

A WAY FORWARD FOR ROMANIAN SMALL BUSINESSES AFTER THE PANDEMIC

Ramona TODERICIU¹, Alexandra BOANTA²

^{1,2}Lucian Blaga University of Sibiu, Romania

Abstract

The impact of the SARS-COV-2 virus on small and medium-sized businesses is huge, with most businesses having difficulty staying afloat during the pandemic period. Uncertainty is a major factor that can have a truly major impact on small businesses, and this was especially evident during a pandemic.

Certainly 2020 is a year of challenges, with a significant impact on SMEs, a year in which the decisions taken by managers will have a significant impact on the direction of their business, a year in which adaptation to current customer requirements is crucial. Thus, it is necessary that managers know and analyze the current market trends so as to approach proactively the adaptation difficulties encountered.

The activity of companies has developed mainly in the online environment, in order to maintain contact with customers and to keep the business alive by selling the products and services offered through online platforms.

The present study aims to review and analyse the short-term effects of the Covid-19 pandemic, in order to disseminate the economic effects caused during this period relating to the impact of staff layoffs, restriction or business reorientation, and effects that can generate, in certain situations, economic recession, with temporary or even permanent damages. Therefore, we can say that there are good reasons to believe, as many specialists say, that the effect of the pandemic will be felt for a longer period, without being able to expect a sudden economic recovery, but a slow and long lasting one.

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¹ Professor, Ph.D., Lucian Blaga University of Sibiu, ramona.todericiu@ulbsibiu.ro

1. Introduction

2020 is a year of economic challenges for economies around the world, a year of uncertainty, a year of struggle - for the most part - for survival, a year in which governments must work to support the business sector. In this complex and unpredictable world in which they operate, small companies will be much more affected than larger ones because they are more vulnerable and have fewer financial and human resources to adapt to a rapidly changing context. SMEs are certainly the most exposed to risks during this period also due to the fact that they activate in sectors such as HORECA, catering services, beauty and education services, industries affected by the altered behavior of customers, especially the physical distancing and the imposed operational restrictions that began during the pandemic.

SMEs are also more vulnerable to "social distancing" than any other type of company. On average, at EU level, a study conducted by the Department of Economic Sciences, Law and Sociology of the Romanian Academy, shows that approximately 90% of SMEs are economically affected, services being the highest affected (60% -70%), followed by construction and industry (40% -75%). About 30% of all SMEs report that they suffer a decrease of 80%, compared to an EU average of around 50%. Their vulnerability was accentuated by the economic slowdown and quarantine that generated severe income reductions, so that many SMEs are on the verge of survival, as mentioned in the same study conducted by the Department of Economics, Law and Sociology of the Romanian Academy, document referenced by HotNews.ro.

The situation of SMEs in Romania does not differ significantly even if at European level, SMEs employ more than 2/3s of the active labor force from the private non-financial sector and they contribute with more than half to the added value at national level.

Our country with almost 30 SMEs per 1,000 inhabitants, ranks last in Europe, where the average is about 60 %. The impact of COVID-9 also strongly affected this sector: in January 2020 6,897 companies were registered, in February - 11,314, and in March - 6,023 companies. The decrease of the business initiative is obvious compared to the same months of 2019, the monthly average of registrations declining by -35% and March only showing a decrease of registrations of -53.9%.

Small businesses operating in almost all economic sectors currently face significant losses that threaten their operations and solvency, while

hundreds of thousands of workers are vulnerable to loss of income and layoffs. Experts say the impact on income-generating activities is particularly severe for vulnerable workers and the most vulnerable groups in the informal economy. The subject is one of maximum interest, which has determined a series of specialists in the field to study the impact that the pandemic has and will have on small businesses. Thus, the pandemic was divided into impact phases, thus resulting four stages that small enterprises go through, either successively or simultaneously, when facing the COVID-19 crisis:

1. The impact of the shutdown had significant effects on the small businesses in the countries in which measures were taken to stop the activity. In this case, the businesses in tourism, travel, wholesale and retail, hospitality and entertainment were the most affected. In the short term, the governments of the affected countries have focused on keeping SMEs in these sectors afloat.

