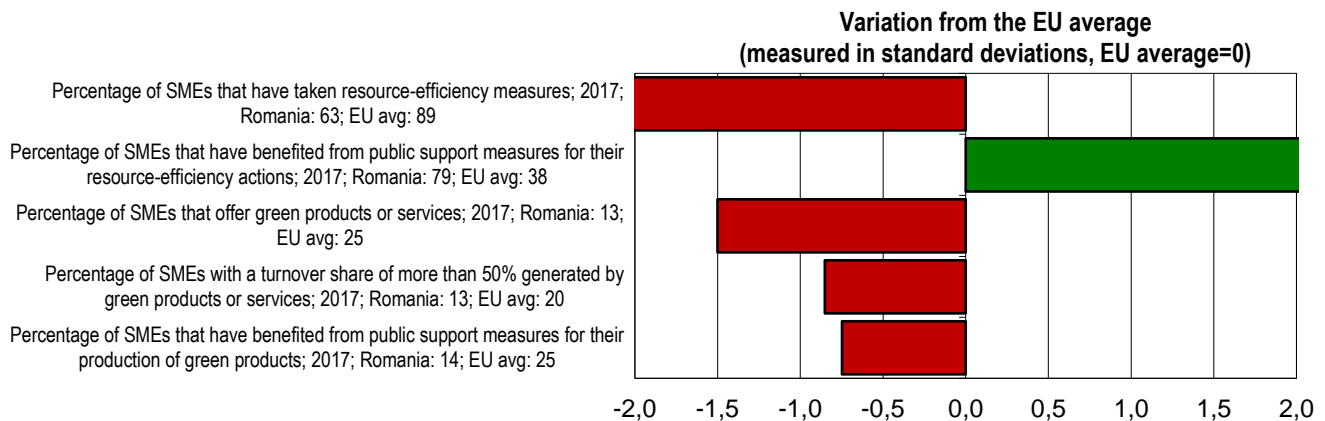
*Inovativ*) aims to improve the competitiveness of companies in key sectors by consolidating resources and encouraging companies within the cluster to develop innovative goods from their RDI activities.

- The 'RO Innovation — SMEs Growth Romania' programme (*Programul RO Innovare — Cresterea IMM din Romania*) aims to increase the value creation and sustainable growth of Romanian businesses.

In addition, one fiscal measure was adopted to further increase incentives for RDI activities (*Facilitati fiscale pentru activitati CDI*<sup>51</sup>): this involved exempting innovative start-ups from income tax for a period of 10 years.

Despite the numerous policy measures, the latest European Innovation Scoreboard continues to classify Romania as a 'modest innovator' compared with other EU Member States. This corroborates the statistical findings for this principle as presented above<sup>52</sup>.

## 3.8 Environment



**Note:** Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Romania's performance under the 'environment' principle is below the EU average, despite significant recent progress from 2015 to 2017. The percentage of SMEs that have benefited from public support measures for their resource-efficiency actions has significantly increased. Meanwhile, the share of SMEs that have taken resource-efficiency actions improved by 1 percentage point to 63 %, although the score is still among the lowest in the EU. Also among the lowest scores in the EU is the share of Romanian SMEs that offer green products, which stands at 13 %. In contrast, Romanian SMEs offering green products or services benefited more from public support measures than was the case in previous years. However, the proportion of SMEs with a turnover share of more than 50 % generated by green products or services decreased.

Since 2008, Romania has made limited progress in this SBA area. Measures focused on training civil servants in environmental procurement principles and supporting companies' access to environmental programmes. However, issues linked to the extremely cumbersome reporting process and the time taken to receive payment discouraged many SMEs from applying for funding. The Start-Up Environment Eco-Business pilot programme (*Programul Pilot Start-Up Mediu EcoBusiness*), launched in December 2016 with the aim of

