

# CHALLENGES OF ENTREPRENEURSHIP IN ROMANIA

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## Abstract:

*Being an entrepreneur nowadays is truly a challenge, a joint synergy between active, innovative behaviour and risk in all its forms, resulting in changes within the socio-economic environment, namely in values to individuals and the society.*

*Personal satisfactions, independence, work safety, the chance of unlimited earnings, power and influence are doubled by major risks such as: loss of invested capital, full responsibility, affecting one's career and own image, personal and family damage.*

*The importance of start-ups in any economy cannot be denied: they create jobs, generate sustainable economic growth, lead to progress in all forms.*

*In Romania at present, there are about 51,000 active small and medium enterprises accounting for 9% of the total number of companies, yet contributing 24.5% to the total added value. Now, more than ever, there should be emphasis on financing, on the tax environment, regulations, coordinated support, as well as on education and training.*

*Under these circumstances, both the private business environment and the state by its government policies must create conditions for the development of SME's, generate a competitive entrepreneurial environment, and support the Romanian entrepreneurial culture.*

**Key Words:** *idea, creativity, innovation, entrepreneurship, entrepreneurial culture*

**JEL Classification:** *L26*

## 1. Introduction

In an unstable socio-economic environment characterized by a high level of risk and high uncertainty, with major imbalances on the labour market, entrepreneurship is one of the solutions for economic growth. In as early as 1985, Peter Drucker, father of modern management, in his work "Innovation and Entrepreneurship" highlighted the importance of entrepreneurship to the economy of any country: "... we need to encourage flexibility habits, ongoing learning and acceptance of change as being something normal and take them as opportunities, both to institutions and individuals". Indeed, time has shown that small businesses create jobs, generate sustainable economic growth, and generate progress in all its forms.

Since powerful countries with entrepreneurial traditions increasingly rely on the development of this sector, emerging countries are catching up, focusing on entrepreneurship and on specific steps to stimulate entrepreneurial initiatives. Thus, countries such as Great Britain, Canada, Australia have created a favorable tax, financial, educational, cultural environment realizing the importance of this type of business for the entire economy.

Being an entrepreneur nowadays is truly a challenge, a joint synergy between active, innovative behaviour and risk in all its forms, resulting in changes within the socio-economic environment, namely in values to individuals and the society.

Personal satisfactions, independence, work safety, the chance of unlimited earnings, power and influence are doubled by major risks such as: loss of invested capital, full responsibility, affecting one's career and own image, personal and family damage. Nevertheless, in entrepreneurship, more than in any other kind of business, that which alone is at its peak is job satisfaction. The idea one starts from is essential, but it plays a relatively modest role in the business success itself; what matters is how such an idea is implemented, how it is capitalized.

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## 2. Diagnosis of Romanian Entrepreneurship

The entrepreneurial environment in Romania has acquired new meanings over the last years: from frail initiatives to well-defined successful business in successful areas.

The “Romanian Entrepreneurship Barometer” has conducted an overview. According to statistics, of the total number of active companies on 31 March 2015, around 64% are limited liability companies which have one shareholder on average. Of these, around 91% belong to the category of micro-enterprises, with an average of 2 employees, with an average capital of about 11,000 Euros, which achieve an annual turnover of 47,000 Euros. The survey shows that around 2.6 million companies have been set up over the last 25 years, whose average lifespan has been estimated as being 9 years and 9 months.

**Table 1: Comparative Analysis of SME’s in Romania and the EU (%)**

	<b>Romania</b>	<b>European Union</b>
Share of SME’s in total number	99.6	99.8
Contribution of SME’s in total gross added value	44	59
Share of SME employees in total number of employees	66.2	66.9

The Romanian SME’s in five activity sectors: manufacturing, trade, construction, professional activities and transport create 70% of total gross added value and 60% of all the employees in SME’s are concentrated in trade, manufacturing and construction. The profile of a Romanian entrepreneur is: male, aged between 40 and 49, coming from the urban areas, working in trade, construction and transport.

Almost 50% of entrepreneurs worldwide are young and very young people, in the age group of 25-44, the most frequent entrepreneurial group being the one between 25-34 years of age. Additionally, to 8-10 million SME’s worldwide there is at least one female shareholder and as to 67 countries, there are about 126 million women running a start-up.

