

TARGETED ASSESSMENT OF POCU ENTREPRENEURSHIP SUPPORT SCHEMES

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INFORMATION

Sprijin pentru Implementarea Programului
Operațional Capital Uman (POCU) 2014-2020



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CONCLUSIONS

1. **Overall good performance but investment is needed.** Overall, Romania boasts of a positive entrepreneurial performance, which has improved over time. However, many challenges exist.
2. **POCU support for entrepreneurship is distinctive and generally efficient.** Focus on entrepreneurship skills, Two step implementation scheme was efficient, Targeting individuals, Providing comprehensive support, A participatory approach
3. **POCU funds spent efficiently with generally good results.** Efficient spending, 83,000 trained, close to 9,000 enterprises and more 20,000 jobs.
4. **Diversified portfolio with possibly sustainable results.** Well diversified geographical portfolio and across sectors, POCU approach to supporting entrepreneurs was appreciated.



CONTENT

1. Introduction and goals
2. Entrepreneurship in Romania
3. How POCU supports Entrepreneurship in Romania?
4. Is the spending efficient?
5. Investment in entrepreneurial skills
6. Job creation and investment diversification
7. Is the investment sustainable?
8. Four key conclusions



1. INTRODUCTION AND GOALS



INTRODUCTION

Goal of the assessment

Reviewing the achievements of the Programme relating to entrepreneurship

Informing Romania's Human Capital Operational Program (POCU) MA on the... :

- Target groups
- Areas
- Sectors
- Contexts

... to which POCU support had the highest added value, including in the context of COVID.

Coverage

Competitive calls for proposals (CfP) in Investment Priority 8iii of POCU, targeting entrepreneurship:

- Romania Start Up Plus (CfP 82)
- Diaspora Start Up (CfP 89)



2. ENTREPRENEURSHIP IN ROMANIA

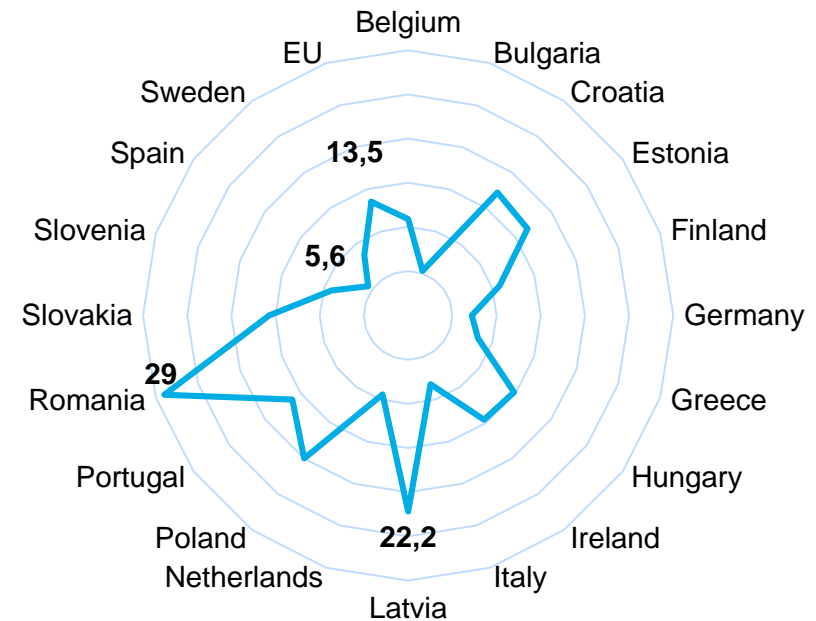


ENTREPRENEURSHIP IN ROMANIA

Romania performs above the EU average in entrepreneurship intentions

- Desirable career choice.
- Media perspective on entrepreneurship is positive.
- Successful entrepreneurs receive high status in society.
- **Entrepreneurial intentions are highest among the EU countries.**
- Early-stage entrepreneurial activities are higher than the EU average.

ENTREPRENEURIAL INTENTIONS



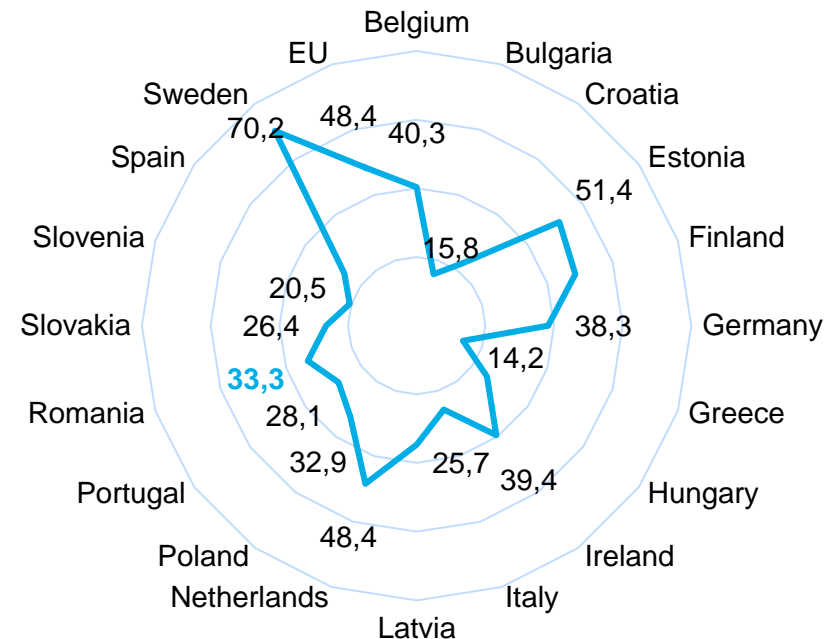
Source: Global Entrepreneurship Monitor

ENTREPRENEURSHIP IN ROMANIA

But entrepreneurship is mostly driven by necessity

- Reasons for starting a business in Romania are more related to the failure of finding other suitable employment opportunities.
- Opportunity driven entrepreneurship is lower than in other EU countries.

OPPORTUNITY-DRIVEN ENTREPRENEURSHIP



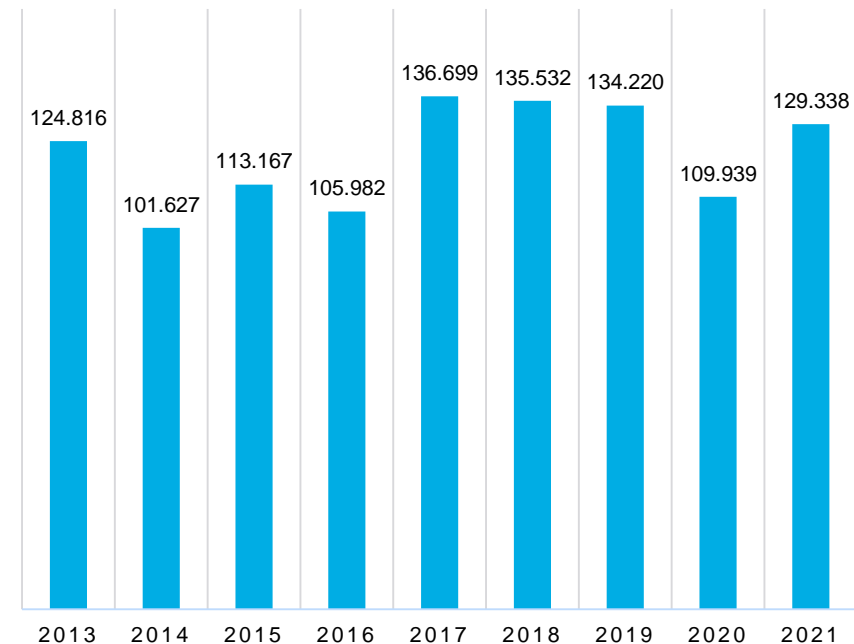
Source: Global Entrepreneurship Monitor

ENTREPRENEURSHIP IN ROMANIA

More than 100,000 new enterprises are established in Romania every year

- No. of newly registered enterprises increased between 2017-2019, compared to the previous period, but declined sharply in 2020 (ONRC) coinciding with Covid-19 pandemic.
- Partial values for 2021 suggest that pre-pandemic values may be achieved by the end of the year.