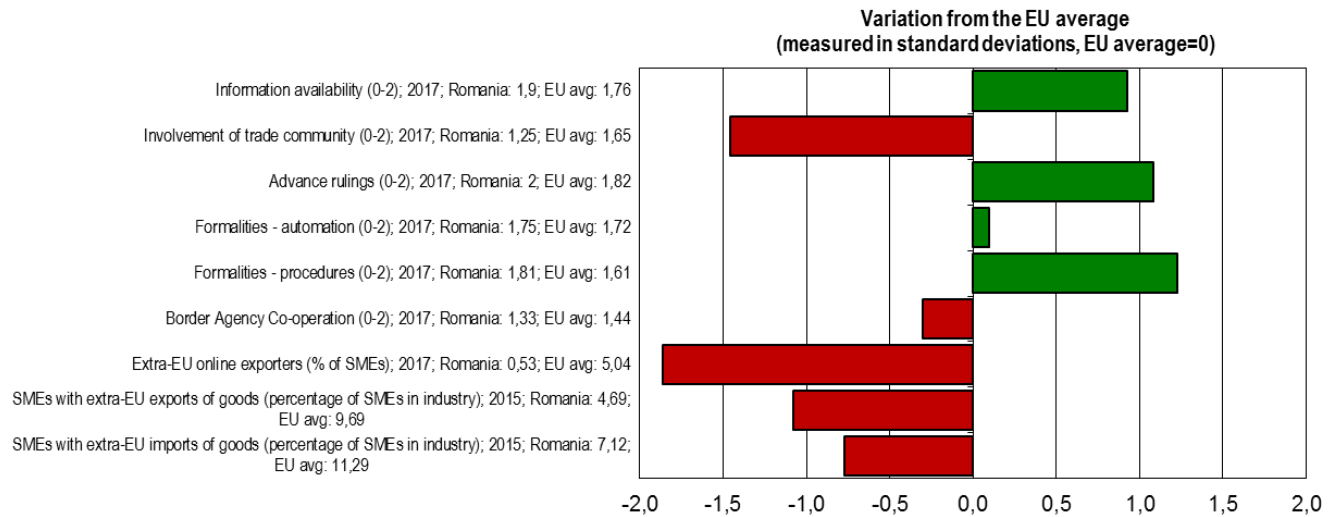
supporting the development of environmentally-friendly products using natural and/or recycled raw materials, is a relatively recent standout measure.

The policy progress achieved during 2017 and the first quarter of 2018 was generated by two important measures:

- Launched by the Ministry of Environment in December 2017, the National Waste Management Plan (*Planul National de Gestionare a Deseurilor*<sup>53</sup>) aims to boost the transition from a linear economy to an economically efficient circular economy.
- The Renewable Energy, Energy Efficiency, Energy Security Programme (*Programul Energii Regenerabile, Eficienta Energetica, Securitate Energetica*) aims to reduce carbon emissions while increasing energy supply in Romania.



### 3.9 Internationalisation



**Note:** Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

On internationalisation, Romania performs in line with the EU average. The biggest challenge consists in improving trade performance, in particular beyond the EU, not only in traditional exports of goods, but even more so in online exports. In extra-EU indicators, Romania scores among the worst-performing EU countries and has shown only very slow growth since 2008. In contrast, the country has some of the highest scores of all EU countries for the group of trade facilitation indicators, namely information availability, advance rulings and procedural formalities. The one indicator for which Romania is performing poorly is the involvement of the trade community.

Romania has achieved limited policy progress in this area since 2008, with just a few programmes implemented annually. These have focused on offering financial support for the promotion of Romanian SMEs and internationalisation support services to SMEs delivered through different portals.

During 2017 and the first quarter of 2018, moderate progress was observed on internationalisation, with only a few additional measures implemented:

- The programme to support the internationalisation of Romanian companies (*Programul de sustinere a internationalizarii firmelor romanesti*<sup>54</sup>) created new instruments to help promote Romanian SMEs in new markets. This includes financing specific activities such as SMEs' participation in international fairs and exhibitions as well as in economic missions.
- The main objective of the export promotion programme (*Programul de promovare a exportului*<sup>55</sup>) is to increase the production of high-value Romanian products and services by supporting the diversification of export markets and participation in international promotion activities.
- Legislation on the establishment of new agencies to promote exports and attract foreign investment' (*Infiintarea agentilor pentru IMM, atragere de investitii si promovarea exportului*) aims to put in place specialised and modern support structures in each region in Romania.

## 4. Interesting initiative

Below is an example of an initiative from Romania to show what governments can do to support SMEs:

### ‘Start-up Nation’ programme

The ‘Start-up Nation’ programme awards selected entrepreneurs in Romania RON 200 000 (approx. EUR 45 000) for starting a business and employing a minimum of two people for at least 3 years. The main objective is to stimulate the establishment and development of start-ups and to create new jobs — especially among disadvantaged people, the unemployed and recent graduates. The scheme is expected to create 20 947 new jobs, out of which 16 818 are targeted at disadvantaged people and recent graduates.

