THE IMPACT OF THE COVID-19 ON ENTREPRENEURSHIP IN THE NORTH EAST REGION - RESILIENT GROWTH SOLUTIONS

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Abstract

The relevance of entrepreneurship is given by the fact that micro, small and medium-sized enterprises (SMEs) represent 99% of EU businesses. They provide two thirds of the private sector jobs while contributing with more than half of the total added value created by EU businesses. The systemic plans for economic recovery and resilience play a key role in the sustainable development of the business ecosystem following the COVID-19 crisis. Supporting the business environment, they, SMEs especially, represent the solution to reduce unemployment and increase employment. This paper analyzes the state of entrepreneurship at both national and regional levels, in order to identify the impact of the COVID-19 crisis on the resilience of SMEs. Based on the published data, we will conduct a quantitative research on the evolution of entrepreneurial activity in 2020.

Keywords: entrepreneurship, resilience, pandemic crisis, economic recovery

Introduction

It is unanimously accepted that in all economies the entrepreneurship is the engine of economic development having a vital role in the sustainable functioning of the markets. In this context, the impact of the COVID 19 pandemic has generated new approaches to economic recovery, reconstruction and strengthening the resilience of SMEs. The year 2020 meant a real challenge for the economic field in general, but especially for the field of entrepreneurship in particular. It is a year that marks the start of irreversible transformations, which would have happened anyway, but maybe much slower (Agenția pentru Dezvoltare Regională Nord-Est, 2021, p.199).

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From an early stage in the COVID-19 pandemic, economists have stressed the importance of individuals endogenously changing their behavior to reduce their risk of infection (Droste and Stock, 2021, p.9). The COVID-19 pandemic fundamentally changed the entrepreneurial way of thinking, generating innovative actions and perceptions on both the market and the business model. (G20, Young Entrepreneurs' Alliance, 2018, p.29). The global business environment and, therefore, the Romanian one, expected an economic crisis anyway, but nothing foresaw a crisis of such proportions and with consequences in so many areas of our society and our life (European Commission, 2020, p.18).

The data analysis aims to highlight the way and the extent to which the business environment was affected during this pandemic period, when a series of measures were taken to restrict social and economic activity, how the entrepreneurs responded and adapted to these measures, and the needs identified by entrepreneurs for the recovery of their business.

1. The context of economic development at national and regional level

According to Eurostat in 2008, EU-27 represented approximately 15% of the world trade of goods, the value of the international trade of goods being much larger than that of services (approximately three times larger), which means that the nature of certain services may be an obstacle in cross-border commerce. In 2018, EU-27, The USA and China represented 42% of the world trade of goods, thus, in 2019 being the EU-27 main export partner of the USA, and the main import partner being China (Radica Lupu et al., 2020, pp. 213). At national level, we can state that our country has a certain experience on the international markets, which is emphasized by the data presented in the trade balance as follows.

The Romanian export and import are conducted mainly, with the European countries 87.8% of the export and, respectively, 88.5% of the whole import. The inter-country commerce with the 27 European countries represents 76.7% for export and 74.8% for import.

According to Business Environment Barometer for North-Eastern Europe 2020, in 2018 Romania managed to export to the world countries over 67 billion euro, 5 billion more than in 20017, but much less than it succeeded in importing from other countries, 83 billion euro – which means a difference of 15 billion euro. By far, the most exchanges are with Germany, over 15 billion export and almost 17 billion imports. The only country with over 1 billion exchanges in its favour is Great Britain, while other exchange partners with more export in favour of Romania are the USA, France, Moldavia, Egypt, and Norway. On the other hand, Romania imports more from Turkey, China, Austria, Poland, and Bulgaria.