NEW ENTERPRISES REGISTERED IN ROMANIA, 2013-2021



Source: ONRC, partial data for 2021, up to October (up),
World Bank data (down)

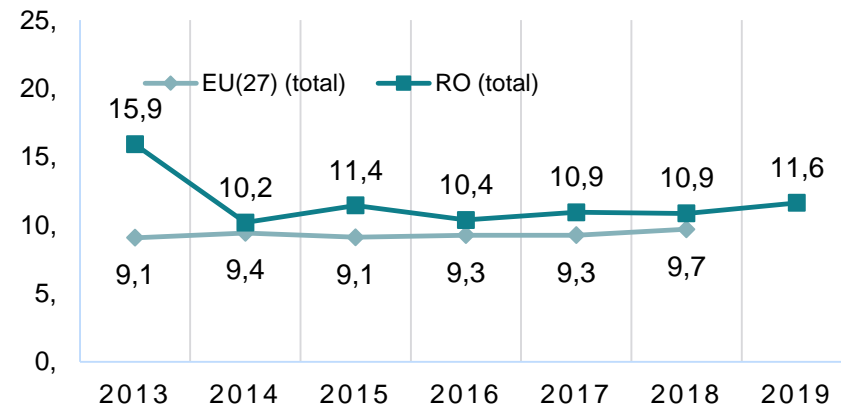


ENTREPRENEURSHIP IN ROMANIA

Rate of new enterprise birth in Romania is higher the EU average

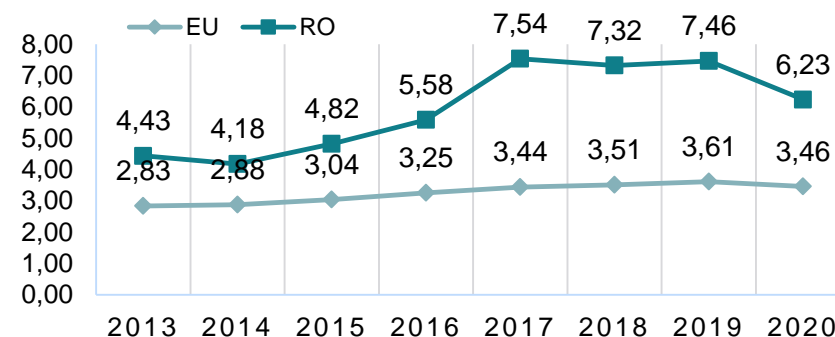
- Net business population growth in Romania shows higher fluctuations than in the EU.
- New business density is higher in Romania, compared to the EU.
- Influenced by changes in regulations:
 - Changed insolvency procedures & increase in taxation (2015).
 - Business incubators regulated & entrepreneurship programs launched (2016).

ENTERPRISE BIRTH RATE, RO AND EU (%)



Source: Eurostat, online data code [BD_9BD_SZ_CL_R2],
EU27 data not available for 2015 and 2019

NEW BUSINESS DENSITY (NEW REGISTRATIONS PER 1,000 PEOPLE AGES 15-64)



Source: World Bank

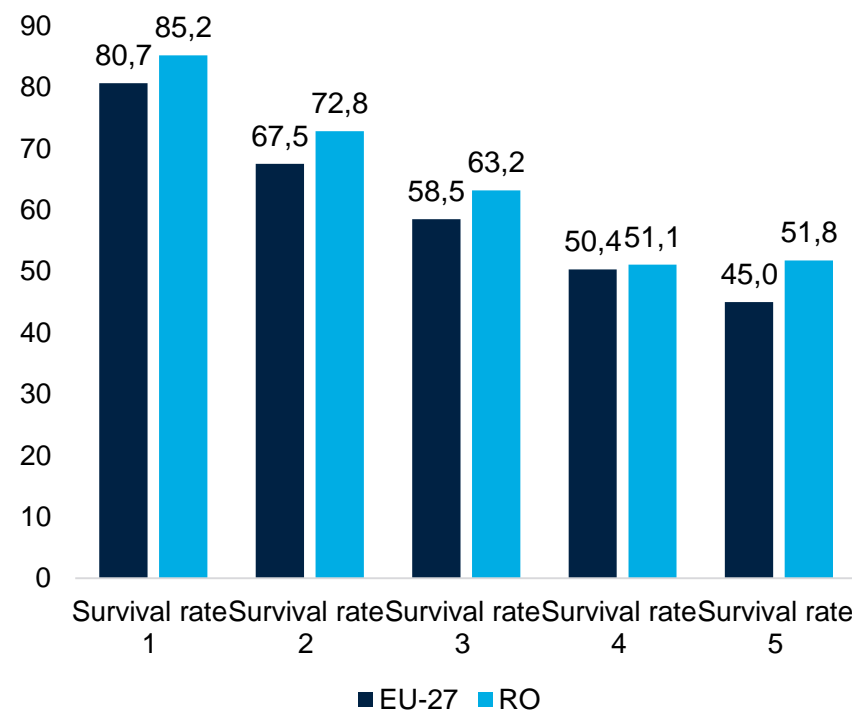


ENTREPRENEURSHIP IN ROMANIA

Survival rate of the start-ups in Romania is above EU average

- In 2018, enterprise survival rate in Romania was higher than the average in the EU-27.
- More than 85% of the newly established enterprises survive their first year, compared to 75% in 2013.

ENTERPRISE SURVIVAL RATE 1-5 YEARS AFTER SET-UP (%), 2018



Source: Eurostat, Business demography statistics, search code [bd_9bd_sz_cl_r2]

