

PARTICULARITIES OF THE ROMANIAN BUSINESS ENVIRONMENT AND THE IMPACT ON SMALL AND MEDIUM-SIZED ENTERPRISES

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Abstract:

The paper aims at highlighting the features of the Romanian business environment in recent years, including the background of the current crisis, the obstacles in the path of its development and the recovery measures taken by the public authorities in the context of the current crisis.

As the Romanian business environment focuses mainly on small and medium-sized enterprises, the paper also aims at highlighting the implications of the crisis on the economic and financial situation of this sector, the difficulties it faces and the current challenges.

Key words: *business environment, SME, current crisis, support measures, current challenges*

JEL classification: *G01, M21, O12*

1. Introduction

Romanian business environment is mainly based on small and medium enterprises, representing more than 99% of the total number of firms. Thus, its implications in sustaining national economic and social evolution are closely related to developing and supporting the SME sector.

SMEs are considered the engine of economic and social development, observation resulting from the fact that they make a significant contribution to creating value added and jobs.

The significant role of SMEs in Romanian economy, as well as the severe impact of the current crisis on this sector and on the business environment called for the adoption of government supportive measures in order to limit and counter the effects of the financial tensions.

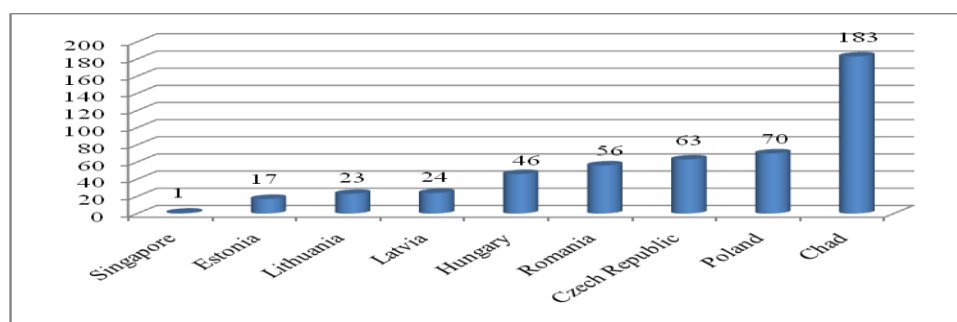
This paper is structured as follows: section 2 emphasizes the impact of World Bank and Romanian entrepreneur's evaluation of the business environment in which SMEs operate and the obstacles affecting its development; section 3 reveals the main effects of the global crisis on the economic and financial situation of Romanian SMEs and the most important measures adopted by public authorities in order to support them. The study ends with the conclusions.

The analysis performed in this paper is based on indicators calculated by the World Bank, the National Council of Small and Medium Sized Private Enterprises in Romania, as well as on polls conducted by the World Economic Forum and by some national bodies.

2. The evolution of the business environment in Romania and obstacles to its development

The evolution of the business environment in Romania in recent years, including in the current, extremely difficult from an economic and financial point of view, context can be highlighted on the basis of the information from the World Bank's Annual Report, Doing Business 2011, which measures the ease of doing business in 183 countries, based on 9 indicators, namely: starting a business, dealing with construction permits, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business [The World Bank, 2010].

According to the World Bank's Annual Report, Doing Business 2011, the business environment in Romania ranked, in June 2010, no. 56 out of 183 analyzed countries, ahead some European countries such as the Czech Republic and Poland, but after the Baltic states and Hungary (see figure 1). However, in comparison to 2008 and 2009, when Romania ranked no. 45 and no. 54 respectively, according to Doing Business 2009 and Doing Business 2010 one can notice a deterioration in the business environment which highlights, according to numerous observers, a significant slowing of the pace of reforms after Romania joined the European Union [OECD, 2010] but also the negative impact of the current crisis on business environment.