### 2.1. Access to Financing

The most important financing sources for entrepreneurship are: bank loans, European funds, micro-financing, public-private partnerships, venture capital, business angels, crowdfunding, stock market etc. A special role in the creation and development of a competitive entrepreneurial environment is yet played by government policies.

The government steps that can improve the access to financing mainly envisage:

- tax facilities for investment in small companies;
- guaranteeing loans;
- reduced taxation of capital gains.

The attractiveness of the Romanian business environment is declining especially to foreign investors, as shown by the negative trend of foreign direct investment reported in 2014 as compared to the previous year (2,43 billion Euros, 11% less than in 2013) and by the number of newly set-up companies (101,000, 19% fewer than in 2013). Therefore, a number of tax steps for investment and reduced taxation of gains are absolutely necessary in order to increase the attractiveness of the business environment both for domestic and foreign investors.

The provisions of the new Tax Code to some extent support the information above. The current legislation provides a number of tax facilities: granting additional deductions in the calculation of taxable income of 50% of eligible costs; local tax exemptions, reduced taxes on tangible and intangible assets, tax exemptions on land, infrastructure development programmes, development donations and funds for companies operating in technological and industrial parks etc. The tax exemption for reinvested profit applicable until 31 December 2016 may generate benefits in terms of cash flow. Regarding the tax on dividends, it will reduce to 5% as of 1 January 2017 according to the latest amendments of the Tax Code published in Official Gazette no. 688/10 September 2015.

In order to guarantee loans, the National Fund for Credit Guarantee for Small and Medium Enterprises provides guarantees of those loans falling into government programmes and facilitates the access to European funds by guaranteeing the loans to finance projects co-financed from European grants. In the year 2014, FNGCMM granted 35,570 individual guarantees amounting to 615.6 million Lei, of which 2,500 million Lei were granted to SME's. The amount of loans backed up by guarantees from the Fund is more than 5.9 billion Lei for over 11,000 SME's.

Other active guarantee funds in Romania are the Rural Credit Guarantee Fund (FGCR), a non-banking financial institution supporting the absorption of European funds and the encouragement of agricultural producers' and processors' access to loans and financing instruments. As well as the former fund, FGCR covers up to 80% of a contract financing value, stating that the maximum financing amount may not exceed 2.5 million Euros. Furthermore, the Romanian Credit Guarantee Fund (FRGC) guarantees up to 70% of the loans specifically intended for Romanian entrepreneurs.

JEREMIE is an active European financial instrument in Romania that provides financial intermediaries with certain financial instruments intended for SME's: guarantees, co-guarantees and counter-guarantees, equity guarantees, (micro)loans, risk capital, co-investment funds, and investment in technology transfer funds.

This financial instrument provided three products for 2007-2013:

- guarantees up to 80% for investment loans and working capital amounting to EUR 1.9 million Euros/beneficiary, with the guarantee free of charge to the beneficiary SME;
- subsidized interest with interest sharing for investment loans and working capital of up to 1 million Euros – with a 4.5% average interest rate for beneficiary SME's and with the loan cost reduced by 50%;
- venture capital by 3TS Capital - investment capital in companies operating in the Internet, media, telecommunication fields.

For the financing year 2014-2020, the financing instruments used by JEREMIE are risk-sharing guarantees or financing, risk capital and an initiative devoted to SME's. Additionally, the Romanian government has got involved in supporting entrepreneurship through a number of programmes meant especially for start-ups and also young entrepreneurs (of up to 35 years old) who set up a limited liability company while they are entrepreneurial beginners.