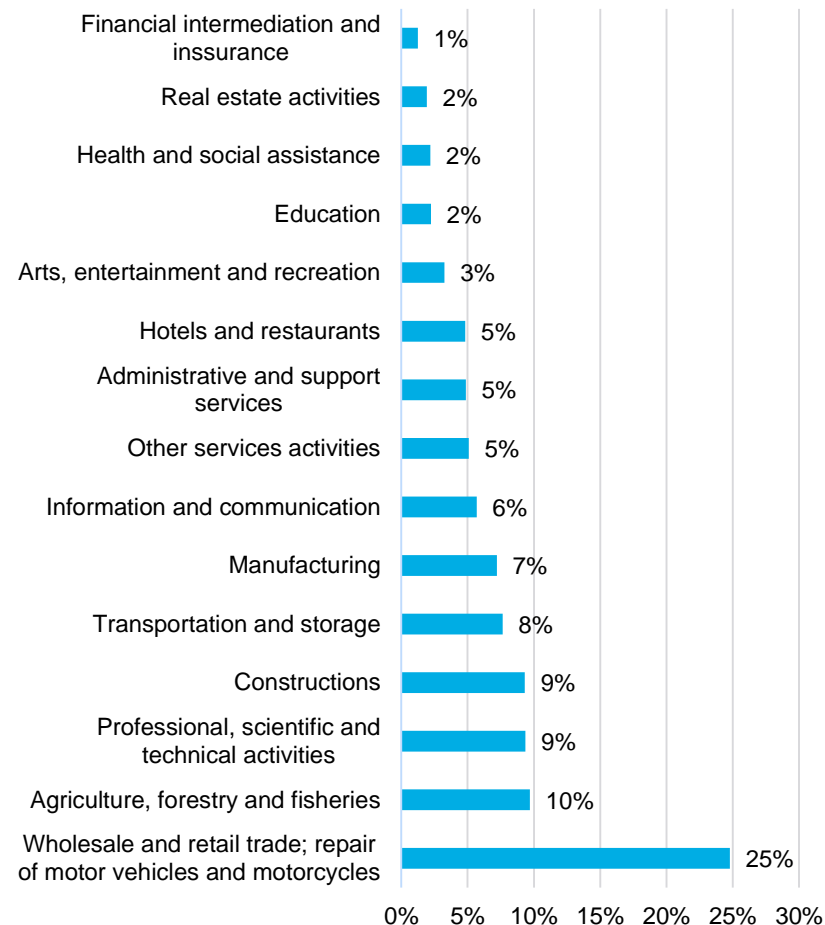


ENTREPRENEURSHIP IN ROMANIA

The majority of start-ups have modest financial performance and operate in low-tech, low-knowledge intensive sectors

- 50 percent of start-ups are operating at a loss.
- 19 percent of Romanian start-ups break-even.
- 31 percent are profitable.
- Only approx. 13 percent of newly established enterprises invest during their first year of operation.

NEW ENTERPRISES REGISTERED IN ROMANIA, TOTAL FOR 2013-2019, BY SECTOR (%)



Source: Startup Monitor 2019 project
and National Statistics Institute



WHY INVESTMENT IN ENTREPRENEURSHIP IN ROMANIA IS NEEDED

PROS

- Difficult access to finance.
- Bureaucracy, complex and unstable regulatory framework, lack of access to information, poor identification of opportunities.
- Low entrepreneurial education.
- High fear of failure.
- Entrepreneurial ecosystem located in large cities only
- Untapped potential for women, elderly.

The Global Entrepreneurship Index (GEI) – European dataset

CONS

- Low impact of support - new businesses are small, operate in low-tech, low knowledge intensity sectors.
- Low sustainability of newly established enterprises.
- Not effectively targeting lagging areas and „missing entrepreneurs“.
- Not really responding to real market failure, as venture capital is more easily available in Romania.



3. HOW POCU SUPPORTS ENTREPRENEURSHIP IN ROMANIA?



POCU APPROACH TO JOB CREATION AND ENTREPRENEURSHIP

1. Entrepreneurship is a significant component of POCU interventions for supporting employment, with an allocation of more than half a billion Euros.
2. POCU was set out to create new jobs by encouraging entrepreneurship and enterprise creation, especially in the non-agriculture sector in urban areas, by providing financial support for private persons to open a business.
3. To address some of the existing challenges, POCU financial support is accompanied by counseling/advisory services and training in entrepreneurship skills, as well as other forms of support for business development.



2- STEP IMPLEMENTATION MECHANISM

1

**Selection of grant
scheme administrators**
(through POCU CfP)

2

**Project implementation,
including selection and
financing of business plans**
(by each grant
scheme administrator,
de minimis scheme)

- Grant scheme (administrator set up its own criteria for selecting business plans).
- Maximum duration of the project- 36 months.
- Maximum value - up to €5 million project, and (no. of SMEs created and functional 6 months after the end of support).
- De minimis scheme - max. €40,000/enterprise supported.
- De minimis scheme - max. 60 percent of total project value.



ELIGIBLE GRANT SCHEME ADMINISTRATORS (POCU BENEFICIARIES)

Main focus

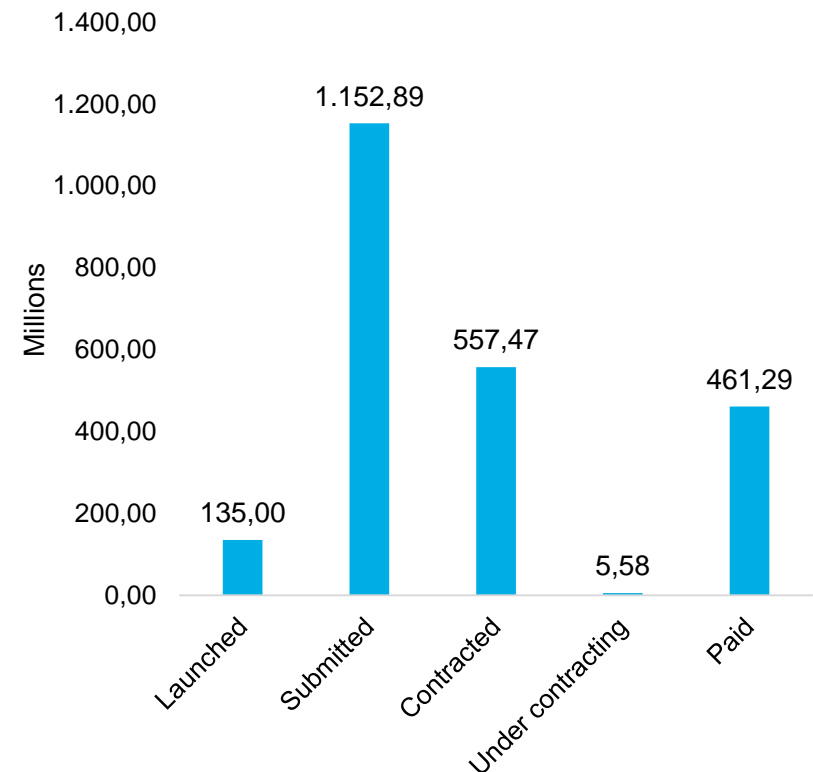
Ability to provide comprehensive support to future entrepreneurs (training, counselling, mentoring, assistance etc.)

- Authorized, public and private training providers.
- Trade union and employers' organizations.
- Local public administration authorities.
- Professional associations.
- Chambers of commerce and industry.
- NGOs.
- Universities.
- Ministry of Economy and institutions/agencies/ organizations subordinated/coordinated by it.
- Partnerships between the above categories.

HIGHLY POPULAR CALLS

- Total value of the submitted proposals amounted to 1.15 billion euros.
- 557 million euros, 205 projects were contracted under competitive calls.
- 85% of the total contracted amount under IP 8iii.
- Most popular calls in POCU, based on submitted/launched.