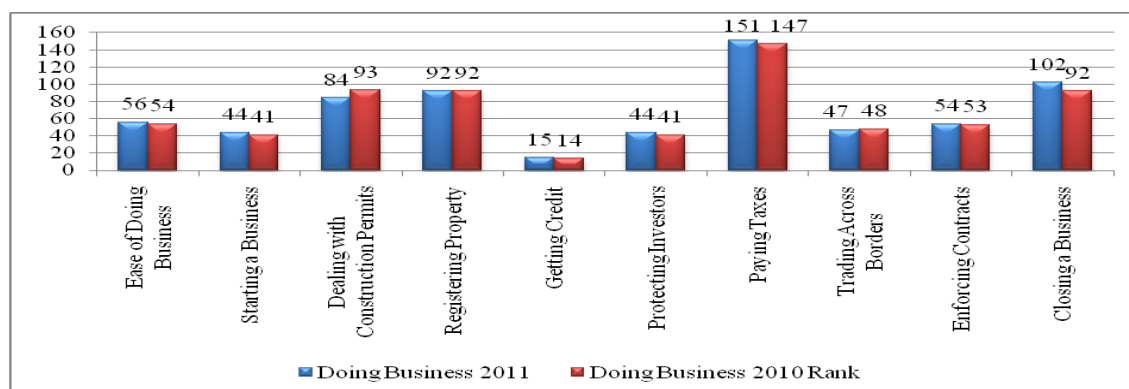


**a lower figure indicates a better position in the ranking*

Source: World Bank, 2010

Figure 1: The position of Romania in the World Bank's ranking concerning the ease of doing business*

Considering the content of the nine indicators used to assess the ease of doing business, the most important issues the business environment in Romania is facing are paying taxes and closing a business, at these criteria our country ranking no. 151 and no. 102 respectively (see figure 2).



Source: World Bank, <http://www.doingbusiness.org/data/exploreeconomies/romania>

Figure 2: The evaluation of the ease of doing business in Romania according to Doing Business 2011 and Doing Business 2010

On the basis of data presented in figure 2, we can notice the deterioration of Romania's position in the World Bank's ranking for most of the indicators used to

assess the ease of doing business. In this context, it is imperative for public authorities to intensify concerns to continue and accelerate reforms in order to approach the best practices of both European countries and the global economy.

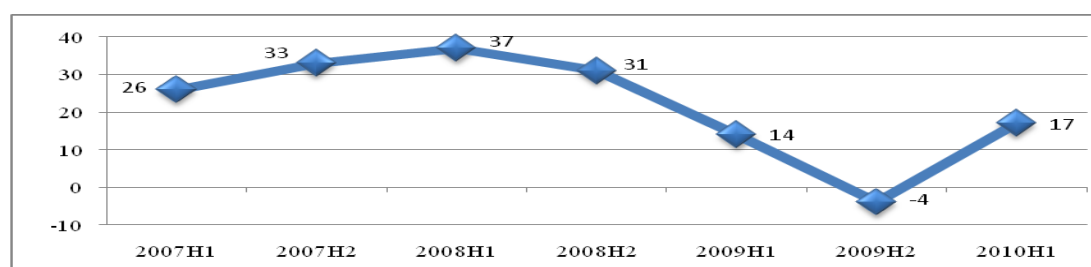
The evaluation of the situation of Romanian business environment, in the context of the current crisis, can be conducted on the basis of the index of business environment, calculated by the National Council of Small and Medium Sized Private Enterprises in Romania (CNIPMMR) by summing up the scores of 13 indicators (GDP growth in real terms, inflation rate, unemployment rate, net average monthly wage in real terms, dynamics of the labor force taxation, dynamics of the profit tax, dynamics of the dividend tax, dynamics of the number of taxes, exchange rate stability, coverage degree of imports by exports, interest rate compared to inflation rate, dynamics of foreign direct investments, country rating). The maximum value for this index is 100 and its significance is presented in table 1.

Table 1: Score grid, according to the index of business environment

Index of business environment	Grade
- 87 – 0 points	Very unsatisfactory
0 – 25 points	Unsatisfactory
25 – 50 points	Satisfactory
50 – 70 points	Good
More than 70 points	Excellent

Source: CNIPMMR, 2010

As we may notice in figure 3, the evolution of the situation of the business environment in Romania has been subjected to a descending trend, especially in the second semester of 2009, being evaluated as very unsatisfactory. In the first semester of 2010, the business environment index registered a value of 17 points, which reflects an unsatisfactory evolution of the Romanian business environment.