In the first 9 months of 2018, the first 10 countries for Romanian export were: Germany (with 23.5% of the Romanian export), Italy (11.3%), France (7%), Hungary (4.5%) Great Britain (4.3%), Bulgaria (3.3%), Spain (3.2%), Poland (3.2%), Turkey (3.1%), The Czech Republic (3.0%), with a total of 66.4% for all these countries for export.
As far as import is concerned, the first 10 partner countries of Romania (countries for extra-Community imports and dispatching for intra-Community imports) make up a total of 67.8% of the total import realised in the first 9 months of 2018, respectively: Germany (20.7%), Italy (9.5%), Hungary (6.8%), Poland (5.4%), China (5.3%), France (5.2%), Turkey (4.2%), Holland (3.8%), Russia (3.6%), and Austria (3.3%).

The deficit of 17 billion euro which our country had in 2019, did not reflect entirely in the deficit of payment balance, on account of a more rapid increase in export than goods import, where we have an excess, which covers almost half of the deficit of the commercial balance. At present, goods export represents approximately a third of the Romanian GDP, and if we add the value of the services, then, they reach approximately 45%, but we still are under the European average value of 54% according figure 1.

**Figure 1. The evolution of the commercial deficit of Romania, throughout 2019**

![Graph showing the evolution of the commercial deficit of Romania throughout 2019](image_url)

*Source: own representation according to the National Statistics Institute, INS*

According to the data published by the National Bank of Romania (BNR), in the first eight months of 2020, the balance of the current account registered a deficit of 5.8 billion euro, having a decrease by 18% as compared with the same period in 2019. The commercial balance of Romania was counterbalanced to a certain extent by the commercial surplus in services in the first 8 months of 2020. Romania exported services of 15.1 billion euro and imported 9.2 billion euro in services. Consequently, Romania experienced a commercial surplus in services of 5.9 billion euro in the first 8 months of the year, with an increase by 9% as
compared to the same period of the previous year, when services registered a commercial surplus of 5.4 billion euro.

Transportation contributed to the commercial surplus of services with 2.5 billion euro, however, the pandemic transportation restrictions imposed this year are noticeable – the surplus of services in transport was, in the first 8 months of 2019 of 2.9 billion euro, an increase by 14%. The transportation sector was one of the most severely affected businesses by the restrictions imposed by the pandemic.

The IT sector is the winning one in the pandemic and the analysis of export and import services confirms: the most surplus was registered in “other services”, where the IT sector is placed. These experienced a surplus of 2.8 billion euro in the first 8 months of 2020, an increase of 27% as compared to the same period in 2019, which had a surplus of 2.2 billion euro. The fact is that companies were forced to invest in IT, taking into consideration the fact that, if possible, employees were allowed to work from home. Moreover, there was investment in IT in online commerce.

The current account balance – The foreign currency which entered Romania as compared to what left the country – registered in the 8 months of 2020 a deficit of 5.8 billion euro, a decrease by 18% as compared to the same period in 2019, according to the National Bank of Romania. Services contributed the most to the payment balance, however, the deficit of 11.8 billion euro in foreign trade in goods titled the current account balance to deficit. The deficit of the commercial balance of Romania (FOB/CIF) increased by 908,7 million euro (5.85%), in the first 11 months of 2020, as compared to the same period of the previous year, reaching 16.433 million euro (National Statistics Institute, 2020).

According to the NIS, in November 2020, FOB exports amounted to 6.029 billion euros, and CIF imports amounted to 7.603 billion euros, resulting in a deficit of 1.573 billion euros. Compared to November 2019, exports in October 2020 increased by 0.6%, while imports increased by 1.5%. Between January 1st and November 30th, 2020, important shares in the structure of exports and imports are held by product groups: machinery and transport equipment (48.4% for export and 37% for import) and other manufactured products (30.4% both for export and import).

