SUSTAINABILITY OF ECONOMIC MEASURES IN ROMANIA DURING COVID 19 CRISIS

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ABSTRACT:

An overview of economic aid measures adopted by Romanian Government during the Covid 19 pandemic is presented. Measures implemented by Government Ordinance 130 issued in 2020 are analyzed in detail with an emphasis on investment grants. Updates of the evaluation criteria are analyzed and discussed and a hypothesis that co-financing percentage represents the only differentiation criterion is formulated. Data associated to investment grants submitted in the North-West Region of Romania are analyzed using some statistical techniques. Conclusions drawn from this analysis are validating the hypothesis. Sustainability of investment grants subsidies and behavior of entrepreneurs and authorities are discussed.

Keywords: *subsidies, investment grants, sustainability, statistical hypothesis, Pearson Chi-Square test.*

1. INTRODUCTION

Following integration in European Union in 2007, Romania faced a rapid and stable economic development. 2008 financial crisis hit hard the Romanian economy. 2009 GDP dropped with 14.6% compared to the 2008 GDP. In absolute value is a decrease of 21.38 billion euro. National and European measures implemented by the authorities have contributed to a quick stabilization (2010 shows a 0.2% increase compared to 2009) and a continuously increasing trend until 2019.

Covid 19 crisis impacted not only the health and lifestyle of Romanians but also the Romanian economy. A 2.2% decrease of GDP in 2020 compared to 2019 was recorded. In absolute value is a decrease of 4.83 billion euro.

Data provided by Eurostat (Eurostat, 2021) present evolution of Romanian GDP during 2007 to 2020 (Figure 1).

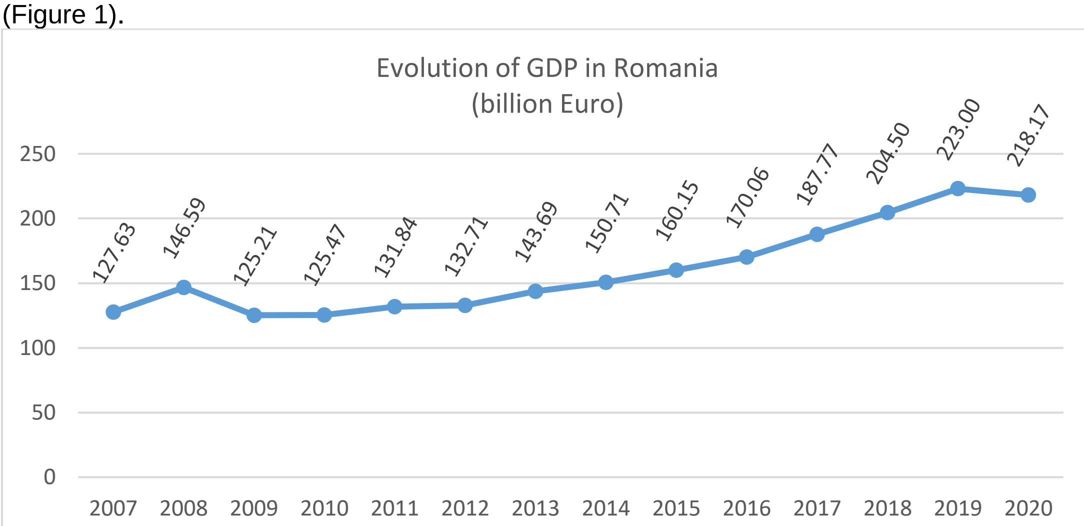

Figure 1

As all the governments, Romanian Government had a quick reaction, adopting and implementing measures to limit the spread of virus, protect the population's health, and sustain the economy. Some of the measures and restrictions were easily accepted by the population, others were criticized but at the end fully respected. Our focus in this paper is on the economic measures. Part of these economic measures are addressed to citizens, part to employees and companies and part to companies. A compendium of these economic measures, grouped by the targeted beneficiaries, is:

- Measures addressed to citizens:

Government Decision 27 issued in 2020 (Romanian_Government, 2020), stipulating days off for one of the parents in case children's lectures are suspended.
Government Ordinance 37 issued in 2020 (Romanian_Government, 2020), stipulating temporary postpone during emergency and alert situations for bank debts of citizens in case they face financial difficulties.