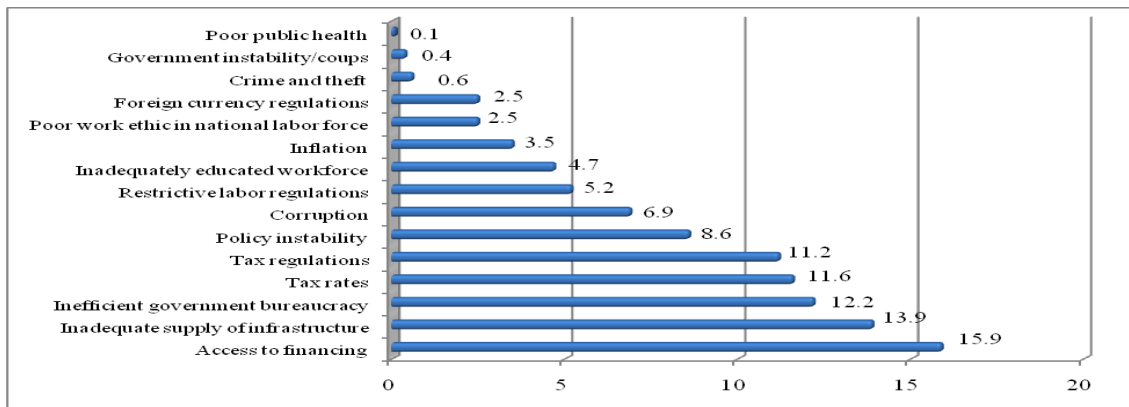


Source: centralized data from CNIPMMR, 2007-2010 H1

Figure 3: The evolution of business environment index in Romania over the period 2007 – 2010H1

The assessment of the business environment is particularly important for identifying the main problems that it faces and for designing and implementing measures by national public authorities in order to improve it.

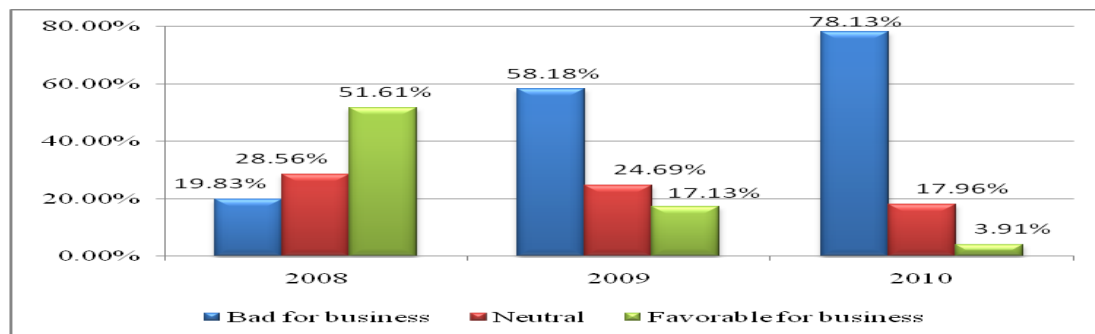
In The Global Competitiveness Report 2010-2011 published by the World Economic Forum, the most problematic factors for doing business are emphasized, based on interviews of over 13500 business leaders from 139 countries, Romania included [World Economic Forum, 2010]. In the survey, the respondents were asked to select from a list of 15 factors the 5 most problematic factors for doing business in their country and to rank them from 1 (the most problematic) to 5. As far as the business environment in Romania is concerned, the five most problematic factors for doing business identified in the survey were: access to finance, inadequate supply of infrastructure, inefficient government bureaucracy, tax rates, tax regulations (see figure 4).



Source: World Economic Forum, 2010

Figure 4: The most important obstacles to doing business in Romania

The way Romania's business environment is assessed can also be highlighted through the entrepreneurs' appreciations. Thus, the analysis conducted by the National Council of Small and Medium Sized Private Enterprises in Romania (CNIPMMR), on a representative sample of 1485 SMEs from all fields of activity, age groups and regions of development and published in July 2010 [Nicolescu, Haiduc & Nancu, coordinators, 2010] shows that, under current circumstances, the state of the business environment is appreciated as being unfavorable to business development by 78,13% of SMEs, neutral by 17,96% of enterprises and favorable only by 3,91% of enterprises (see figure 5). Similarly, the survey conducted by CNIPMMR in 2009 (see figure 5) shows that a significant proportion of SMEs' managers considered the state of business environment to be unfavorable to develop businesses. Comparatively, in 2008 only about 20% of entrepreneurs appreciated a negative impact of the business environment. Such a situation is both due to the weak public authorities' concern for reforms and to the current global economic crisis.