PROGRESS OF COMPETITIVE CALLS UNDER IP 8III



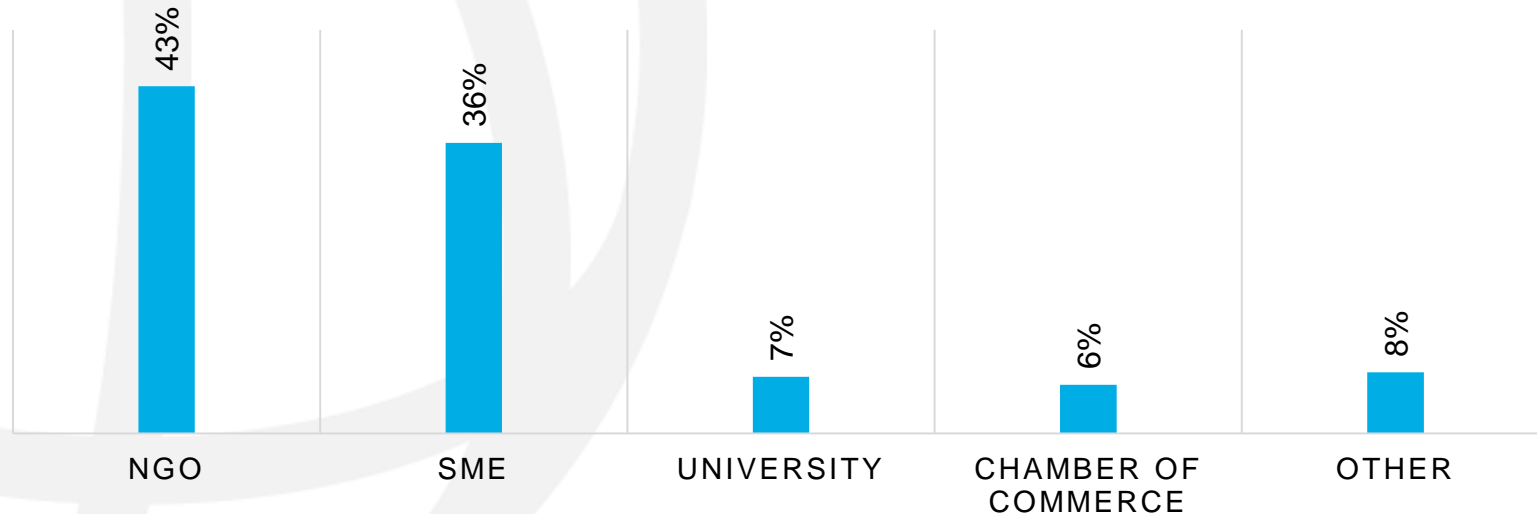
Source: Authors calculations, based on POCU MA data on implementation



OVERVIEW OF IMPLEMENTATION - BENEFICIARIES

- Grant scheme administrators were selected to implement the projects, based on their experience and ability to provide the support measures for the target groups.
- Types of beneficiaries for POCU entrepreneurship interventions under PA 3 IP 8iii.

TYPES OF BENEFICIARIES



Source: Authors calculations, based on POCU MA data on contracted projects, as of August 2021, all calls under IP 8iii, by lead beneficiary



TARGET GROUPS (FINAL BENEFICIARIES)

- Innovative approach among the Romanian entrepreneurship support initiatives.
- Unlike other programs which focus on supporting already established enterprises, the target group of the financed projects were private individuals.

Romania Start-Up Plus (CfP 82)	Diaspora Start-Up (CfP 89)
<p>Persons who cumulatively fulfill the following conditions:</p> <ul style="list-style-type: none"> a) Intend to set up a non-agricultural business in an urban area; b) Have their residence or domicile in one of the 7 less developed regions of Romania (all but Bucharest-Ilfov); c) Have their residence or domicile in the region where the project is implemented. 	<p>Persons who cumulatively fulfill the following conditions:</p> <ul style="list-style-type: none"> a) Intend to set up a non-agricultural business in the urban area; b) Have their residence or domicile in rural or urban areas, in less developed regions of Romania; c) Are at least 18 years old; d) Are Romanian citizens; e) Provide proof of domicile or residence abroad during the last 12 months until the moment of enrollment in the target group; f) Demonstrate entrepreneurial experience or demonstrate the technical and professional capacity or demonstrate specialized knowledge.

Source: Call documents, available on MIEP website



4. IS THE SPENDING EFFICIENT?



OVERVIEW OF IMPLEMENTATION - EXPENDITURE

High efficiency spending focused on business development

- 92% of the total project expenditures focused on Entrepreneurship and Business Development.
- 8% of the grants spent on Management and Administration.

Activities carried out by grant administrators

Management and administration	Management costs	6%
	Administration costs	2%
Entrepreneurship and Business Development	Technical Assistance for Entrepreneurs	20%
	Monitoring and Outreach	9%
	Grants for business plan implementation	63%

**Authors' analysis based on a random sample of 24 projects in the two calls*



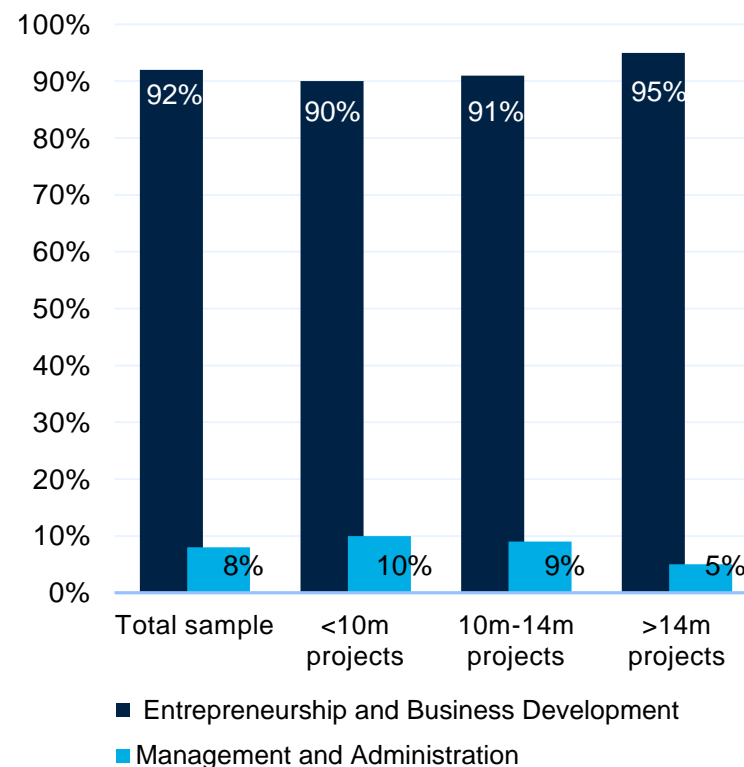
OVERVIEW OF IMPLEMENTATION - EXPENDITURE (CONT.)

Close to 90% of the funds go to final beneficiaries directly or indirectly

„The efficiency is growing with the size“

- Projects up to 10 million RON spend 90% of the total budget on Entrepreneurship and Business Development.
- **Projects bigger than 14 million RON spend close to 95%** on Entrepreneurship and Business Development.