- Measures addressed to both employees and companies:

Government Ordinance 30 issued in 2020 (Romanian_Government, 2020), stipulating temporary unemployment for companies with activity suspended due to Covid 19 crisis. Government is paying 75% of the salary, but not more than75% of the average salary in Romania.
Government Ordinance 33 issued in 2020 (Romanian_Government, 2020), stipulating incentives for advanced payment of taxes.
Government Ordinance 92 issued in 2020 (Romanian_Government, 2020), stipulating that Government is paying part of the salary for certain employees.
Government Ordinance 132 issued in 2020 (Romanian_Government, 2020), stipulating possibility to reduce labor time, salary for the reduced hours being paid by Government.

- Measures addressed to companies:

Government Ordinance 29 issued in 2020 (Romanian_Government, 2020), providing state guarantees and subsidized interest rates for investment credits and working capital contracted by companies from banks (IMM INVEST program)

Government Ordinance 48 issued in 2020 (Romanian_Government, 2020), suspending payment of specific taxes for some industries for the period when activity is suspended.

Government Ordinance 130 issued in 2020 (Romanian_Government, 2020), stipulating financial aid for SMEs. This Ordinance was several times modified by other Ordinances: 2857, 174 and 199.

Government Ordinance 146 issued in 2020 (Romanian_Government, 2020), providing state guarantees for short-term credits accessed by companies.

Government Ordinance 224 issued in 2020 (Romanian_Government, 2020), stipulating that 20% of the turnover decrease (2020 related to 2019) in tourism and HORECA industries is covered by Government.
Further, we aim to analyze sustainability and impact of Government Ordinance 130.

2. SUSTAINABILITY OF ECONOMIC MEASURE IMPLEMENTED UNDER THE GOVERNMENT ORDINANCE 130/2020

Government Ordinance 130/2020 is establishing three types of economic aid, defined as measures. *Measure 1 – microgrants* (Romanian_Government, 2020) is providing 2,000 euro for: (i) SMEs without employees on 31st of December 2019, (ii) private entrepreneurs and NGOs active in certain fields of activity defined in the Annexes of the Ordinance and (iii) private entrepreneurs and medical doctor's offices involved in activities related to Covid 19. Total budget for this measure is 100 mil euros, 85% from European subsidies and 15% from Romanian budget.

Measure 2 – working capital (Romanian_Government, 2020) consists of grants for working capital provided for SMEs whose activity was influenced by Covid 19 or suspended/reduced due to restrictions imposed by the Government. Annexes of the Ordinance provide a list of activities for which this grant is eligible. SMEs must fulfill the following requests to access the grants: (a) provide a certificate demonstrating that activity was impacted, (b) the SME has generated profit in at least one of the last two years, (c) the SME has the capacity to co-finance the grant and (d) the SME maintains or increases the number of employees for the next 6 months after receiving the grant. Grant is calculated based on the following principle: (i) if 2019 turnover is between 2,000 and 13,500 euro, then the grant is 2,000 euro, (ii) if 2019 turnover is between 13,501 euro and 1,000,000 euro, then maximum grant is calculated by applying 15% to the turnover. Grant does not include own contribution of SME, established at minimum 15% from the total value. Total budget for this measure is 350 mil euro, from which 265 mil euros are European subsidies, 42.5 mil euro are from Romanian budget and 42.5 mil euro are contributions of SMEs.