Source: centralized data from Nicolescu Ovidiu (coordinator), 2008, 2009, 2010

Figure 5: The entrepreneurs' assessment of Romania's business environment

Considering the particularly important role of SMEs for the economic and social development of a country, ensuring a favorable business environment and its development represent a prerequisite for the development of SMEs.

3. Effects of the global crisis on the economic and financial situation of Romanian SMEs and the supportive measures of national public authorities

The evaluation of the situation of the SME sector in Romania, in the context of the current crisis, can be conducted on the basis of the index of evolution of SMEs, calculated by CNIPMMR by summing up the scores of 11 indicators (registrations of commercial companies, number of defunct commercial companies, number of profitable

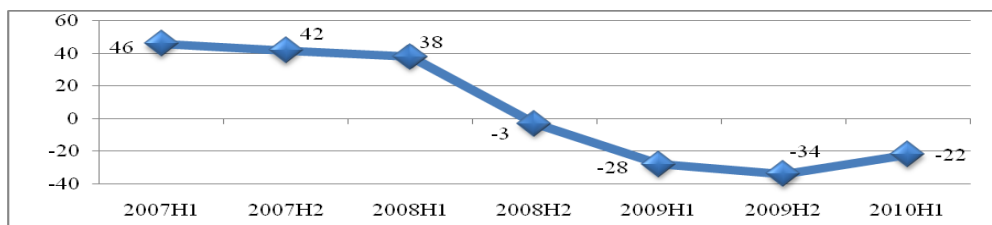
companies, number of SMEs with losses, SMEs debts, average turnover per SME, average profit per SME, average loss per SME, average number of employees per SME, SMEs investments, exports of private enterprises). The maximum value for this index is 100 and its significance is presented in table 2.

Table 2: Score grid, according to the index of evolution of SMEs

Index of the evolution of SMEs	Grade
- 64 – 0 points	Very unsatisfactory
0 – 20 points	Unsatisfactory
20 – 45 points	Satisfactory
45 – 70 points	Good
More than 70 points	Excellent

Source: CNIPMMR, 2010

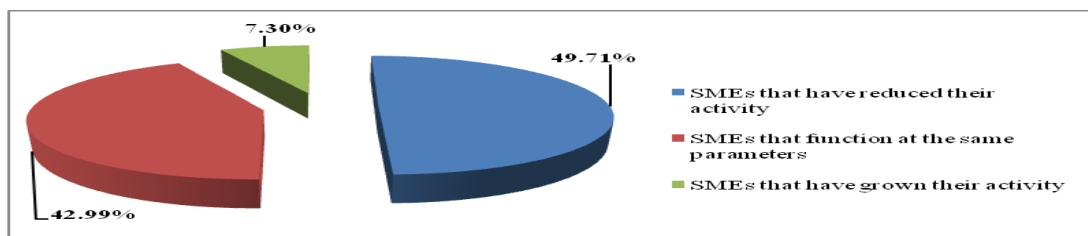
The evolution of the situation of the SME sector in Romania has been subjected to a descending trend, especially in the second semester of 2009, being evaluated as extremely unsatisfactory (see figure 6).



Source: centralized data on CNIPMMR, 2007-2010 H1

Figure 6: Index of the evolution of the SMEs sector in Romania over the period 2007 – 2010H1

On the background of the current economic crisis, an important share of SMEs is strongly affected, issue resulting from the analysis conducted by the National Council of Small and Medium Sized Private Enterprises in Romania (CNIPMMR) on a representative sample of 1485 SMEs. Thus, the above mentioned survey points out that, between October 2008 and March 2010, about 50% of SMEs reduced their activity, about 43% of firms were functioning at the same parameters and only about 7% of all enterprises have grown their activity (see figure 7). It should also be noted that the managers of bankrupt SMEs could not be addressed because either these firms were closed, either they did not show any willingness to provide information [Nicolescu, Haiduc & Nancu, coordinators, 2010].