From my point of view, the increase of exports is a beneficial thing for the Romanian economy as long as we maintain the same quality of the products for both exports and what remains on the local market. Ideally, exports would exceed imports, which is conditioned by Romania being evaluated as a producing country, situation which unfortunately does not suit us, since Romania is being included on the list of consuming countries, because we consume more than we produce. In this regard, greater efforts should be made to support the country’s economy, also taking advantage of the facility of exports at optimal costs.
2. The particularities of entrepreneurial environment at regional level

All over the world, small and medium-sized enterprises (SMEs) are the engine of the economy. They have a vital role in the sustainable functioning of local markets, but also of the global market because these organizations employ 50% of the total workforce globally, while in Romania it represents 66%. In addition to SMEs, and as a distinct category of them, small business type start-ups and scale-ups, which are at the beginning of the road and which are defined by a process of accelerated growth, contribute significantly to socio-economic development by:

- creating new jobs;
- increasing economic dynamism by stimulating innovation’
- creation of new industries.

In fact, one of the strengths of the European Union is represented by the start-up ecosystem: since 2017 it has generated revenues of over 430 billion euros. In order, for the European ecosystem to grow and companies to expand and enter others markets, new VAT regulations are needed, technologies and innovations that can be challenged and restricted by current EU laws.

We can identify five important factors that stimulate the development of the entrepreneurial environment (Amway, 2020):

- tax management;
- existing rules and regulations in each country;
- the education system as a provider of necessary skills;
- available technology;
- the economic situation in that country.

Romania is below the global average regarding these issues, so there are still important steps to be done in terms of improving policies and public procedures for the entrepreneurial environment.

Entrepreneurial ecosystems are generally made up of government, which creates rules and regulations to support entrepreneurship, business angels’ industry and venture capital, which provides the initial and the growth capital needed to support entrepreneurship, the financial market, which provides financial incentives and ways of funding for start-ups, and ultimately entrepreneurs, who form real communities and start businesses. Regarding the national entrepreneurial ecosystem, 62% of the existing businesses are operational, have customers and a percentage of 38% of the total are start-ups in the early stages, still working on the idea or the launching of the product. As a result, the Muntenia and Bucharest region claim a third of the projects in the launch phase, followed by Transylvania, with a number of 78 projects and Moldova, with 66 projects (Impact HUB, 2020).

At European level, a significant proportion of businesses on the market offer an online service / product while only 0.7% of them offer offline solutions. In addition to well-represented sectors such as IT / Software Development (19.1%) or
Software as a Service (18.5%), new companies were created in trendy sectors such as Green Technologies (4.0%) and FinTech (5.1%) (European Commission, 2018).

3. The dynamics of entrepreneurial initiative in North-East region, in the context of the crisis

In order to highlight the way and extent to which the health crisis has influenced the entrepreneurial environment, we have analyzed the official information presented by National Trade Register Office (ONRC), for the counties within the North-East region for the year 2019 and the year 2020.

According to ONRC information, at national level, the number of newly created companies, an indicator that shows the business appetite in the economy, decreased by 58% between March and May 2020, compared to the same period in 2019, with a collapse of 80% in month April. (National Trade Register Office, 2020). Thus, with the declaration of the state of emergency, in March 2020 and until the end of May, 16,600 new companies entered the local economy, compared to almost 40,000 in the same period in 2019.

Thus, from an average of 12,000 - 14,000 new companies monthly, in April 2020 were identified only 2,500 newly-created companies at national level. Therefore, in terms of entrepreneurship, year 2020 is one in which those who would have liked to enter the market have postponed this decision due to uncertainties and vulnerabilities in the entire economy. Thus, from an average of 12,000 - 14,000 new companies monthly, in April 2020 were identified only 2,500 newly-created companies at national level. Therefore, in terms of entrepreneurship, year 2020 is one in which those who would have liked to enter the market have postponed this decision due to uncertainties and vulnerabilities in the entire economy.

Figure 2. Registrations of individuals and legal entities in the NE region, in the period 01.01.2020 - 31.12.2020 compared to the same period in 2019

Source: own representation according to ONRC data, December 2020
As can be seen in figure 2, the number of company’s registrations in 2020 was lower than the ones registered in the previous year in all counties of the North-East region. The largest decrease was registered in Bacau County, where the number of registrations decreased by 846 in 2020 compared to the previous year. According to the evolution from figure 2, the largest percentage decrease registered in the North-East Region was in Vaslui County, where the number of registrations decreased by approximately 30% in 2020 compared to 2019. In Suceava County was registered the smallest percentage decrease of 12.68% in 2020 compared to 2019.