2. Supply chain disruptions have affected companies around the world. Pandemic-induced blockades in China, the European Union (EU) and the United States, also known as the Group of Three (G3), have had a major impact on production, imports, and exports. SMEs in these countries, but also in other countries of the world, that supplied raw materials and merchandise to other countries saw their orders reduced or even canceled as demand fell.

3. The considerable reduction in demand occurred initially only in the affected countries, but afterwards spread throughout the world, resulting in reduced sales to consumers and businesses. There is a decrease in population spending precisely to compensate for the decline in incomes during the pandemic. This could lead to lack of confidence, overburdened loans, and bankruptcies among SMEs.

4. The recovery is quite slow - it started gradually in the economies where isolation measures were eased, however, we are witnessing a change in customer priorities, since the shutdown has altered production and demand.

2. The impact of the pandemics at European and national level

About 90% of SMEs are affected economically on average, in the EU, mostly services (60% -70%), construction and industry (40% -75%). About 30% of all SMEs report that they suffer a loss of 80%, compared to an EU average of around 50%. For example, Belgium reports a 72% decrease in turnover in SMEs, Germany - 50%, France and Spain - 80% and 75% respectively. A survey of 445 startups conducted by Techleap in the

Netherlands, found that 50% of them have drastically reduced revenues and are under the risk of running out of cash in the next three months. Most entrepreneurs have claimed a need of 100,000 to 400,000 euros for the short-term financing of a survival bridge. The first steps taken by European governments were to postpone payments of taxes and / or social security contributions, and SMEs began to use short-term unemployment schemes. On average, between 10% and 50% of SMEs apply this procedure.

In Germany there are about 3.5 million workers and 200.000 companies that use a form of unemployment scheme (about 36%), in Austria there are 53,646 applications, in Belgium there are 1,075,000 temporary unemployed, in Finland 260,000 in France 5 million, in the Netherlands 300,000 and in Spain 270,430. For independent individuals, a subsidy of between 600 and 2,000 euros is granted at EU level, in Ireland the level is 1,517 euros / month, in Italy 600 euros / month, in Spain 670 euros / month (in Catalonia 2,000 euros / month).

The International Trade Center (ITC), the leading international organization dedicated to supporting the competitiveness of SMEs, regularly provides information and guidance to SMEs in crisis. The JTI has launched a survey of all European SMEs to gather information on the difficulties encountered. The countries' response to the economic and organizational crisis caused by the pandemic can also be found on the website of the European Association of Development Agencies (EURADA), which brings together EU national development agencies. Most measures aim to providing liquidity by facilitating loans.

In Finland, Business Joensuu also supports companies by opening a helpline for those facing new difficulties.

Germany offers, through the development agency-ADR, a set of financial instruments not only in traditional forms, such as loans and grants, but also some less classic ones, such as the Micromezzanin Fund, a hybrid of equity and debt transformed by the state in shares. Spain has launched a set of emergency measures, implemented by the national agency ForoADR, promoting a variety of measures to curb the economic downturn and provide companies with information on access to government support for liquidity, suspension or postponement of tax payments.

In Hungary, the government has approved a large number of regulations to limit the effects of the crisis. SMEs with an annual income of less than 12 million forints (approx. 34,000 euros), working in the field of

catering services, hotels, taxis, sports, arts and entertainment, construction, etc., are exempt from tax. A competition in which entrepreneurs from over 30 countries participated was organized to bring out ideas and promote the innovative ones with aim of counteracting the effects of COVID-19.

In Italy, the government acted to prevent the collapse of SME revenues by allocating an additional 5.1 billion Euros to boost credit to up to 350 million euros for these companies. Among the instruments used were: moratorium on loan repayment, thus generating liquidity increases of 220 billion euros; increasing the guarantee fund for SMEs from 40 to over 100 billion euros; relaxing access to "Cassa Integrazione Ordinaria" - for the payment of salaries by the state, and through "Integrazione salariale", payment during the crisis.