COST DISTRIBUTION BASED ON TOTAL PROJECT VALUE



Authors' analysis based on a random sample of 24 projects in the 2 calls

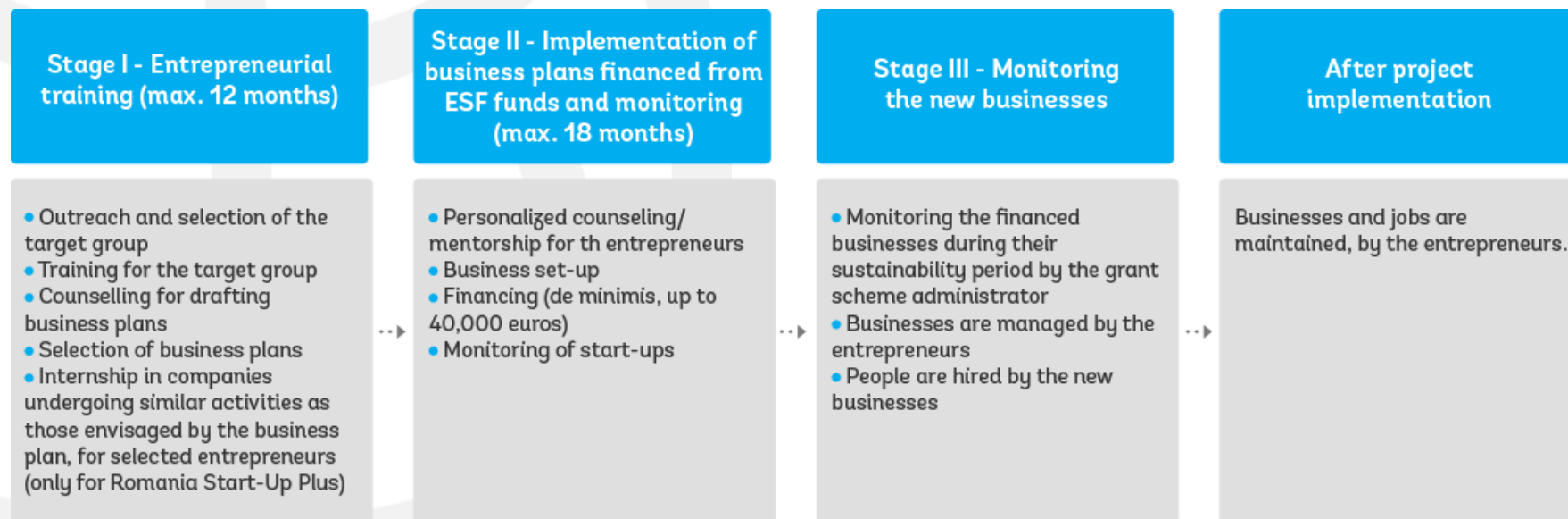


5. INVESTMENT IN ENTREPRENEURIAL SKILLS



DESIGN OF SUPPORT PROVIDED TO PARTICIPANTS

Projects consisted of three main stages, to provide comprehensive support to people who consider entrepreneurship

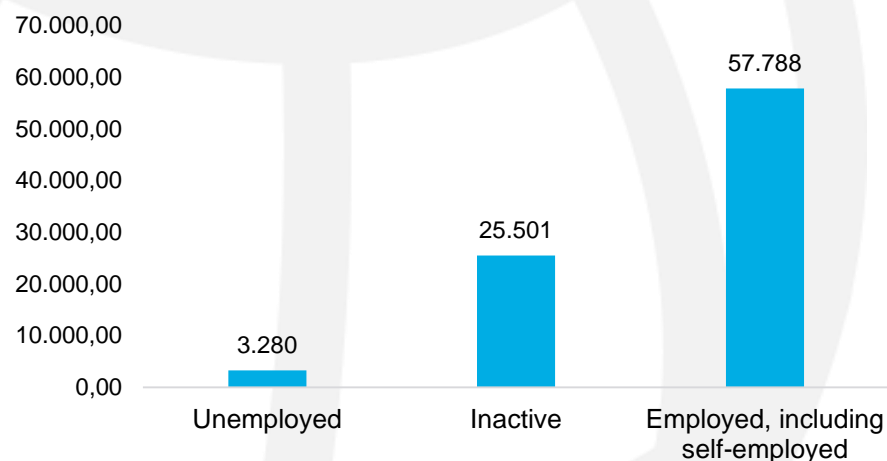


Source: Applicants' Package for competitive POCU calls under IP 8iii, available on MIEP website.

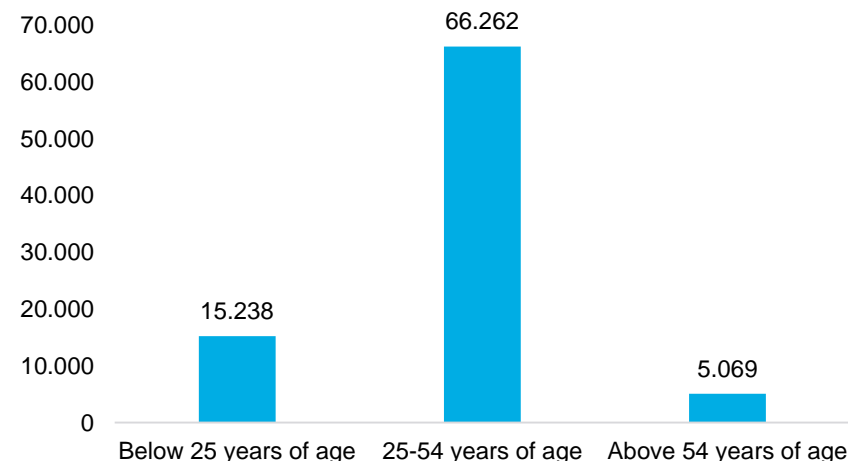


MAIN RESULTS: MORE THAN 83.000 PARTICIPANTS BENEFITING FROM SUPPORT

IP 8III PARTICIPANTS BY EMPLOYMENT STATUS (NUMBER)



IP 8III PARTICIPANTS BY AGE (NUMBER)

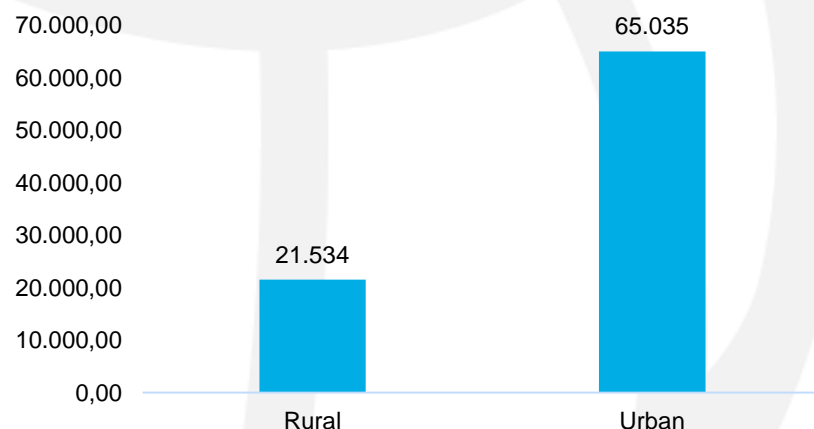


Source: POCU Annual Implementation Report, 2020, results for all IP8iii

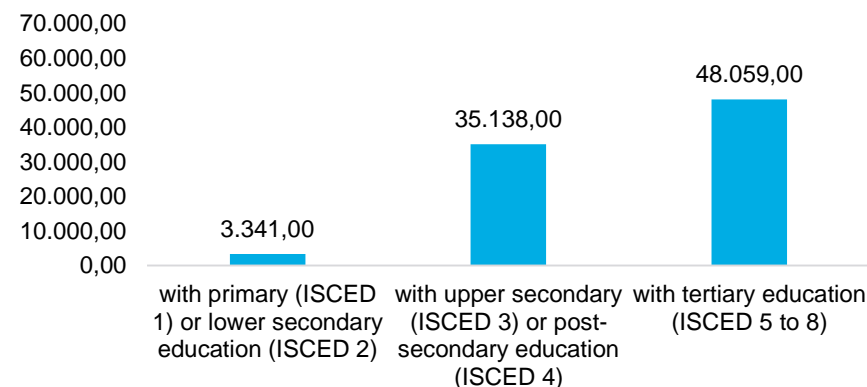


MAIN RESULTS: MORE THAN 83.000 PARTICIPANTS BENEFITING FROM SUPPORT

IP 8III PARTICIPANTS BY DEGREE OF URBANIZATION (NUMBER)