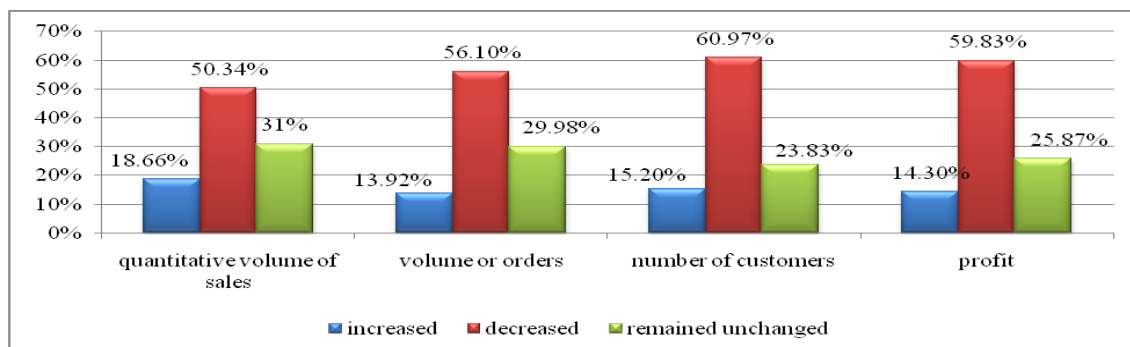


Source: Nicolescu, Haiduc & Nancu, coordinators, 2010

Figure 7: The impact of the global economic crisis on the activity of SMEs from Romania from October 2008 to March 2009

The evolution of the activity of SMEs on the background of the current crisis can be highlighted on the basis of some relevant indicators, such as: the quantitative volume of sales, the volume of orders, the number of customers and the size of the profits. Thus, the survey conducted by CNIPMMR shows that all four above mentioned

indicators have registered a significant decrease of over 50% in 2009 compared to 2008 (see figure 8). Therefore, we can conclude that the activity of SMEs in Romania badly deteriorated as a result of the current global economic crisis.



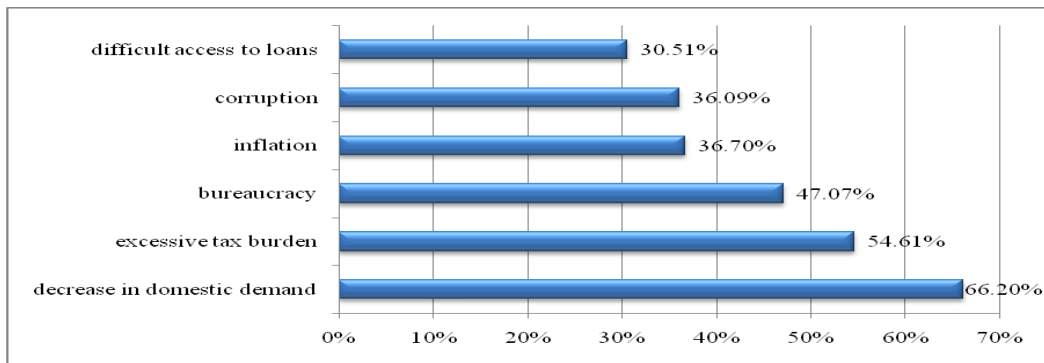
Source: processed data from Nicolescu, Haiduc & Nancu, coordinators, 2010

Figure 8: The evolution of the main indicators of SMEs' activity in 2009 compared to 2008

One of the extremely serious consequences of the current crisis is represented by the change in SMEs' access to bank loans. In the context of the current crisis, as a result of deteriorating economic activity and, thus, small and medium-sized enterprises' financial situation, of increasing financing costs on international financial markets and of increasing risk aversion, banks proved to be reserved in granting loans, tightening lending standards and increasing interest rates. The reluctance of banks in granting loans, especially for SMEs, was also determined by the increase in nonperforming loans ratio and guarantees risk. According to the data published by the National Bank of Romania, the highest share of nonperforming loans was granted to SMEs. Thus, in June 2010, the ratio of nonperforming loans granted to SMEs was of 10,2% for mortgage secured loans and of 9,5% respectively for loans unsecured with mortgage. By comparison, for larger firms the same indicator recorded a much lower level, of 3,3% for mortgage secured loans and of 1,5% respectively for loans unsecured with mortgage [National Bank of Romania, 2010]. Therefore, SMEs and, especially, micro and small firms are considered by banks as having a higher credit risk in comparison to large firms and thus face important difficulties in raising finance by way of loans.

The deterioration of SMEs' financial situation and thus of the quality of bank loan portfolio resulted in the expansion of credit restructurings (especially by extending the maturity of loans, rescheduling loan rates and refinancing outstanding loans), both at the request of indebted firms and at the banks' own initiative. In this respect, we can notice that, at the end of 2009, the share of restructured loans in the total amount of loans granted to non financial enterprises was of 10%, out of which 85% were granted to small and medium enterprises [National Bank of Romania, 2010].

