

Mitigating the Impact of COVID-19 Pandemic Crisis on Small and Medium Sized Enterprises in Romania

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Abstract

Romania is at the moment, as in fact almost all the countries of the world, in a deep economic crisis caused by COVID-19 pandemic that inevitably affects small and medium-sized enterprises as well. This paper presents the impact felt by Romanian entrepreneurs following the new crisis and their reaction to the measures adopted by the Government to mitigate this impact.

Key words: state of emergency, COVID-19 pandemic crisis, Romanian entrepreneurs, SME
J.E.L. classification: H12, L26, L38

1. Introduction

The world economy and national economies are in a deep crisis because of the COVID-19 pandemic crisis. The so-called "freezing of real economies" occurs in almost all countries.

Analyses performed by specialists in many countries on the crisis caused by coronavirus pandemic reveal three essential elements: the medical and economic situation is and will be very different from one country to another, depending on certain medical, economic, managerial, social, cultural and ecological determinants; each country must have its own approach regarding this crisis, depending on the specific national situation; countries need to work together and coordinate medically and economically on certain key issues, given that there is not only a medical pandemic, but also an economic pandemic, ie a global crisis that it spreads and deepens rapidly.

These are the premises from which the decisions and actions regarding the revival of the Romanian economy must start, including those related to the relaunch of the SME sector.

2. Theoretical background

In general, *a state of emergency* is a government declaration that may alter the normal functioning of certain legislative, executive or judicial institutions. Such statements usually take place during pandemics, natural disasters, after a declaration of war or during periods of popular uprisings. Such statements warn citizens to change their normal behavior and order government agencies to implement contingency plans. A state of emergency may also be used as a ground or pretext for suspending the rights and freedoms guaranteed under a country's constitution or basic law. The procedure and legality of this procedure varies by country (https://ro.wikipedia.org/wiki/Stare_de_urgenta).

In accordance with the Emergency Ordinance no. 1/1999 on the state of siege and the state of emergency, the state of emergency is the set of exceptional measures of a political, economic and public order nature, applicable throughout the country or in some administrative-territorial units, which are established in the following conditions, the state of emergency is the set of exceptional measures of a political, economic and public order nature, applicable throughout the country or in some administrative-territorial units, which are instituted in the following situations:

- a) the existence of current or imminent serious dangers regarding national security or the functioning of constitutional democracy;
- b) the imminence of the occurrence or production of calamities that make it necessary to prevent, limit or eliminate, as the case may be, the consequences of disasters.

3. Research methodology

The analysis undertaken in this paper is based on the interpretation of data collected following opinion polls conducted by the National Council of Small and Medium Private Enterprises from Romania in March and April 2020 on Romanian entrepreneurs on the effects of the measures adopted by government authorities to mitigate the impact of the COVID-19 pandemic crisis on small and medium-sized enterprises (SMEs).

4. Results

4.1. Crisis management of SMEs in the context of the state of emergency caused by COVID-19 pandemic crisis

As we already know, between March 16 and May 14, 2020, Romania was in a state of emergency due to the coronavirus pandemic. In this first state of emergency established in Romania in the period after December 1989, the economic national priority was to maintain as many SMEs as possible that operate as close to normal as possible, to provide jobs, products and services to the population and revenues to state budgets.

In order to prevent and reduce the negative effects on their business, SMEs faced with a situation of deep national and international crisis had to take the following steps (<http://cnipmmr.ro/2020/03/16/managementul-de-criz-a-al-imm-urilor-in-conditiile-coronavirusului/>) :

- ✓ To identify the main threats for their business: stopping or reducing the demand for the products and services offered; partial or total blocking of the supply of raw materials, semi-finished products, spare parts, products, services, etc.; staff shortage; increasing the costs (unitary and total) of running the business; decrease in revenues and revenues; non-payment of installments on loans, leasing, etc.; lack of liquidity for the payment of salaries, suppliers, etc.

- ✓ To assess the duration and magnitude of the negative effects of each of the above threats on their business and to establish accordingly concrete measures to eliminate / mitigate the negative effects of each threat.

- ✓ To identify possible new opportunities related to sales, supply, human resources, costs, subsidies, tax and fee deferrals, state aid, etc.

- ✓ To evaluate the duration and size of the positive effects of each new opportunity on their business and to establish accordingly concrete measures to capitalize on the new opportunities.