IP 8III PARTICIPANTS BY DEGREE OF EDUCATION (NUMBER)



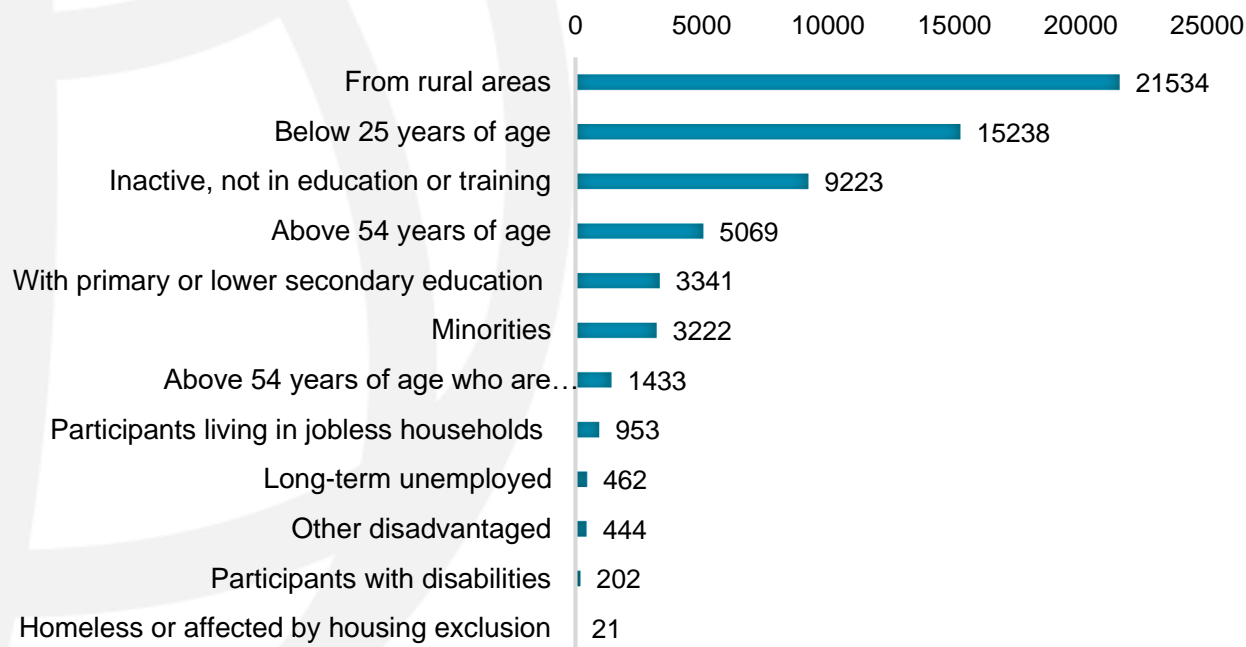
Source: POCU Annual Implementation Report, 2020, results for all IP8iii



MAIN RESULTS: VULNERABLE GROUPS

Persons from rural areas, young people and inactive are the vulnerable categories best represented

IP 8III PARTICIPANTS BY TYPE OF VULNERABILITY



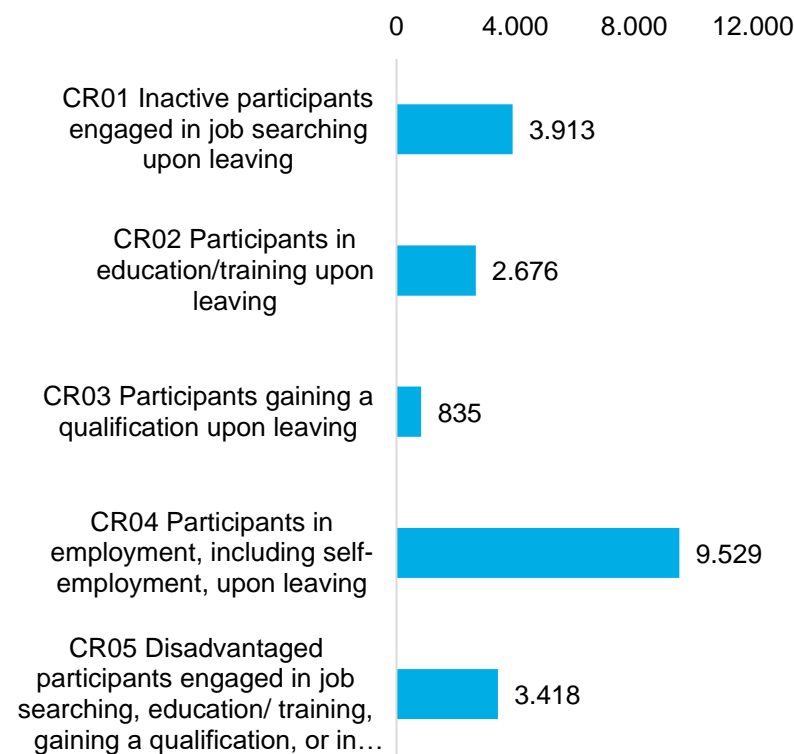
Source: POCU Annual Implementation Report, 2020, results for all IP8iii



POSITIVE RESULTS FOR THE TARGET GROUPS, EARLY ON

- Entrepreneurship skills development (training, counselling) for the entire target group (approx. 83.000 persons up to Dec. 2020).
- 9,529 participants (11% of the total) succeeded in becoming entrepreneurs.
- 3,418 Disadvantaged participants were engaged in job searching, in education/training, gaining a qualification or in employment, including self-employment, upon leaving.
- Indicators values are expected to increase during 2021, as 188 projects are still under implementation at the time of the analysis.