In Botoșani County there was the smallest decrease in the number of registrations, with only 226 fewer registrations in 2020 than in 2019. In Suceava, the number of registrations in 2020 decreased by 338 compared to 2019. By areas of activity, according to CAEN, the number of registrations decreased in almost all activities except transport and storage activities, where there is an increase from 11029 in 2019 to 11688 in 2020, the main cause being the home deliveries and e-commerce which increased greatly during the crisis triggered by Covid 19. Another area of activity in which the number of registrations increased was the production and supply of electricity and heat, gas, water where the number of registrations increased by 100, reaching 186 in 2020.

Figure 3. Registrations of natural and legal persons according to CAEN carried out in the NE region in 2020 compared to 2019

Source: own representation according to ONRC data, December 2020
By activities of the national economy according to CAEN, the largest percentage decrease was registered in agriculture, forestry and fishing of about 50%. In transport and storage activities, the number of registrations increased by approximately 6% in 2020 compared to 2019. The number of registrations in the field of production and supply of electricity, heat, gas, hot water increased by over 116%, the main cause being the liberalization of the electricity market. Data on company registration dynamics are among the tools that can measure the impact of the pandemic on the business environment the fastest (National Institute of Statistics, 2020).

As we can see according to figure 4, the number of company dissolutions in 2020 compared to the previous year was lower throughout the region. In Iași County, only 942 companies were dissolved in 2020 compared to 2019 when there were 1086. The largest decrease in the number of dissolved companies was registered in Bacău County, where the number decreased by 218 in 2020 compared to 2019.

Figure 4. Dissolutions of companies in the NE region in 2020 compared to 2019

As a percentage, the number of dissolutions decreased in Vaslui by over 45% in 2020 compared to 2019. The smallest percentage decrease was registered in Neamț County of approximately 8%. In Suceava County, the number of dissolutions decreased by approximately 18% in 2020 compared to 2019. By activities of the national economy, most dissolutions were registered in the field of wholesale and retail trade, car repair, decreasing in 2020 compared to 2019. Another field of activity in which the number of dissolutions was quite high in the year 2020, but decreasing compared to 2019, was the field of constructions. The amount of deregistration in the North-East region has decreased in all counties of the North-East region. As we can see in Figure 4, the highest amount of deregistration in 2020 was registered in Iași county, and the lowest number in Vaslui county (531 deregistration).
Regarding the establishment of SRL-D, the largest number of SRL-Ds/(LLC-begginers) established until December 31, 2020 was in Iași County. Of the 1552 SRL-Ds established, 1219 were in operation and 333 were deregistered. The smallest number of SRL-Ds were established in Vaslui, where out of the 347 established during 2020, only 309 were still in operation at the end of the year, 38 being deregistered. Most name reservations were made in Iasi, but of these, 513 were expired, only 3 being on term. In Vaslui there were 56 rervations for the name, of which 56 were already expired at the end of the year. At the end of 2020, 58 SRL-D/LLC were being set up in Iași, this being the largest number registered in the NE region. Suceava County was on the 3rd place with 28 SRL-D in the process of being established after Bacău County.

Figure 5. Evolution of deregistered companies in 2020 compared to 2019, in the NE region

The largest decrease in the number of deregistration was in Iași County, where there was a decrease of over 3000 deregistration in 2020 compared to 2019. In percentages, the largest decrease was registered in Vaslui County of approximately 65%, followed by the county Iasi with over 61% as we can observe in figure 5. By activities of the national economy, according to CAEN, most deregistrations were in the field of wholesale and retail trade, repair of motor vehicles, motorcycles, the number of these activities registering a significant decrease in 2020 compared to 2019 due to the emergence and manifestation of the crisis. From the analysis we can observe that in 2020 in the field of agriculture, forestry and fishing there was a significant decrease in the number of deregistrations, of about 80%.