The main results reported in 2017 are as follows:

- ✓ 19 297 applications submitted
- ✓ 8 743 applications admitted
- ✓ 8 470 contracts signed

References:

<http://www.aippimm.ro/>

<http://www.aippimm.ro/categorie/programe/start-up-nation-2017/>

## Important remarks

The European Commission Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW) produces the SBA fact sheets as part of the SME Performance Review (SPR), its main vehicle for economic analysis of SME issues. They combine the latest available statistical and policy information. Produced annually, they help to organise the available information to facilitate SME policy assessments and monitor SBA implementation. They take stock and record progress. They are not an assessment of Member State policies. Rather, they should be regarded as an additional source of information to improve evidence-based policy-making. For example, they cite only policy measures national SME policy experts consider relevant. They do not and cannot reflect all measures the government has taken over the reference period. There is more policy information on a database accessible from the SPR website.

SME Performance Review:

<http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

[grow-spr@ec.europa.eu](mailto:grow-spr@ec.europa.eu)

Small Business Act:

[http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index\\_en.htm](http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index_en.htm)

Entrepreneurship and SMEs:

<https://ec.europa.eu/growth/smes>

## Endnotes

<sup>1</sup> The two graphs on page 1 present the trend over time for the variables. They consist of index values for the years since 2008, with the base year 2008 set at a value of 100. As from 2016, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008–2015 figures from Eurostat's Structural Business Statistics Database. 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). They do not cover enterprises in agriculture, forestry and fisheries or largely non-market service sectors such as education and health. A detailed methodology can be consulted at: <http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

<sup>2</sup> <http://market-entry-romania.blogspot.ro/2017/03/romanian-it-and-outsourcing-market.html>

<sup>3</sup> <https://www.wall-street.ro/articol/IT-C-Tehnologie/216532/industria-it-si-a-dublat-veniturile-in-6-ani-ajungand-sa-fie-o-piata-care-valoreaza-aproximativ-5-miliarde-de-euro-in-romania.html>

<sup>4</sup> <http://market-entry-romania.blogspot.ro/2017/03/romanian-it-and-outsourcing-market.html>

<sup>5</sup> <http://www.zf.ro/business-construct/sectorul-construcțiilor-din-romania-continua-sa-sufere-gradul-de-indatorare-este-de-88-durata-medie-de-colectare-a-creantelor-a-ajuns-la-195-de-zile-iar-investitiile-pe-termen-lung-au-scazut-sub-50-16510220>, last accessed 25.5.2018.

<sup>6</sup> [http://www.bursa.ro/citr-industria-si-construcțiile-cel-mai-ridicat-risc-de-insolventa-in-2017-318800&s=print&sr=articol&id\\_articol=318800.html](http://www.bursa.ro/citr-industria-si-construcțiile-cel-mai-ridicat-risc-de-insolventa-in-2017-318800&s=print&sr=articol&id_articol=318800.html)

<sup>7</sup> <http://www.aippimm.ro/categorie/programe/programe-2013/>

<http://www.aippimm.ro/categorie/programe/programe-2015/>

<http://www.aippimm.ro/categorie/programe/programe-2016/>

<sup>8</sup> Kaufland Romania, Carrefour Romania, Metro and Auchan, which together have over 60 % of the market. <http://www.capital.ro/patru-companii-de-retail-domina-piata-din-romania.html>

<sup>9</sup> <http://www.zf.ro/companii/retail-agrobusiness/expansiunea-mega-image-si-a-celorlalte-retele-de-comert-modern-in-bucuresti-a-dus-la-inchiderea-a-2-500-de-alimentare-in-patru-ani-16924814>

<sup>10</sup> <http://www.mediafax.ro/economic/studiu-in-romania-exista-pestre-122-000-de-magazine-doar-1-1-sunt-hipermarketuri-supermarketuri-si-discounteri-13475264>

<sup>11</sup> 125 603/2012; 124 816/2013; 101 627/2014; 113 167/2015; 105 982/2016 and 136 699/2017 according to the National Trade Register Office; <http://www.onrc.ro/index.php/ro/statistici>, last accessed 30.4.2018.

<sup>12</sup> <http://www.ceccarbusinessmagazine.ro/onrc-numarul-firmelor-infiintate-in-2017-a-crescut-cu-29-fata-de-2016-a3024/>, last accessed 29.4.2018.

<sup>13</sup> 71 746/2012; 80 786/2013; 76 483/2014; 94 374/2015; 109 113/2016 and 82 295/2017 according to the National Trade Register Office; <http://www.onrc.ro/index.php/ro/statistici?id=251>, last accessed 30.4.2018.