**Table 2: Programmes to Encourage SME's in Romania**

Programmes for SME's	2014		2015	
	Budget(Lei)	Beneficiaries	Budget(Lei)	Beneficiaries
Development and modernization programme of selling market products and services	21,049,000	267	30,000,000	200
Encouragement programme for the set-up and development of microenterprises by young entrepreneurs	21,000,000	415	29,879,000	493
Multiannual national programme for supporting arts and crafts	1,000,000	166	1,700,000	200
Multiannual national programme for the set-up and development of technology and business incubators	5,400,000	11 incubators	13,300,000	18 incubators
Multiannual national programme for developing entrepreneurial culture among women managers	500,000	12	1,000,000	20
UNCTAD/EMPRETEC Romania programme for supporting the	500,000	8 work-shops/ 152 participants	1,000,000	8 work-shops/ 160 participants

Programmes for SME's	2014		2015	
	Budget(Lei)	Beneficiaries	Budget(Lei)	Beneficiaries
development of small and medium enterprises				
De minimis scheme	100,000,000	464	250,000,000	555
Romanian-Swiss programme for SME's	28,524,286 CHF	300	28,524,286 CHF	384
Programme for the development of entrepreneurial skills among young people and facilitating the access to START financing	17,000,000	167	20,000,000	150

Source: Ministry of Energy, Small and Medium Enterprises, and Business Environment

Romanian entrepreneurs also benefit from European funds of 4.4 billion Euros meant for SME's through the following operational programmes:

**Table 3: Operational programmes during 2014-2020**

Operational programmes	Specification
"Human Capital" Operational Programme (POCU, the former POSDRU)	Meant for entrepreneurship and for increasing workforce employment by providing support to individuals to set up new businesses or SME's with non-agricultural profiles in urban areas. The financial support available through direct grants and loans or guarantees provided for business development is 550 million Euros, in order to create new jobs, counseling or advice services.
Competitiveness Operational Programme (POC)	Meant for SME's in the sectors of Research, Technology Development and Innovation (CDI) in order to support economic competitiveness, and in the sector of Information and Communications Technology (TIC) for competitive digital economy. In the TIC field, advanced services are to be financed for supporting SME's and groups of SME's (including management, marketing and design services) as well as TIC services and applications for SME's (including e-commerce, e-business and interconnected business processes). The financial support is over 250 million Euros.
Regional Operational Programme (POR)	Meant for SME's in two directions: Technology Transfer and Competitiveness. The former direction shall aim at research strengthening, technological development and innovation as its thematic objectives, whereas the latter direction aims at improving the competitiveness of small and medium enterprises, agriculture, fisheries and aquaculture. The financial support is 865 million Euros, of which 165 million Euros for Technology Transfer and 700 million Euros for Competitiveness of SME's.
National Rural Development Programme (PNDR)	Meant for SME's for investment in physical assets, processing and marketing of agricultural products, support provided to young farmers, development of exploitations and enterprises, supporting non-agricultural productive activities, craft services and activities, rural tourism. The financial support is about 8 billion Euros.

Furthermore, a number of financial instruments for SME' are available at European level, namely:

**Table 4: Financial Instruments Typical of SME's in the European Union**

UE Financial instruments	Objectives	Specification
HORIZON 2020	Research, Development, Innovation	Capital for research and innovation meant for SME's amounting to 0.43 billion Euros; Guarantees of 1.06 billion Euros.
COSME COMPETITIVINESS & SME'S	Creating jobs, Generating growth, Social cohesion	Growth capital – 660 million Euros; Loan guarantee facility - 660 million Euros.

UE Financial instruments	Objectives	Specification
SOCIAL CHANGE AND INNOVATION	Creating jobs, Generating growth, Social cohesion	Investment in social economy of 192 million Euros.
ERASMUS	Creating jobs, Generating growth, Social cohesion	Education loan guarantee facilities of 517 million Euros.
CREATIVE EUROPE	Research, Development, Innovation Creating jobs, Generating growth, Social cohesion	Guarantee facilities for the cultural and creative sector of 121 million Euros.

In February 2015, the Bucharest Stock Exchange launched AeRO, a market meant for financing successful projects and success stories of start-ups and SME's. The listing conditions are: a minimum expected market capitalization of at least 250,000 Euros and a free float (holdings of shareholders who have less than 5%) of at least 10% or a total number of at least 30 shareholders. After two months, the shares of 10 companies were available for trading, including: Delivery Solution – courier services; CarpathiaC - investment fund; and Brittnet Systems, the first IT company listed on the exchange.