Measure 3 – investment grants (Romanian_Government, 2020) consists of investment grants for SMEs interested to invest in the same field of activity or in a new one. Annexes of the Ordinance provide a list of activities for which this grant is eligible. Value of investment grants is between 50,000 and 200,000 euro without co-financing, which is minimum 30% from the total value for SMEs located in Bucharest area and minimum 15% from the total value for the rest. SMEs must fulfill the following requests to access the grants: (a) the SME was active with minimum 1 year before applying for the grant, (b) the SME has generated profit in at least one of the last two years, (c) the SME commits to continue the activity for minimum 3 years after implementation of the grant, (d) generates minimum 50% of the planned turnover in the first 2 years and the difference in the 3rd year, (e) the SME has the capacity to co-finance the grant. Total budget for this measure is 550 mil euro, from which 415.87 mil euro are European subsidies, 62.38 mil euro are from Romanian budget and 71.75 mil euro are SMEs co-financing. Annex of the Ordinance provides selection criteria for projects.

Submission period for projects associated to Government Ordinance 130/2020 was: 12 to 21 of October 2020 – for microgrants, 22 to 28 of October 2020 – for working capital and the 3 of December 2020 to 29th of January 2021 - for investment grants.

Status of projects at 19th of March 2021 as it is presented by (Ministry of Economy Entrepreneurship and Tourism, 2021), is provided by Figure 2:

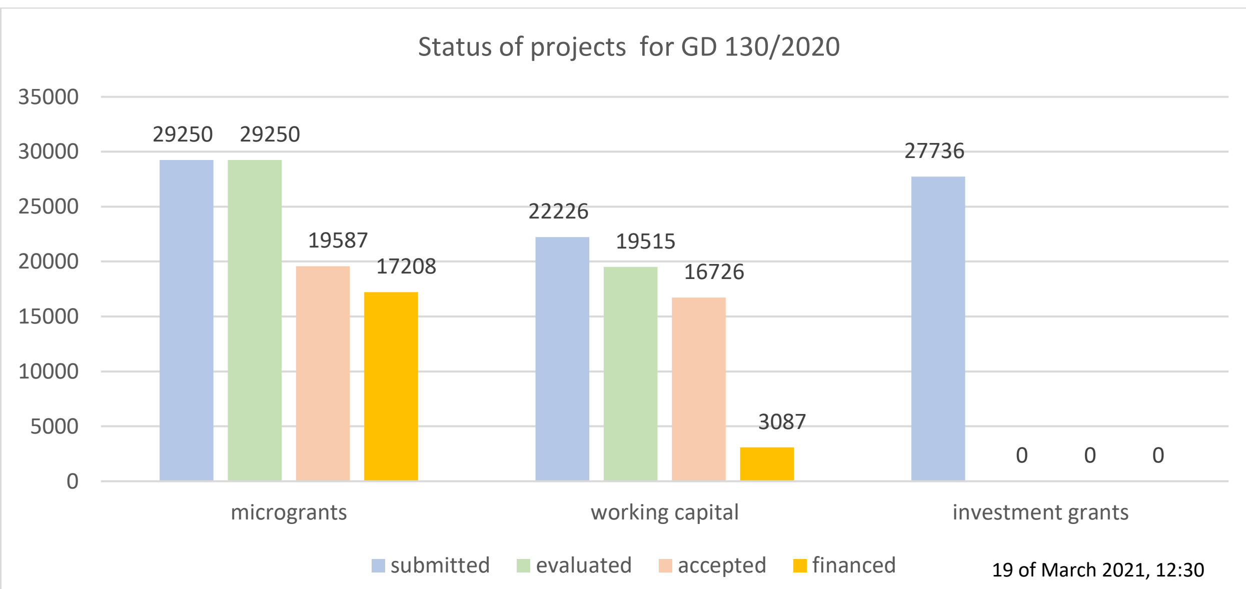

Figure 2

A simple overview of these data indicates a not very good efficiency, with an extremely bad situation for investment grants, where the entire process is on-hold for the moment.