<sup>14</sup> <http://www.onrc.ro/index.php/ro/statistici?id=250>, last accessed 15.5.2018.

<sup>15</sup> 53 857/2012; 44 030/2013; 25 144/2014; 18 793/2015; (-3 131)/2016 and 54 404/2017; own calculations based on official data published by the National Trade Register Office <http://www.onrc.ro/index.php/ro/statistici>, last accessed 30.4.2018.

<sup>16</sup> The 'Start-up Nation Romania' programme <http://www.zf.ro/companii/se-misca-economia-numarul-firmelor-nou-infiintate-a-crescut-cu-pestre-30-in-s1-2017-bucuresti-cluj-si-timisoara-conduc-in-clasament-16637927>, accessed 30.4.2018.

<sup>17</sup> <http://gov.ro/ro/media/comunicate/comunicat-de-presa-edinta-de-quvern-masuri-pentru-sustinerea-mediului-de-afaceri-i-eliminarea-unor-inechitati-sociale&page=3>, last accessed 30.4.2018.

<sup>18</sup> <http://www.fonduri-structurale.ro/stiri/17990/din-februarie-antreprenorii-isi-vor-putea-infiinta-gratuit-srl-uri-sau-pfa-uri>, last accessed 30.4.2018.

<sup>19</sup> <http://www.research.gov.ro/ro/articol/1021/legislatia-sistemului-de-cercetare>, last accessed 30.4.2018.

<sup>20</sup> <http://afir.info/>, last accessed 30.4.2018.

<sup>21</sup> <https://countryeconomy.com/national-minimum-wage/romania>, last accessed 25.5.2018

<https://www.eurofound.europa.eu/observatories/eurwork/articles/working-conditions-industrial-relations/statutory-minimum-wages-in-the-eu-2016>, last accessed 25.5.2018.

<https://www.romania-insider.com/romania-minimum-wage-eu/>, last accessed 25.5.2018.

<sup>22</sup> Due to data availability, the data on high-growth firms refer to the 'business economy' only, which covers sections B-N including section K (financial activities, except activities of holding companies). The 'non-financial business economy' excludes section K.

<sup>23</sup> In line with Commission Implementing Regulation (EU) No 439/2014, 'high-growth enterprises' are defined as firms with at least 10 employees at the beginning of their growth and average annualised growth in number of employees greater than 10 % per annum, over a three-year period. The share of high-growth enterprises is the number of high-growth enterprises divided by the number of active enterprises with at least 10 employees. The source of the data on high-growth enterprises is Eurostat ([http://ec.europa.eu/eurostat/web/products-datasets/-/bd\\_9pm\\_r2](http://ec.europa.eu/eurostat/web/products-datasets/-/bd_9pm_r2), last accessed 13.4.2018).

<sup>24</sup> The 2018 SBA fact sheets benefited substantially from input from the European Commission's Joint Research Centre (JRC) in Ispra, Italy. The JRC made major improvements to the methodological approach, statistical work on the dataset and the visual presentation of the data.

<sup>25</sup> The quadrant chart combines two sets of information. Firstly, it shows current performance based on data for the latest available years. This information is plotted along the X-axis, measured in standard deviations of the simple, non-weighted arithmetical average for the EU-28. Secondly, it shows progress over time, i.e. the average annual growth rates from 2008 to 2018. These are measured against the individual indicators which make up the SBA area averages. Hence, the location of a particular SBA area average in any of the four quadrants provides information not only about where the country is located in this SBA area relative to the EU average at a given point in time, but also about the extent of progress made between 2008 and 2018. All SBA principles with the exception of the 'Think Small First' principle, for which there is not enough statistical data available, are calculated as composite indicators following the OECD/JRC Handbook guide. A detailed methodology can be consulted at: <http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

<sup>26</sup> The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2017 and the first quarter of 2018. The national SME policy expert contracted by PwC (DG GROW's lead contractor for the 2018 SBA fact sheets) made the selection. The experts were asked to select only the measures they considered the most important, i.e. the ones expected to have the highest impact in the SBA area in question. The complete range of measures the experts compiled in producing this year's fact sheets will be published alongside the fact sheets in the form of a policy database on the DG GROW website.