IMMEDIATE RESULTS OF IP8III (NUMBER OF PERSONS)

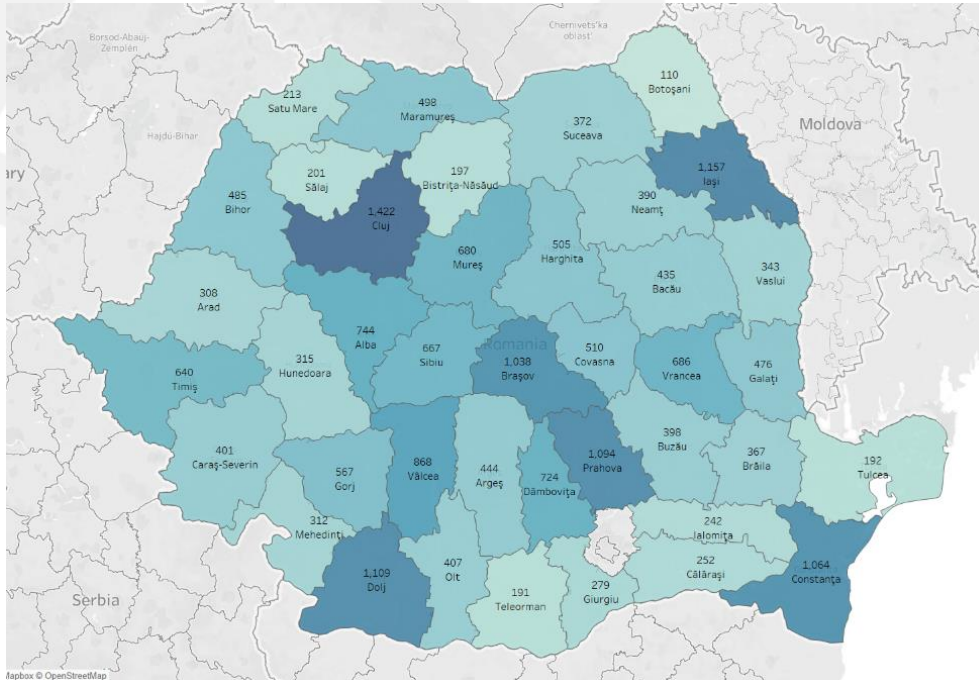


Source: POCU Annual Implementation Report 2020, data up to Dec. 2020
for the entire IP 8iii, including the two calls analyzed



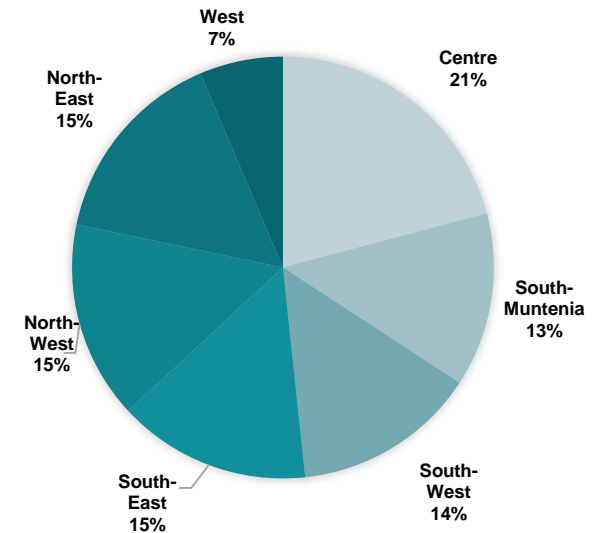
6. JOB CREATION AND INVESTMENT DIVERSIFICATION

21, 227 NEW OBS SPREAD AT NATIONAL LEVEL



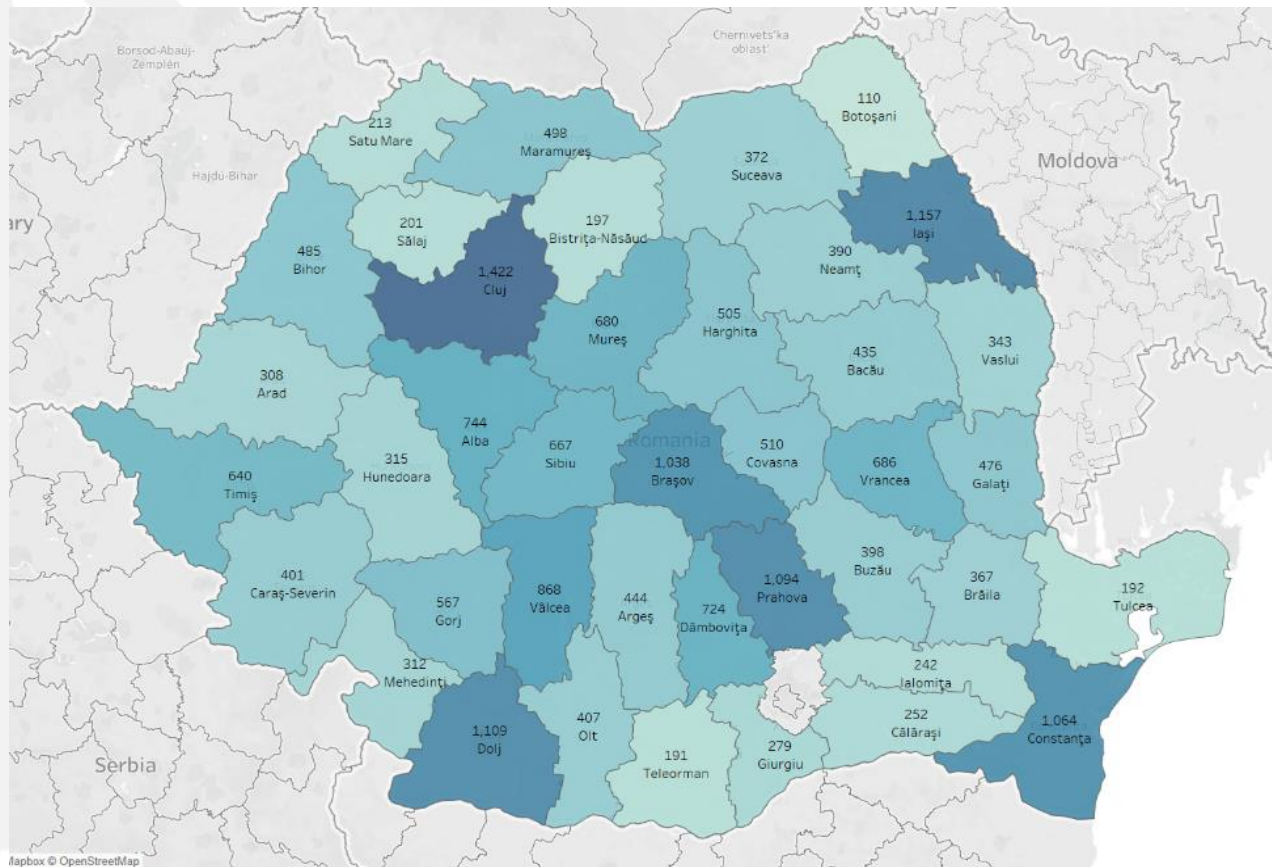
Number of jobs created; intensity represented by county