Figure 6 shows that the number of companies suspended in 2020 has decreased in all counties of the North-East region. The largest reduction was
registered in Neamț County where 350 suspensions were registered in 2020 compared to 535 in 2019.

Figure 6. Dynamics of companies suspended in the NE region, in 2020 compared to 2019

![Diagram showing dynamics of companies suspended in the NE region, 2020 compared to 2019]

Source: own representation according to ONRC data, December 2020

The highest number of suspensions in 2020 was in Iași County, decreasing by approximately 100 suspensions compared to the previous year. In percentage, the largest reduction of suspended companies was in Botoșani County, of over 40%, and the smallest reduction was registered in Vaslui of approximately 16%. Regarding the suspended companies on activities of the national economy, it is observed that the largest number of suspensions in 2020 were in the field of wholesale and retail trade, repair of motor vehicles and motorcycles, but decreasing compared to 2019. The number of suspensions increased visibly in 2020 compared to 2019 in the field of education.

According to the evolution captured in figure 7 we can observe that the number of newly created companies in January-May 2020 compared to the same period of the previous year, decreased significantly in both absolute and percentage values. The largest decrease was recorded in April 2020 compared to the same month of 2019. At national level, the number of newly created companies decreased by 18.09% in 2020 compared to 2019.
Figure 7. The evolution of the number of new companies created in 2020 compared to 2019

Source: own representation according to ONRC data, December 2020

From the analysis of data provided by the official website of the National Trade Register Office (ONRC) for 2019 and 2020, it can be seen that in the North-East region the situation of entrepreneurship followed the national trend, that of decline and contraction.

However, the number of companies, suspended, deregistered or dissolved did not encounter significant decreases in 2020 compared to 2019, entrepreneurs showing sustained resilience and adaptability. We can appreciate that entrepreneurs have tried to maintain their businesses and make them functional, while also showing confidence in the government’s initiatives to support this sector of activity.

4. Need for resilient growth

As a result of the data from ONRC detail regarding the behavior of companies / number of suspended companies / entrepreneurial initiative in 2020, it is observed that existing companies have shown sustained resilience but also an extraordinary adaptability and creativity.

The increase of competitiveness in the region pursues the objectives proposed by the national competitiveness strategy proposed for 2014-2020 and continued for the financial year 2020-2027, taking into account the national areas of excellence, including the perspective of the territorial dimension and rural development. (Nicolescu et al., 2020, pp. 47).

The strategy includes the following priorities:
- formation of production and technological development centers of regional and international competence;
- industrial revitalization through intelligent specialization and transformation of knowledge into a source of competitive advance;
- redefining industrial policies by focusing on innovation and strengthening the market functioning mechanism;
- integration of network industries in the value creation circuit;
- better regulation of the business environment at national level and the development of the regional capacity of economic administration;
- integration of the urban-rural space and capitalization of the territorial capital in the circuit of formation of the economic value;
- preparation for 2050 generation;
- opening the business environment to investment and research directions with an impact on societal challenges.

In the sustainable development of the business ecosystem at national and regional level, the systemic plans for economic recovery and resilience play a key role; supporting the business environment, especially SMEs, its resilience is also the solution to reducing unemployment and increasing employment, but also the key to economic recovery (European Commission, 2015).

The temperate behavior of entrepreneurs, even in a crisis situation, was due to the existence of a sustained entrepreneurial education and a rigorous business behavior (European Commission, 2020). At present, the SME sector is refreshing, diversifying and reinventing itself in an attempt to move forward.

Responsible public authorities have taken a number of measures to counter the harmful effects of the pandemic and help economic operators meet this global challenge by creating and implementing financial aid programs and schemes for companies and employees.

Depending on the local context and the objectives pursued, measures to support entrepreneurship can focus on any of the following directions:
- increasing the number of entrepreneurs and new businesses set up;
- increasing the survival rate of new businesses;
- increasing the number of entrepreneurs who generate jobs and well-being.