Using data base of National Institute of Statistics (INSSE, 2021) we have determined there were 279.478 private entrepreneurs and using (ListaFirme, 2021) we have determined there were 438.329 eligible SMEs (at least one of the last two years with profit and at least one year of activity, the other eligibility criteria being naturally assumed by the entrepreneurs). Comparing the projects submitted for micrograntsagainst private entrepreneurs, we conclude that approximately 10.5% of eligible candidate have submitted projects. Comparing projects submitted for working capital and investment grants against number of SMEs we obtain even lower percentage (5.07% for working capital and 6.33% for investment grants). The low percentages of submission, regarded in the general overview of pandemic situation (characterized by wide and intense dissemination of economic aid measures and increased demand of companies for cash) might indicate a low level of confidence and poor education of entrepreneurs for attracting financing.

All submitted projects for microgrants have been evaluated and 67% of them accepted for financing. Unfortunately, only 88% of the accepted microgrants were financed. Situation is even worse for working capital projects, where authorities did not manage to evaluate all of them. Only 88% of the submitted projects have been evaluated, 86% of the evaluated projects being accepted for financing. Percentage of financed working capital projects calculated against the accepted for financing projects is worrying low – only 18%. Authorities suspect possible fraud related to investment grants thus they are completely on hold for the moment. Stopping investment grants under current circumstances is appreciable, but lack of proper infrastructure for preventing fraud must be criticized and lack of planning for further actions is creating an unpredictable business environment, reducing the resilience of SMEs, their confidence in authorities and their capacity to capitalize and prepare for the new business models.

A detailed investigation for investment grants will be performed, analyzing changes of GO 130/2020, selection criteria and their update and data collected. Simple efficiency principles, economic logic and specific statistical tools will be employed.

Government Ordinance 130/2020 is establishing 4 evaluation criteria for the investment grants projects:

a. Internal Rentability Rate (IRR)

$IRR < 5\%$	$5.01 \leq IRR < 7.5\%$	$7.51 \leq IRR$
10 pts	15 pts	25 pts

b. Co-financing percentage

Bucharest area	$30\% < CoF < 35\%$	10 pts
	$35\% \leq CoF < 40\%$	20 pts
	$40\% \leq CoF < 45\%$	30 pts
	$CoF \geq 45\%$	35 pts

Romania except Bucharest	$15\% < CoF < 20\%$	10 pts
	$20\% \leq CoF < 25\%$	20 pts
	$25\% \leq CoF < 35\%$	30 pts
	$CoF \geq 35\%$	35 pts

c. Grant/EBIT

${}^{Grant}/_{EBIT} \leq 3$	$3.01 < {}^{Grant}/_{EBIT} \leq 4$	${}^{Grant}/_{EBIT} > 4$
30 pts	15 pts	5 pts

d. Impact of activity on Commercial Balance of Romania

Negative impact	Positive impact
10 pts	0 pts

Out of the 4 criteria, the entrepreneur has some margin for the IRR, the co-financing percentage is fully determined by the entrepreneur, Grant/EBIT report is helping companies with high profit, while Impact of Activity is fully determined by the type of activity to be financed. Thus, for a company with high EBIT, which is choosing to extend its business in a proper area with a highly profitable business model, success or failure is determined by co-financing percentage. In conclusion, the evaluation scheme is favorable for capitalized companies.

During a period of just a few months, Government Ordinance 130/2020 has been modified twice, by the Government Ordinances 174/2020 and 199/2020. Government Ordinance 174/2020 has the highest impact, due to the adjustment of the evaluation criteria. First and third evaluation criteria have been adjusted, becoming:

a. Internal Rentability Rate (IRR)

$IRR < 5\%$	$5.01 \leq IRR < 7.5\%$	$7.51 \leq IRR$
25 pts	15 pts	10 ts

b. For a negative EBIT in the previous year, project will receive 0 pts at this criterion.