Depending on the development stage of business, the financing sources vary, therefore entrepreneurs may resort to alternative sources. For the early stages, which are the most vulnerable in fact, capital is needed and it is usually difficult to obtain, which is why one relies on their own funds. In the emerging stage, the financing sources can be one's own or one can choose specific forms such as *venture capital* (capital provided by institutional investors, namely innovative start-ups with high growth potential), *business angels* (successful entrepreneurs investing in young companies and provide them with consultancy to a greater or smaller extent) or *crowdfunding* (it intervenes in business financing even earlier than business angels do and relies on the contributions and donations made by people to whom the entrepreneur introduces a project on specialized platforms).

It is in 2013 that Romanian entrepreneurs started to realize the importance of the first two financing sources to the emerging stage of their business. Tax facilities, creating business angel networks and especially education are instrumental in their viability. As far as crowdfunding is concerned, as an alternative financing source, there is no legislative basis in Romania. In contrast, at the European level, the market of alternative financing increased to 3 billion Euros in the year 2014, as a total of over 5,800 start-ups and SME's obtained them.

## 2.2. Entrepreneurial Culture and Education

Economic growth involves business, some that emerges, increases, decreases, disappears, i.e. economic dynamism based on a number of factors, including entrepreneurial culture and education.

Entrepreneurial culture in Romania is in progress, with field specialists stating that the fear of failure is the most important barrier to entrepreneurship development. Business failure remains a flaw both in terms of companies (insolvency and bankruptcy of companies are penalized), and especially from the perspective of further financing.

Promoting business opportunities for young people, easy access to information and improved communication largely contribute in increasing the maturity level of entrepreneurial culture.

Creating a friendly entrepreneurial environment involves joint efforts: efforts of the government, entrepreneurs and corporations. The first type of steps, the government ones, envisage the perception of entrepreneurs and business failure, in which case a number of levers can be used, such as the law of insolvency and company bankruptcy (where a company in default draws its law protection demanding insolvency opening) and mentoring and popularization programmes for entrepreneurship.

Entrepreneurship must be valued and promoted as a source of sustainable economic growth and failure should be regarded as an experience to learn from. Besides, statistics show that in terms of entrepreneurship, success is more likely in its second attempt than in its first. Regarding mentoring programmes, they are based on encouraging successful leaders to provide mentoring and create business connections (networking opportunities).

An essential contribution in developing the entrepreneurial culture is held by entrepreneurs themselves, by means of promoting entrepreneurship and its benefits as well as by cooperation within entrepreneur networks in order to develop ideas.

Corporations can intervene in developing the entrepreneurial environment by sponsoring business incubators and also by the coverage of successful entrepreneurial business.

Models are very important in entrepreneurship; a few examples of success stories are enough: Ion Țiriac, Marius Ghenea, Dragoș Anastasiu, Camelia Șucu and the list can go on. When it comes to successful foreign entrepreneurs, one thinks of: Bill Gates, Steve Jobs, Mark Zuckerberg, Donald Trump and here, too, the list can go on.

Entrepreneurial education must be oriented towards the development of basic knowledge, namely business organization, finance, marketing, human resources, communication and PR, and also to the contact with Entrepreneurial models and their success stories.

The solutions to improve entrepreneurship-related education are:

- pre-university education, with changes in teaching and assessment methods;
- financial education classes in schools;
- development of tertiary education;
- university education;
- specific entrepreneurial courses;
- informal education/ongoing learning.

Traditional education helps entrepreneurs succeed in business, but that requires they should benefit from support, guidance, being creative and being able to take risks. Formal education must be supplemented with idea and business competitions, business plan competitions, incubators, internships.

### 3. Conclusions

Entrepreneurship, regarded as a source of sustainable economic growth, is linked to the trends at economic, technical and technological levels, to the demographic evolution and social changes.

The development of entrepreneurship requires a joint effort among entrepreneurs, government, corporations, school, education, culture, regulatory bodies, support organizations, investors, media.

At the macroeconomic level, one of the strongest motivations to encourage the set-up of companies is the important role of entrepreneurs in economic growth and in creating jobs.

Entrepreneurship equally involves challenges and risk taking, along with satisfactions, as that which manifests at its peak is job satisfaction. Being your own boss, hope for virtually unlimited material gains, creating yourself a successful image is a dream that has come true for many entrepreneurs.

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