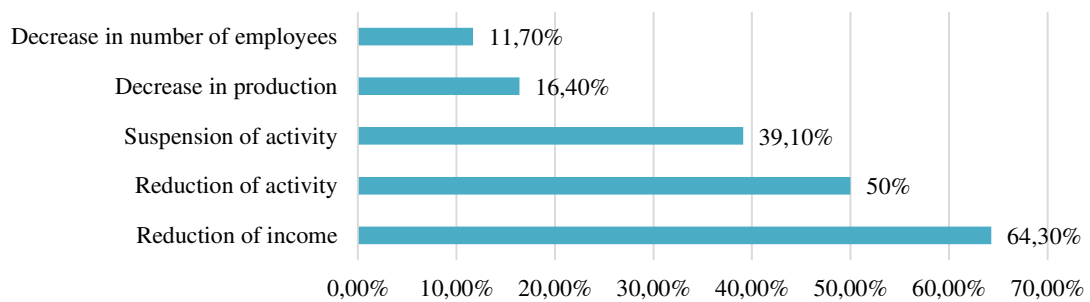
- ✓ To centralize the negative effects of threats that have not been counteracted by areas (costs, prices, turnover, profit), but also the positive effects of capitalizing on new opportunities by areas (costs, prices, turnover, profit).

- ✓ To determine the total net effects (from threats and opportunities) for the business and to establish other additional measures to reduce the total negative effects at the business level.

- ✓ To draw up a synthetic plan with all the measures to be adopted and implemented grouped in 3 categories: immediate measures (to be adopted in the next 2 weeks); medium-term measures (to be adopted in the next 3-12 weeks); long-term measures (to be adopted after 12 weeks).

Possible scenarios to be adopted in the specific case of Romanian SMEs took into account, as the case may be, either the significant decrease and / or restructuring of their business, as activities and performances, or the temporary or permanent closure of their business, as it results from the opinion poll conducted by National Council of Small and Medium Sized Private Enterprises from Romania between March, 22nd and 24th 2020 on a number of 6,120 Romanian entrepreneurs, of which 62.9% micro-enterprises, 20.2% small enterprises, 11.1% medium-sized enterprises and 5.8% other forms of organization. Thus, 64.3% of Romanian entrepreneurs stated that their income was reduced as a result of decisions taken by the authorities in the fight against COVID-19, with other negative effects being felt such as: reduction of activity (for 50% of entrepreneurs), suspension of activity (39.1%), decrease in production (16.4%), decrease in the number of employees (11.7%).

Chart no. 1 Negative effects of the decisions taken by authorities during COVID-19 pandemic crisis on SMEs



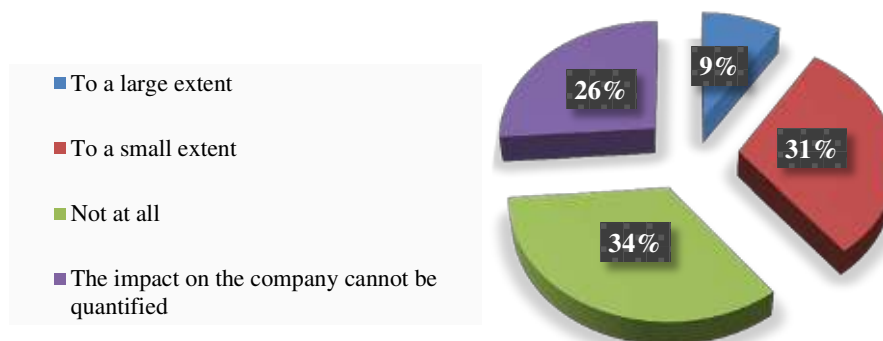
Source: National Council of Small and Medium Sized Private Entreprises from Romania, Opinion poll, 22-24.03.2020

4.2. The impact of the measures adopted by the Government in the management of the COVID-19 pandemic crisis on SMEs

According to the same opinion poll mentioned above, the majority of Romanian entrepreneurs (63.3%) were open to resorting to economic measures adopted by the Government, while a part of them (36.7%) would not resort to any measure adopted by the Government.

On the other hand, 34.4% of Romanian entrepreneurs believe that the economic and social measures adopted by the Government do not help them at all, 30.5% consider that they only help them to a small extent, while 26.2% cannot quantify their impact on their company. Only 9% of entrepreneurs agree that the economic measures adopted by the Government help them greatly.