Remarkable is that by adjusting the IRR criterion, projects with lower rentability are encouraged. It is a logical step, being somehow natural to sustain from public funds projects with lower rentability which are not so attractive for banks or other investors. From our point of view, lack of inferior bound at 0 (zero) for IRR is a mistake.

New evaluation scheme, which allows projects with negative IRR to receive maximum points is unbalanced and uneven. Entrepreneurs can manipulate IRR in such a way to generate the maximum points for this criterion. There are examples of companies which proposed investment with negative IRR and scored maximum at this criterion.

Thus, we are formulating the following hypothesis: *co-financing percentage is the only differentiation criterion for the projects,* all the others are easy to fulfill to maximize the score.

To test the hypothesis, we will use data specific for the North-West Region of Romania (Ministry of Economy Entrepreneurship and Tourism, 2021) and apply some specific statistical techniques.

A total of 5,196 projects have been submitted for investment grants, distribution of total points being presented in Figure 3.

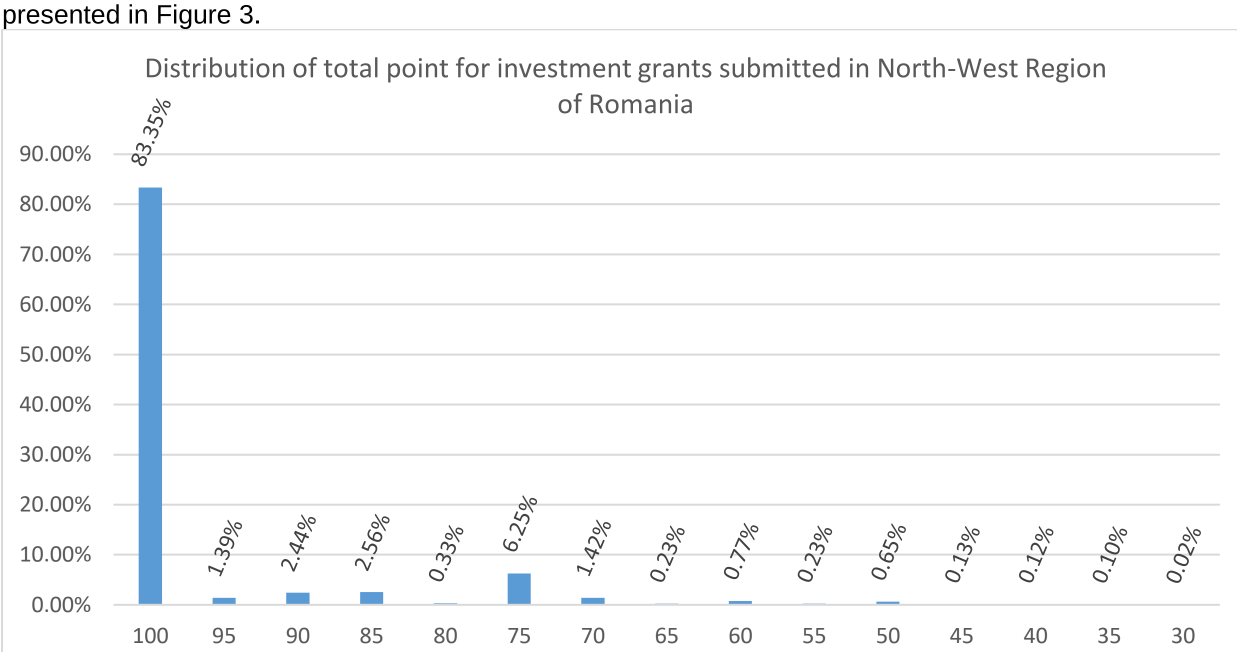

Figure 3

It is easily visible the uneven distribution of total points, with an extremely high peak at 100 points, sustaining thus our presumption that evaluation scheme allows entrepreneurs to maximize the score, even for the projects with negative IRR.