The SME support measures had as main purpose to ensure job retention for employees working in industries severely affected by the restrictions imposed in the context of the pandemic.
- the SME Invest program;
- payment of technical unemployment by the government;
- payment of a re-insertion allowance for employees who are technically unemployed;
- tax advantages such as the suspension of the obligation to pay certain taxes;
- tax credits, etc.

Fiscal stimulus packages have been adopted by almost all governments around the world in an attempt to limit the negative impact of this lockdown: technical unemployment, deferral of tax payments, suspension / deferral of credit installments or their maturity. The analysis of the measures taken by different states is a useful exercise that indicates what the best practices globally are.
We can identify two categories of measures adopted and applied in 2020, in order to support companies in difficulty:

**Fiscal-budgetary measures:**
- additional funds for the health system;
- technical unemployment of 75% of the maximum average gross salary in the country, including partial coverage of the salaries of the self-employed;
- postponement of the payment of taxes during the state of emergency and for another 30 days after the ending of state emergency;
- initial guarantees of 10 billion lei for SMEs;
- faster VAT refund;
- suspension of enforcement of remaining debtors;
- postponement of the payment of the property tax by three months, maintaining the bonus of 10%.

**Monetary-financial measures:**
- reducing the monetary policy rate by 0.5 percentage points to 2%;
- providing liquidity to credit institutions through repo transactions (repurchase transactions with government securities);
- the purchase of government securities on the secondary market;
- measures to defer the payment of instalments for households and enterprises affected by COVID-19 for a period of up to nine months.

We can identify some particularities for the profile of European start-ups. At national level we can make a profile of existing start-ups. Among the start-up companies existing on the market 41% of businesses are a mix between B2B and B2C, and the proportion of B2B versus B2C is balanced, representing 29% each.

At the same time 28% of the initiated businesses aim at the development on the local market, 33% aim at the national market, 10% at the regional market and 29% at the international market (Impact HUB, 2020).

We can identify some particularities for the profile of European start-ups too. 46.1% are new entrants, 33.7% are in the process of expanding their activity. Regarding the typology: 82.1% are B2B (business to business) and generate all their revenues (46.5%) or mainly (25.3%) by collaborating with other companies. Geographical area in which it operates: start-ups that record revenues are mostly in continental Europe (84.2%), with a large base in the country of origin of the company (62.4%), followed by other EU countries (17.7%) and the United States (8.9%). Expansion in international markets: 88% of start-ups plan to enter markets in one or more countries in the next 12 months. Popular sources of financing: founders’ savings (77.8%), business angels (29%) or venture capital (26.3%).

From the point of view of the industries targeted by future entrepreneurs, there are numerous green initiatives, wellness solutions, healthy food, micro farming, coaching, holistic therapy centres, apps with information about the health of young children or smart wallet for the blind, consultancy for HR companies, specialized in the wellbeing of employees and their clients.
Conclusions

Following the analysis and the particularities of the business environment in 2020, due to the Covid 19 crisis, we identified some significant obstacles encountered by Romanian entrepreneurs in starting a business: bureaucracy, as the main problem; unclear or unstable legislation; the relationship with the state authorities (difficult to approach, often with incompetent employees); excessive taxation; corruption, especially among institutions; local mentalities.

In order to diminish the effects of the crisis and support the entrepreneurial activity, the government initiated a series of measures that tempered the shock produced by the Covid-19 crisis (as highlighted by the analysis based on the data considered (the 6 counties of the Northeast region). However, the intensity and impact of these measures depend on the specifics of each economy.

The year 2021 began under more optimistic auspices. In the first quarter of 2021, 41,251 new entities were registered nationally, compared to 27,129 last year. The IMF forecasts a strong recovery of the Romanian economy this year with a growth of 7%. In this context, the absorption of EU funds will be crucial for the further growth of the economy, accompanied by a moderation of increases in public sector wages and pensions.

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