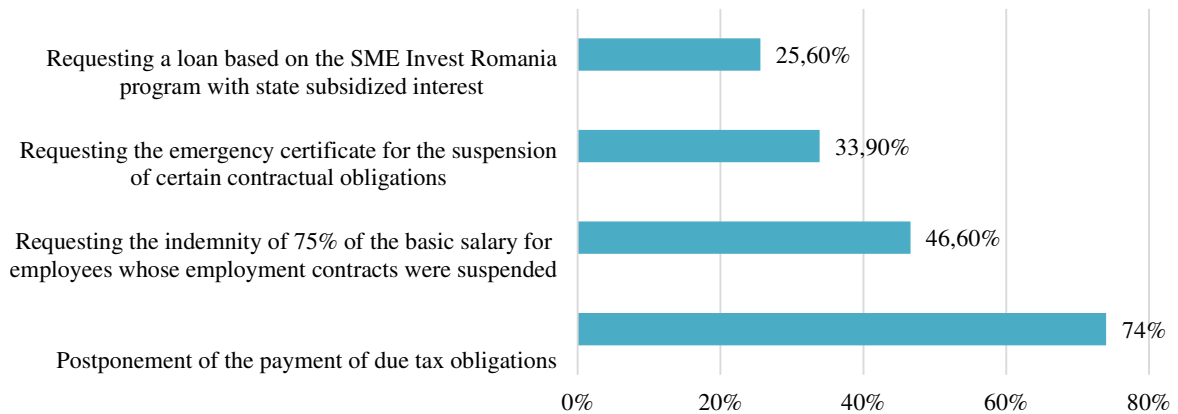
Chart no. 2 The extent to which Romanian entrepreneurs appreciate that the decisions taken by authorities during COVID-19 crisis helped them



Source: National Council of Small and Medium Sized Private Entreprises from Romania, Opinion poll, 22-24.03.2020

Thus, the main such measures recommended by authorities that will be implemented within the Romanian SMEs are: postponement of the payment of due tax obligations for the period of maintaining the state of emergency and another 30 days from the date of its cessation (74%); requesting the indemnity of 75% of the basic salary for employees whose employment contracts were suspended during the period of maintaining the state of emergency (46.60%); requesting the emergency certificate for the suspension of certain contractual obligations (33.90%); requesting a loan based on the SME Invest Romania program with state subsidized interest (25.60%).

Chart no. 3 Measures recommended by authorities and implemented within the Romanian SMEs

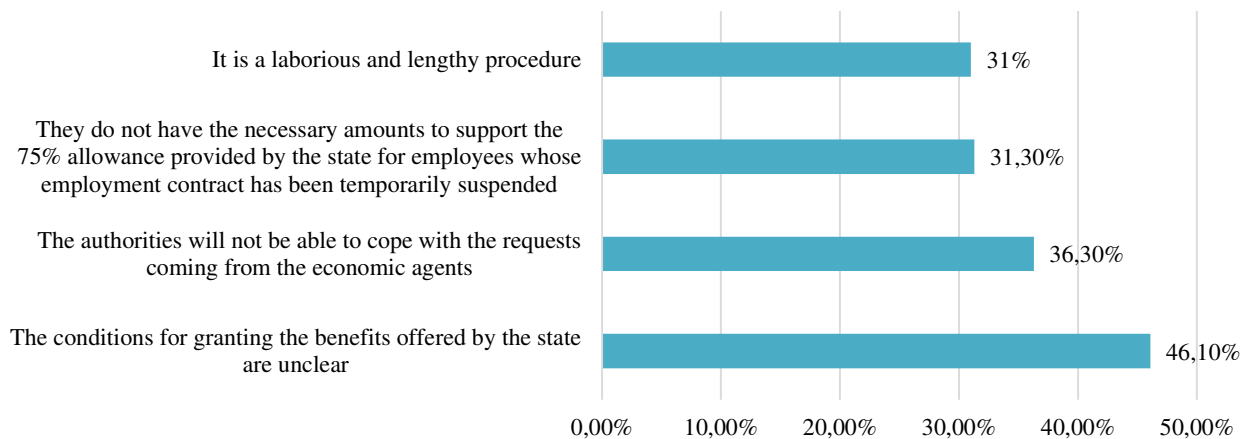


Source: National Council of Small and Medium Sized Private Enterprises from Romania, Opinion poll, 22-24.03.2020

Among the reasons why Romanian entrepreneurs will not implement any of the measures recommended by the authorities are:

- The conditions for granting the benefits offered by the state are unclear (46.10%);
- The authorities will not be able to cope with the requests coming from the economic agents (36.30%);
- They do not have the necessary amounts to support the 75% allowance provided by the state for employees whose employment contract has been temporarily suspended (31.30%);
- It is a laborious and lengthy procedure (31%).