Out of the total of 5,196 submitted projects in North-West Region, 436 have been declared successful and proposed for financing, all of them scoring the maximum of 100 points. Co-financing percentage of the successful projects is varying between 90.48% and 61%.

Thus, distribution of total points and very high co-financing percentage are arguments to sustain our hypothesis (*co-financing percentage is the only differentiation criterion*).

Distribution per calendar date of the 5,196 submitted projects, as it is presented in Figure 4, shows a concentration in the last days of the call.

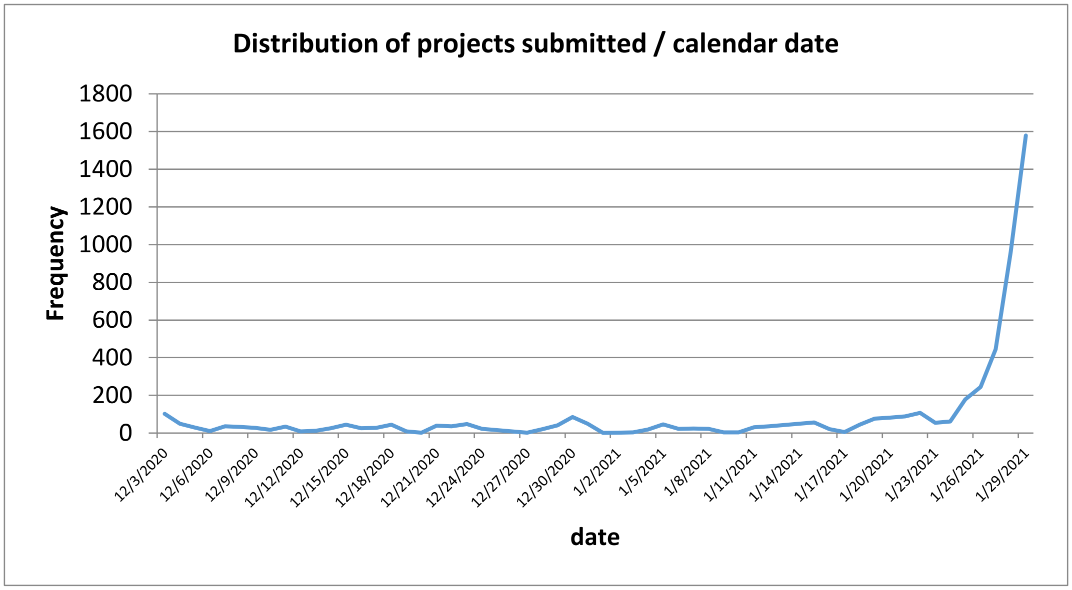

Figure 4

Considering that all details of the call were available a few months before the submission period and allegedly known to entrepreneurs, it is somehow strange the high concentration from the last week. This high concentration is another argument supporting our hypothesis (*co-financing percentage is the only differentiation criterion*), as we can assume that entrepreneurs and consultants were waiting and gathering information about competitors regarding co-financing percentage.

Analyzing distribution by calendar date of win and fails we get the situation presented in Figure 5.