In the current, extremely difficult economic and political Romanian environment, mainly characterized by economic recession and limited public authorities' reaction to counter the effects of the crisis, SMEs are facing major difficulties. Thus, the survey conducted by CNIPMMR on a sample of 1485 SMEs points out as major issues for the entrepreneurs (see figure 9): the decrease in domestic demand (reported by 66% of SMEs), excessive tax burden (reported by about 55% of SMEs), bureaucracy (reported by 47%), inflation (about 37%), corruption (36%) and difficult access to loans (about 31%).



Source: Nicolescu, Haiduc & Nancu, coordinators, 2010

Figure 9: The frequency of major issues for Romanian SMEs, in the current conditions

The significant role of SMEs in Romanian economy, as well the extremely serious implications of the current crisis on this sector and on the business environment, called for the adoption of governmental support measures to limit and counter the effects of the crisis. Such measures are mainly designed to stimulate investments, improve the cash flow of firms and support their access to finance, especially for the small and medium firms. Among the governmental measures adopted in the current context stand out in particular: the non-taxation of reinvested profits, the possibility of compensation of recoverable VAT with payable VAT, outstanding deferred payment obligations to the state budget, state aid, support for export production by guarantee and indemnity (in particular, by EximBank), CEC Bank and EximBank capitalization to support SMEs, the establishment of the Counter-Guarantee Loan Fund for SMEs, improving the investment law, including by reducing the amount of investment eligible for facilities from 50 million to 10 million EUR, granting state aid and de minimis aid up to 200000 EUR for SMEs. Since September 2010, new measures to support businesses were adopted, including: the establishment of a state aid scheme to facilitate firms' access to finance in the current period of crisis, consisting in guarantees granted to SMEs and larger firms; removing the minimum profit tax since October 1, 2010; support for young entrepreneurs by grants up to 10000 EUR for starting a new business; additional capitalization of the National Credit Guarantee Fund for SMEs to facilitate their access to bank loans, providing government guarantees for the beneficiaries of the projects financed from structural funds in priority fields for Romanian economy.

In the context of significantly reduced bank loan availability, the National Bank of Romania intended, also taking into account the fundamental monetary policy objective, to resume lending by promoting a relaxed monetary policy, consisting in the progressive reduction of the monetary policy rate from 10,25% in January 2009 to 6,25% in May 2010, level that remained unchanged until present and the gradual decrease in the minimum reserve ratio on lei liabilities (from 18% in June 2009 to 15% in July 2009, level that remained unchanged) and on foreign currency liabilities (from 40% in June 2009 to 25% in November 2009). However, on the background of macroeconomic uncertainties and increasing risk aversion of both banks and businesses, we currently witness a slow bank lending revival.

As a result of the extremely serious effects of the current crisis on access to loan finance of Romanian businesses, especially SMEs, we witnessed increased concerns to conclude partnerships between banks and the business environment, aimed mainly at identifying and promoting solutions for ensuring SMEs financing during the crisis.

4. Conclusions

The current crisis has led to significant deterioration of Romanian business environment and, in particular, of the economic and financial situation of SMEs. The

survey conducted by the National Council of Small and Medium Sized Private Enterprises in Romania (CNIPMMR) shows that, between October 2008 and March 2010, about 50% of SMEs reduced their activity, especially as a result of the drop in sales, orders, number of customers and profits

Another important effect of the current crisis is worsening of the financing issues specific to SMEs, as a result of the deterioration of their economic and financial situation. The extremely negative implications of the current global economic crisis on SMEs called for the adoption of governmental measures oriented towards supporting SMEs and countering the effects of the crisis. However, the still difficult situation of Romanian SMEs as well as the fact that our economy is still in recession shows that the effectiveness of these measures was reduced. us consequences of the current crisis is the change in SMEs' access to bank loans. The problems encountered by firms operating in our country indicate the need for public authorities to accelerate reforms aimed at improving the business environment and, therefore, attracting foreign direct investments. At the same time, rising unemployment due to the economic downturn shows the importance that public authorities must grant to rising investments.

The ability of SMEs to overcome the crisis, restoring their normal functioning and hence resuming economic growth significantly depend on the implementation of appropriate economic policy measures, the increase of concerns to conclude partnerships between banks and businesses and the improving of dialogue between public authorities, financial and bank institutions and SMEs.

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