Chart no. 4 Reasons for not implementing any of the measures recommended by authorities for Romanian SMEs



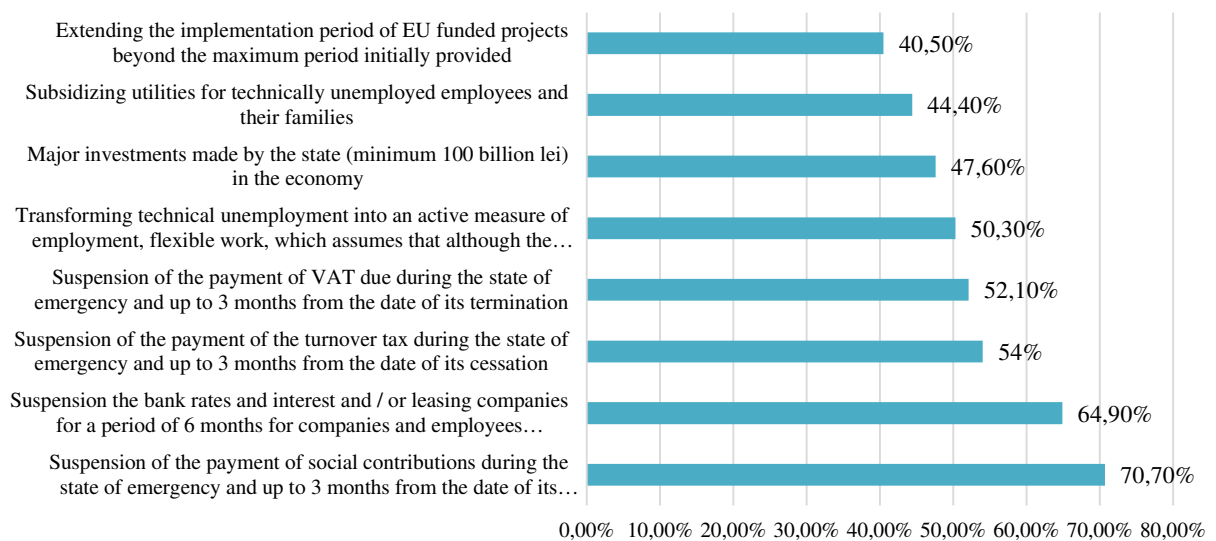
Source: National Council of Small and Medium Sized Private Enterprises from Romania, Opinion poll, 22-24.03.2020

Romanian entrepreneurs consider it necessary for the authorities to take measures to:

- Suspend the payment of social contributions during the state of emergency and up to 3 months from the date of its cessation (70.70%);
- Suspend the bank rates and interest and / or leasing companies for a period of 6 months for companies and employees affected by the COVID19 crisis (64.90%);
- Suspend the payment of the turnover tax during the state of emergency and up to 3 months from the date of its cessation (54%);

- Suspend the payment of VAT due during the state of emergency and up to 3 months from the date of its termination (52.10%);
- Transform the technical unemployment into an active measure of employment, flexible work, which assumes that although the state supports 75% of salary, the employee goes to work flexibly to maintain the economic activity of the company and society (50.30%);
- Make major investments (minimum 100 billion lei) in the economy (47.60%);
- Subsidize the utilities for technically unemployed employees and their families (44.40%);
- Extend the implementation period of EU funded projects beyond the maximum period initially provided (40.50%).

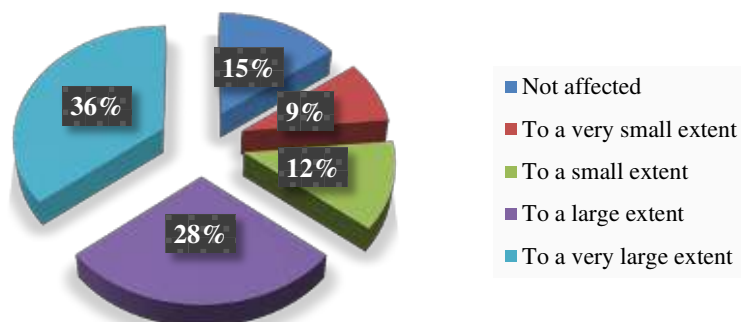
Chart no. 5 Measures considered by Romanian entrepreneurs as necessary to be adopted by the authorities



Source: National Council of Small and Medium Sized Private Enterprises from Romania, Opinion poll, 22-24.03.2020

The extension of the state of emergency accentuated the crisis in which SMEs sank, as it results from another opinion poll also conducted by National Council of Small and Medium Sized Private Enterprises from Romania between April, 14th and 21st 2020 on the effects of working from home and the need to return staff to production units. Conducted on entrepreneurs activating in the field of services (67.7%), trade (17.3%) and production (15%), the opinion poll reveals that 64.1% of entrepreneurs were largely and very much affected by the current COVID-19 crisis, 22.3% were affected to a small or very small extent and only 14.6% were not affected at all.