- <sup>27</sup> <http://lege5.ro/Gratuit/qe2daoizqevq/ordonanta-de-urgenta-nr-3-2017-pentru-modificarea-si-completarea-legii-nr-227-2015-privind-codul-fiscal/>
- <sup>28</sup> <http://www.dprp.gov.ro/diaspora-start-up/>
- <sup>29</sup> <https://lege5.ro/Gratuit/qe2tcmsga4a/ordinul-nr-3262-2017-privind-organizarea-si-functionarea-de-societati-antreprenoriale-studentesti-in-sistemul-de-invatamant-superior-din-romania>
- <sup>30</sup> <http://www.eea4edu.ro/>
- <sup>31</sup> 'Startup Barometer of Romania, Business ecosystem at the beginning of the road, Second edition — 2017' (p. 41) — 60 % of survey respondents cited these aspects.
- <sup>32</sup> [http://www.dreptonline.ro/legislatie/legea\\_prevenirii\\_270\\_2017\\_legea\\_preventiei.php](http://www.dreptonline.ro/legislatie/legea_prevenirii_270_2017_legea_preventiei.php)
- <sup>33</sup> <http://business-review.eu/news/prevenire-gov-ro-portal-with-information-on-prevention-mechanism-goes-live-167326>
- <sup>34</sup> Data from the World Bank on doing business confirm the overall picture on the time and cost involved in opening a business: <http://www.doingbusiness.org/data/exploreeconomies/romania#starting-a-business>
- <sup>35</sup> <http://www.aippimm.ro/categorie/transparenta-decizionala-ordonanta-de-urgenta-privind-infiintarea-organizarea-si-functionarea-agentiilor-pentru-intreprinderi-mici-si-mijlocii-atragere-de-investitii-si-promovare-a-exportului/>
- <sup>36</sup> <http://www.immoss.ro/index.php?section=articol&screen=index&id=21090&lang=rom>
- <sup>37</sup> <http://www.doingbusiness.org/~media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB2018-Full-Report.pdf>
- <sup>38</sup> <http://anap.gov.ro/web/anunt-privind-initierea-proiectului-solutii-e-procurement-in-romania-consolidarea-utilizarii-duae-si-integrarea-serviciului-e-certis-2/>
- <sup>39</sup> <http://data.consilium.europa.eu/doc/document/ST-9211-2018-INIT/en/pdf>
- <sup>40</sup> <https://ec.europa.eu/docsroom/documents/24385>
- <sup>41</sup> <https://ec.europa.eu/docsroom/documents/26624>
- <sup>42</sup> <http://www.zf.ro/companii/guvernul-a-aprobat-schema-de-ajutor-de-stat-scale-up-pentru-imm-uri-cu-un-buget-de-200-de-milioane-de-euro-in-perioada-2017-2020-16020960>
- <sup>43</sup> 'Startup Barometer of Romania, Business ecosystem at the beginning of the road, Second edition — 2017' (p. 5) — the survey respondents cited this aspect as the second main barrier for entrepreneurs in Romania.
- <sup>44</sup> <http://www.aippimm.ro/>
- <sup>45</sup> <https://lege5.ro/Gratuit/qi3dinjzg44q/ordonanta-de-urgenta-nr-110-2017-privind-programul-de-sustinere-a-intreprinderilor-mici-si-mijlocii-imm-invest-romania>
- <sup>46</sup> <https://ec.europa.eu/docsroom/documents/26641>
- <sup>47</sup> <http://gov.ro/en/government/cabinet-meeting/national-research-development-and-innovation-strategy-sncdi-2014-2020-engine-of-economic-and-social-development>
- <sup>48</sup> <http://old.uefiscdi.ro/Public/cat/799/Cafeneaua-de-Inovare.html>
- <sup>49</sup> <https://rio.jrc.ec.europa.eu/en/library/specific-support-romania-final-report-%E2%80%93-93-start-ups-scale-ups-and-entrepreneurship-romania>
- <sup>50</sup> <http://www.poc.research.gov.ro/ro/articol/4152/actiunea-1-2-1-stimularea-cererii-intreprinderilor-pentru-inovare>
- <sup>51</sup> <http://www.research.gov.ro/ro/articol/4015/sistemul-de-cercetare-facilitati-fiscale-cdi>
- <sup>52</sup> [https://ec.europa.eu/growth/industry/innovation/facts-figures/scoreboards\\_en](https://ec.europa.eu/growth/industry/innovation/facts-figures/scoreboards_en)
- <sup>53</sup> <http://www.mmediu.ro/categorie/planul-national-de-gestionare-a-deseurilor-pngd/239>
- <sup>54</sup> <http://gov.ro/ro/guvernul/sedinte-guvern/program-de-promovare-a-firmelor-romane-ti-pe-pietele-externe>
- <sup>55</sup> <http://www.imm.gov.ro/en/directia-instrumente-si-programe-promovare-export>