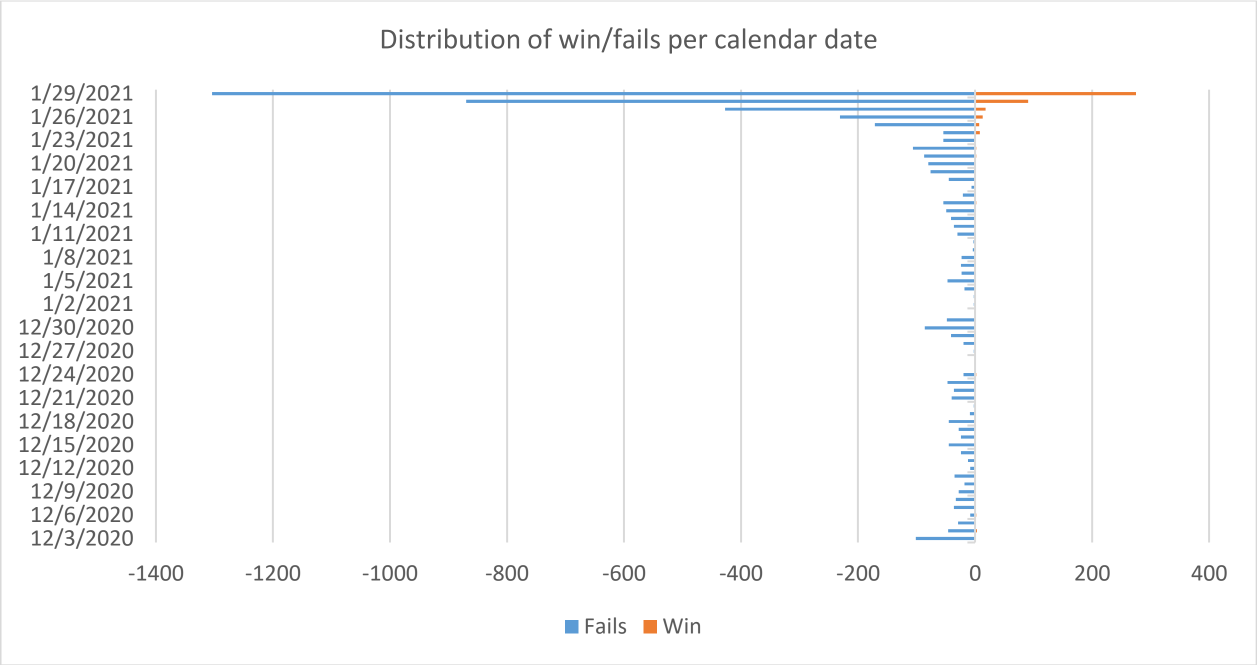

Figure 5

It is clearly visible that from the 5,196 submitted projects, the winning projects were submitted mainly during the last days of the call.

We have performed a Pearson Chi-Square test for testing if this distribution of win/fail projects by calendar date is generated by chance. The p-value obtained is 0.000000000000000000000002, which is an extremely low value. Thus, with a 99% confidence level we might confirm that distribution is not generated by change.

The distribution of the 436 winning projects by calendar date, as presented in Figure 6, emphasizes a huge concentration of 92.7% in the last week of the call.