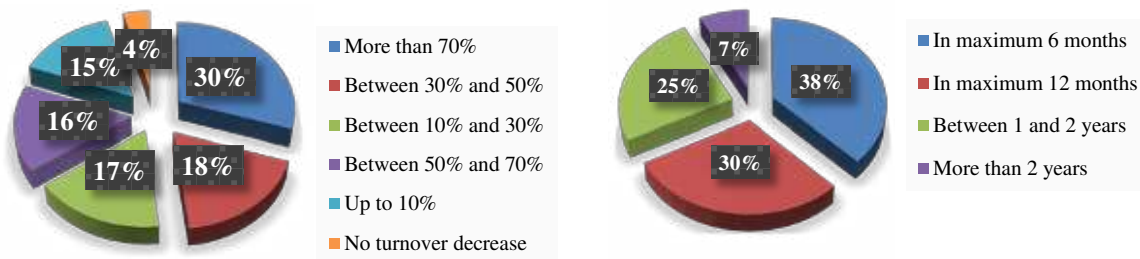
Chart no. 6 The extent to which Romanian entrepreneurs have been affected by COVID-19 crisis



Source: National Council of Small and Medium Sized Private Enterprises from Romania, Opinion poll, 14-21.04.2020

Thus, Romanian entrepreneurs estimate a decrease in their turnover as follows: 30.1% more than 70% decrease in their turnover, 18.1% between 30% and 50%, 16.8% between 10% and 30% , 15.9% between 50% and 70%, 15% up to 10% and only 4.1% did not register decreases in their turnover. In addition, 37.6% of Romanian entrepreneurs believe that they will return to pre-crisis turnover in a maximum of 6 months, 29.6% in a maximum of 12 months, 25.3% between 1 and 2 years, and 7.5% in more than 2 years.

Chart no. 7 The decrease in the turnover estimated by the entrepreneurs caused by COVID-19 crisis and the time period necessary for its return to the pre-crisis level

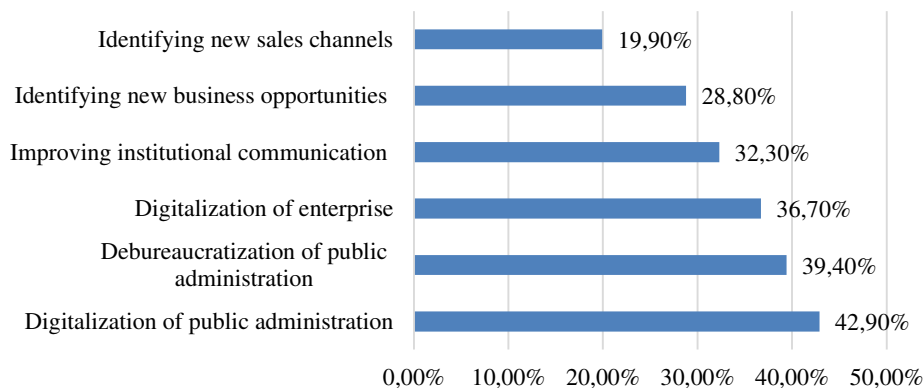


Source: National Council of Small and Medium Sized Private Enterprises from Romania, Opinion poll, 14-21.04.2020

Regarding the measures to prevent the spread of coronavirus that Romanian entrepreneurs can implement within their units, they refer to: wearing protective masks (82.30%), the use of disinfectants for surface sanitation (74.80%) and disposable gloves (61.90%), ensuring a greater distance between individual workspaces (58.40%), others (4.40%), such as the use of notice boards, shift work, 1 week office work and 1 week at home, work from home just for 3 hours per day, ensuring the transport of employees with the company's cars, settling the transport of employees with their own cars.