In France, Nouvelle-Aquitania, a regional development agency, has developed a platform for connecting industrial SME initiatives: expert solution providers and applicants can work together to make sanitary products and protective equipment, etc. To prevent the bankruptcies of the affected companies, the government will set up a € 45 billion support fund to finance partial unemployment, and € 2 billion is being offered to support crisis-stricken SMEs and freelancers.

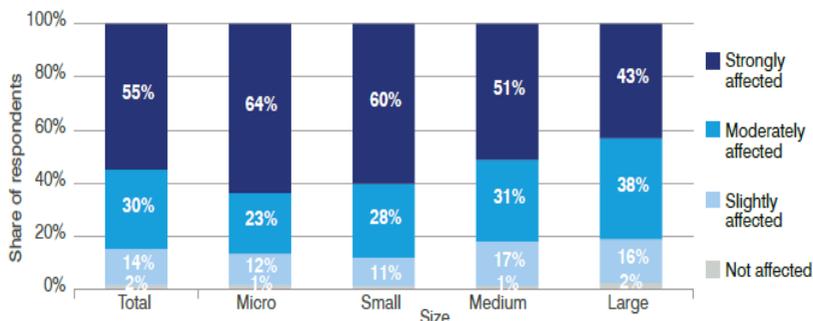
Apart from national programs, measures have been taken at EU level: the EC has proposed a more flexible response to emergencies in areas such as health and SMEs, allocating € 37 billion to address the consequences of the pandemic and creating a framework to support the economies of the Member States in order to ensure sufficient liquidity for SMEs through the European Investment Bank; SMEs are usually the most vulnerable in a crisis and it is essential to be supported with liquidity of up to 80%. Urgent aid to SMEs was launched in April 2020 to help meet immediate cash needs by providing guarantees to banks, for which the EC has released € 1 billion from the European Fund for Strategic Investments (EFSI) and through the European Investment Fund (EIF), for special guarantees offered to at least 100,000 affected SMEs. A dedicated platform (European Cluster Collaboration Platform-ECCP) was created and launched for industrial SMEs (COSME), with the aim of combating the effects of the pandemic.

The European Union Agency for Cybersecurity believes the pandemic could be an opportunity for SMEs to respond more quickly to the current digital challenge. According to the Digital Economy Index (DESI), only 77% of SMEs have a website. The OECD Working Group on SMEs (WPSMEE)

has produced a scoreboard to support these companies and entrepreneurs, through funding from alternative sources, including leasing, factoring and crowdfunding, suggesting the use of a mix of financial instruments. The Council of Europe has developed specific tools in response to the challenges in public health systems, and the European Commission, which is also responsible for the fiscal criteria of the Stability Pact (GSP), has emphasized its readiness to consider easing fiscal targets.

The majority (55%) of the companies surveyed said they were severely affected by the pandemic and the steps taken to tackle it. Smaller companies were more severely affected by COVID-19 than larger ones. Nearly two-thirds of micro and small businesses said their business operations were severely affected by the crisis, compared to about 40% for large companies. The crisis has had a severe impact on companies in Africa, with two out of three companies reporting that they are severely affected by COVID-19, especially through reduced sales (75%) and / or difficulties in accessing inputs (54%).

Table 1. The question stated: “How has your company’s activity been affected by the COVID-19 pandemics?” and “How many full time employees does your company have?” Definitions: microenterprises up to 4 employees, small companies: 5-19 employees, medium enterprises 20-99 employees and large companies: 100 or more employees. Data from 2170 companies from 121 countries. The rate of response varies across countries and regions



Source: ITC calculations based on the survey regarding the impact of COVID-19. Data collected between 21st of April and 2nd of June 2020

The current activity of SMEs in Romania is far from the European average since they provide and occupy more than 2/3s of private sector jobs and contribute more than half to the added value at national level. With about 30 SMEs per 1,000 inhabitants, Romania ranks last in Europe, where the average is about 60 %. The impact of COVID-9 also strongly affected this sector, in January 2020 6,897 companies were registered, in February - 11,314, and in March - 6,023 companies. The decrease of the business initiative is obvious compared to the similar period of 2019, the monthly average of registrations being lower by -35%, and March only registered a the decrease of registrations of -53.9%.