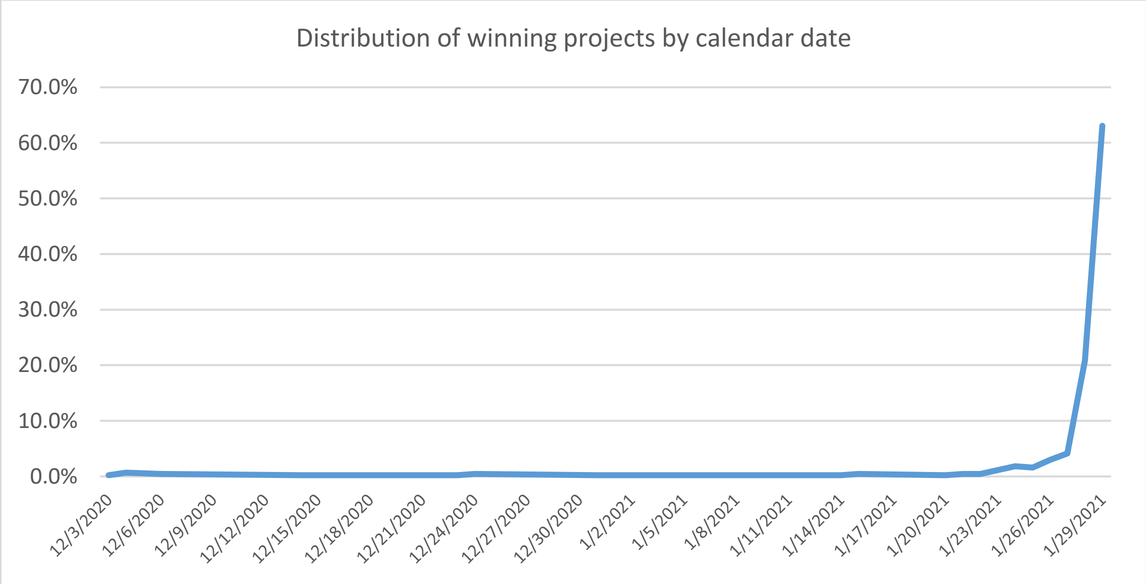

Figure 6

Majority of the projects (65.57%) were submitted during the last week and majority of them (83.35%) have scored the maximum of 100 pts. With a 99% confidence level distribution of projects per calendar date is not generated by chance and a huge percentage (92.7%) of the winning projects were submitted during the last week. All these statistical conclusions confirm our hypothesis (*co-financing percentage is the only differentiation criterion*) and indicate that entrepreneurs were waiting until the last moment and gathering information about competitors to maximize their success rate.

3. CONCLUSIONS AND IMPLICATIONS

Romanian Government had a very prompt reaction to create a system designed to support population, entrepreneurs, and SMEs during the Covid 19 pandemic. Numerous measures implemented contributed to a lower economical decrease compared to the previous economic crisis from 2008. Unfortunately, not all these measures proved to be sustainable, one example being investment grants introduced by GO 130 issued in 2020, analyzed in this article.

Investment grants had an initial evaluation scheme that neglected investment projects with a low rentability. Thus, these projects had limited chances to be implemented, considering that banks and other investors prefer higher rentabilities and access to subsidies for these projects was reduced due to the evaluation criteria. Authorities realized the disparity and reacted by changing the evaluation criteria. In a period of only a few months came a third change for the Government Ordinance 130(this time related to microgrants and working capital). Several changes of legal norms in a short period of time are generating confusion, making the business environment less predictable. We consider this as a minus for authorities, especially during a pandemic situation, when entrepreneurs need predictability and quick reaction.

Criteria considered in the new evaluation scheme of investment grants were not defined in an efficient way. To prove it we have analyzed in detail situation occurring in the NW Region of Romania. Why NW Region? Because it is the most developed region out of the 8 development regions existing in Romania. The NW region is concentrating the most submitted projects (5196 projects) – more than double compared with the last region (2521 projects) and with 33% more that the challenger occupying the 2nd place (3897 projects). Using explanatory data analysis and some specific statistical tools we have proved that out of the four selection criteria only one was important – co-financing percentage, the other three being easy to be fulfilled with maximum score. This situation transformed the investment grants in a competition for capitalized companies, eliminating the others, who probably needed more the investment funds for business development.

Realizing the situation authorities have completely suspended the process few days after the end of the call. Months later no solution was provided. Thus, investment grants implemented by Government Ordinance 130 turned into an unsustainable measure which did not help SMEs to become resilient for economic shocks and to develop and extend the business.

Efficiency of companies is also impacted by hours spent for quotations required in the projects, hours spent to write applications and/or money paid for consultants.

Several changes of the GO 130, complete stop of the program without any information about what is going to happen with the submitted projects and lack of information regarding continuation of the program are increasing the instability of Romanian business environment.

Managers who relied on these investment grants for diversifying their businesses have assume all loses and search other financing sources for their projects or design new business models.

World-wide spread of Covid 19 Delta variant is adding to the challenges which companies might face. Lack of investment subsidies did not allow companies to recover and/or consolidate their business after the 2020 lockdown and a new decrease of activity or lockdown might impact their performance in a serious manner.

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