Among the positive effects considered by Romanian entrepreneurs as a result of the implementation of social distancing measures within enterprises, they mention: digitalization of public administration (42.90%), debureaucratization of public administration (39.40%), digitalization of enterprise (36.70%), improving institutional communication (32.30%), identifying new business opportunities (28.80%) and identifying new sales channels (19.90%).

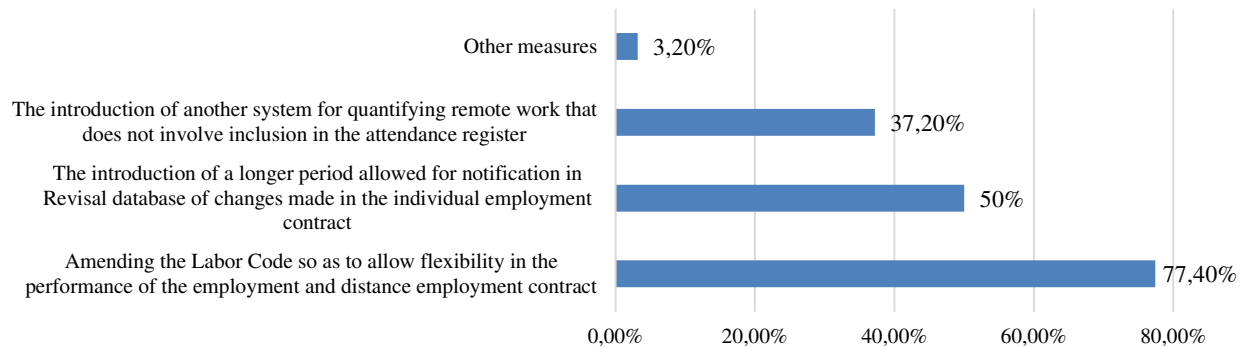
Chart no. 8 Positive effects considered by Romanian entrepreneurs as a result of the implementation of social distancing measures within enterprises



Source: National Council of Small and Medium Sized Private Enterprises from Romania, Opinion poll, 14-21.04.2020

Finally, among the measures considered necessary to be taken further in the field of labor relations, the Romanian entrepreneurs propose: amending the Labor Code so as to allow flexibility in the performance of the employment and distance employment contract (77.40%), the introduction of a longer period allowed for notification in Revisal database of changes made in the individual employment contract (50%), the introduction of another system for quantifying remote work that does not involve inclusion in the attendance register (37.20%), other measures (3.20%) such as the reduction of salary taxation, the possibility for the employer to recover the investment in the employee's professional training, etc.

Chart no. 9 Measures considered necessary by the Romanian entrepreneurs to be taken further in the field of labor relations



Source: National Council of Small and Medium Sized Private Enterprises from Romania, Opinion poll, 14-21.04.2020

5. Conclusions

Romania is, as in fact almost all the countries of the world, in a deep economic crisis, in the process of expansion. World experience shows that three scenarios are possible to get out of any economic and social crisis:

V Scenario, according to which, after a sudden and significant economic downturn, the recovery is rapid and, in a relatively short period, reaches the previous level and economic performance, continuing to develop at pre-crisis levels (Canada case crisis between 2008-2009)

U Scenario, characterized by the economy remaining low for a long time, after which development resumes, but without achieving the anticipated national performance before the onset of the crisis (US case in crisis between 2008-2009)

L Scenario, according to which the crisis is very long, recovery is slow, long and difficult, with much lower performance than the levels forecast before the onset of the crisis (Greece case between 2008-2009)

Obviously, Romania must prepare to be able to ensure a way out of the COVID-19 crisis according to V scenario, which will facilitate the return of the business environment in general and SMEs in particular to the performance recorded before the onset of the crisis, within a reasonable time (<http://cnipmmr.ro/2020/04/09/program-de-masuri-prioritare-pentru-relansarea-economica-a-romaniei/>).

To achieve this, however, it is necessary a sustained and determined intervention of the Government on the adoption of measures aimed at: maintaining, first of all, the domestic demand from the population - through the measures taken in the areas of tax, social security and wages in the public sector, and, secondly, the domestic demand from the state administration, the health and education systems, etc.; ensuring the supply from domestic sources, through the measures adopted in relation to agriculture, transport, construction, trade, in a first phase of the crisis and - subsequently - in industry, tourism, and all other components of the economy; providing the liquidity strictly necessary for the solvent demand of the population and companies to supply, produce, sell, especially in the sectors where it is possible and necessary (agriculture, agri-food industries, medicines, sanitary materials, digitization, lifelong learning and others) for them to develop; taking measures to maintain healthy, fit and available human resources for work.

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