The students did not take advantage either of the opportunities offered by GD no. 166/2003, because until April 2020 the total number of companies established in the entire interval (2003-2020) was 19,867, in operation being 9,281, deregistered 10,586, and in March 2020 only 3 companies were established. The situation of active companies will worsen according to the opinion of the Association of Financial Analysts, and the first solution should be to subsidize interest rates aiming to generate a strong upward trend.

Romanian SMEs operate mainly in the national framework, few being engaged in cross-border activities, but which can capitalize on opportunities generated by EU membership, using the existing organizational and legislative framework such as:

- The largest and most comprehensive initiative on SMEs - the Small Business Act (SBA), which aims to integrate various instruments, based on the European Charter for SMEs and a policy for growth and increased employment;
- Access to European funding. The internal financial market often does not cover the needs of SMEs, in which case the European institutions facilitate this financing through the European Investment Bank (EIB) and the European Investment Fund (EIF);
- SMEs and the single market. The Commission Communication entitled "Towards a Single Market Act for a highly competitive social market economy" recognizes the need to improve the position of SMEs in the single market;
- EU networks for SMEs that include, in particular, support services, such as "European Enterprise Network", "SOLVIT", "Your Europe - Enterprise", "SMEs and the Environment", "REACH Technical

Support Offices", "Support for innovation and research", "Techweb for SMEs", "European Innovation Network in the Workplace", etc. ;

- The SME Competitiveness Program (COSME) adopted in 2013, which aims to: improve SMEs' access to finance for growth investments, a loan guarantee mechanism, as well as the provision of support services through the Enterprise Network. It also aims to promote entrepreneurship, especially among young people, women, and social enterprises.

As there are no official detailed data on the status of SMEs at national level, the assessment of the status can be made only based on surveys, of which we quote:

- A survey conducted by the National Institute of Statistics in March this year, addressed to 1,796 companies (response rate - RR, 86.4%) that also have foreign trade activity. About 10% of respondents indicated increased exports, 32% of respondents indicated a reduction of up to 25%, and only 20% of the respondents indicated a reduction of over 25%;
- A second survey, conducted on a sample of 8,831 companies (RR 71.3%), highlights the uncertainty of business developments. In March 2020, 21.2% of respondents could not estimate how business will evolve, in April their share increased to 34.3%, and over 50% of managers in March and 62.9% in April could not make an evolution estimate;
- The National Council of Small and Medium Private Enterprises in Romania (CNIPMMR) conducted a survey among SMEs, interviewing 8,374 entrepreneurs. Of these, 98.6% mentioned that they are affected by the pandemic and only 1.4% answered "No". Among the main effects mentioned: decrease in sales (65.6%), suspension of activity (56.4%), difficulties in collection (54%), restriction of activity (51.4%);

In order to support the research conducted through this article, we conducted a survey based on a questionnaire, by formulating a number of 10 questions, distributed through online platforms, to Sibiu SMEs in which they analyze their economic situation after the spread of the pandemic. The research is still ongoing, which is why we do not yet have concrete data for dissemination. The questionnaire was completed through the online survey platform - www.survio.ro, and the questionnaire can be found at the link

below:https://www.surveio.com/survey/d/K2O8U7E0I3H3O1T1S#.X3111bdLt_mI.gmail. The answers to the questionnaire will be subsequently included in a broader research, which we intend to carry out in the near future, and which will take into account the changes that occur.

3. Conclusions

The COVID-19 pandemic forced many entrepreneurs to reconfigure their business, find solutions and move on, and one of the opportunities noticed by the business environment during this period is the increase of Romanian production and the development of products that until now depended on import. Moreover, local companies have the capacity and know-how to turn this crisis into an opportunity for growth. Measures to limit the spread of COVID-19 have short-term consequences that risk undermining the social and economic fabric of nations. It also threatens the survival of small businesses that make up more than 70% of the workforce in many countries, however, that have the fewest assets to get out of the storm. SMEs face a higher risk of collapse than the larger companies by not being unable to compete. However, because of the many people involved in SMEs, the associated job loss would aggravate the economic recession created by the pandemic.

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