REGIONAL DISTRIBUTION OF JOBS CREATED



Source: MA data on the 2 calls analyzed, authors' calculations

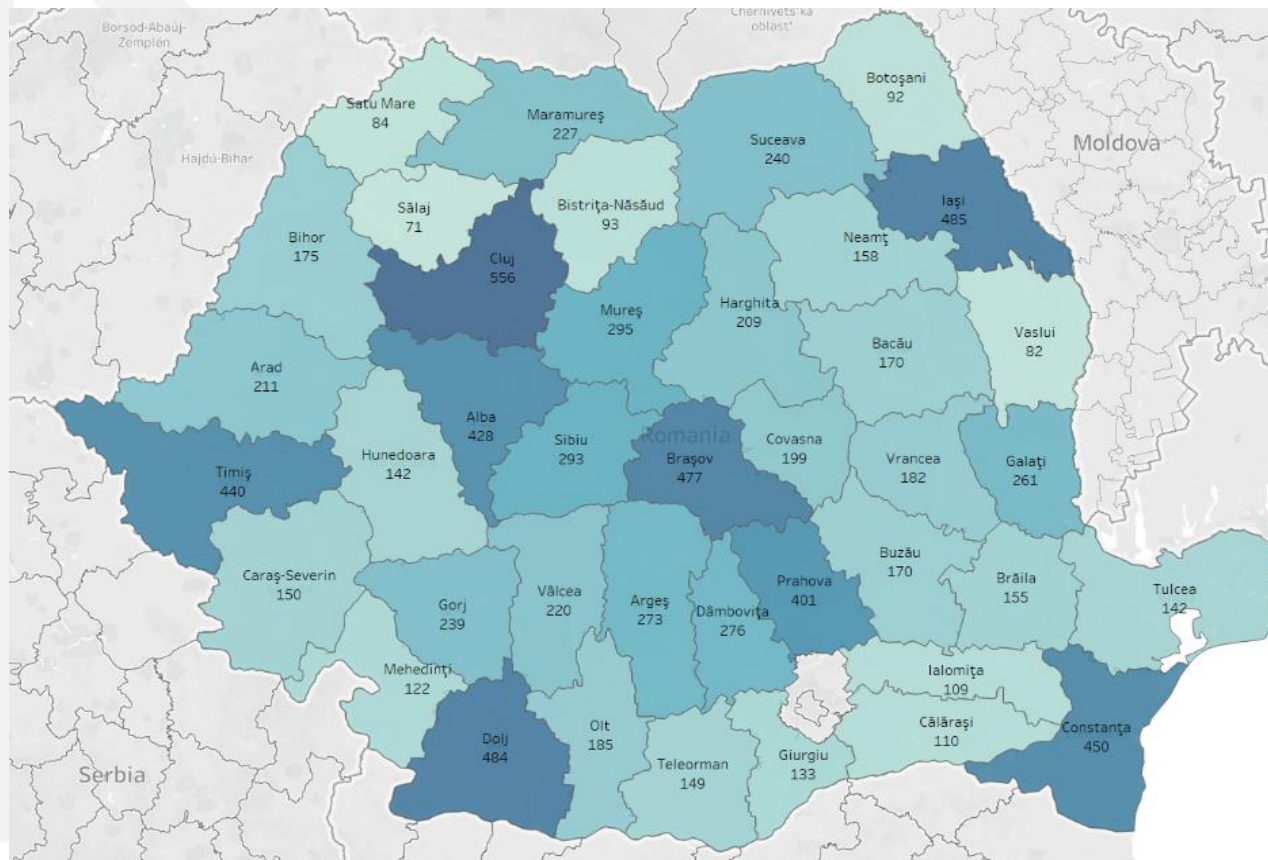
21, 227 NEW OBS SPREAD AT NATIONAL LEVEL



Number of jobs created; intensity represented by county

Source: MA data on the 2 calls analyzed, authors' calculations

WDE NATIONAL SPREAD OF 9, 310 NEW ENTERPRISES



Intensity of new created enterprises in each county

Source: MA data on the 2 calls analyzed, authors' calculations, Dec. 2021



WIDE SECTORIAL SPREAD OF NEW ENTERPRISES

High impact sectors

- Manufacturing - 1773 new enterprises.
- Scientific and technical activities –
- 1375 new enterprises.

ENTERPRISES – NACE DISTRIBUTION

NACE section	Number of enterprises
A. AGRICULTURE, FORESTRY AND FISHING	5
B. MINING AND QUARRYING	430
C. MANUFACTURING	1,773
D. ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY	3
E. WATER SUPPLY; SEWERAGE, WASTE MANAGEMENT AND REMEDIATION ACTIVITIES	34
F. CONSTRUCTION	534
G. WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	819
H. TRANSPORTATION AND STORAGE	115
I. ACCOMMODATION AND FOOD SERVICE ACTIVITIES	576
J. INFORMATION AND COMMUNICATION	505
K. FINANCIAL AND INSURANCE ACTIVITIES	13
L. REAL ESTATE ACTIVITIES	49
M. PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	1375
N. ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	625
P. EDUCATION	418
Q. HUMAN HEALTH AND SOCIAL WORK ACTIVITIES	528
R. ARTS, ENTERTAINMENT AND RECREATION	775
S. OTHER SERVICE ACTIVITIES	733

Source: MA data for the 2 calls, authors' calculations, Dec. 2021



7. IS THE INVESTMENT SUSTAINABLE?



POCU START-UPS ARE STILL IN THE SUSTAINABILITY PERIOD

- Currently, most enterprises are in their second or third year of life.
- Only a small share (1.9 percent) have not survived.

The high survival rate is explained by the fact that, from POCU perspective, projects are under the sustainability period (three years after completion) and beneficiaries and entrepreneurs are bound to keep the companies functional, or they could be forced to give the EU grant money back.

Status	%	Number of enterprises
Active (survived)	98.11%	9,134
Inactive (not survived)	1.89%	176
Total	100.00%	9310

POCU START-UPS PERFORMANCE

Year of business registration	Companies with positive GPM (% of total)			Median GPM		
	2018	2019	2020	2018	2019	2020
2018	12%	75%	40%	57%	32.7%	-8.7%
2019		61%	59%		39.3%	6.8%
2020			75%			33%

- Overall financial performance is good, with close to 60% have positive GPM in 2019.
- Affected by the COVID crisis.

Variable	Mean	Median
Average number of employees	1.78	1.5
Gross Profit Margin (GPM)	0.13	0.18
Debt Ratio	0.22	0.16
ROA	-0.74	-0.62
Productivity (RON/employee)	71,886	56,859
Return on POCU Subsidies	0.15	0.12



8. FOUR KEY CONCLUSIONS



CONCLUSIONS

1. Overall good performance but investment is needed

- **Overall, Romania boasts of a positive entrepreneurial performance, which has improved over time.** The Romanian entrepreneurial ecosystem is showing signs of improvement, despite remaining weaknesses. There are important gender, age and location gaps.
- **However, many challenges exist.** Most entrepreneurs start their business out of necessity, Fear of failure and low risk acceptance, limited networking, insufficient funding and lack of business strategy are among the main reasons preventing people from starting a business. COVID-19 crisis affected SMEs and new firm creation.



CONCLUSIONS (CONT.)

2. POCU support for entrepreneurship is distinctive and generally efficient

- **Targeting individuals** and not established companies.
- **Using a 2-step solution:** selecting grant scheme administrators, who then support the target groups and select entrepreneurs.
- **Providing comprehensive support:** training, counselling, assistance, financing mentorship, access to support networks.
- **Sequencing support in:** building entrepreneurial skills, setting up the new businesses, monitoring the start-ups after their creation.
- **Addressing development needs at local level,** by grant administrators who select business plans taking into account the local priorities and opportunities.
- **A participatory approach** was used to design the calls for proposal Romania Start-Up Plus and Diaspora Start-Up.



CONCLUSIONS (CONT.)

3. POCU funds spent efficiently with generally good results

- **Two step implementation scheme was efficient.** The investment was well spent with most of the funds going to the final beneficiaries directly and indirectly through TA. Only 8% were used for the administration.
- **Up to December 2020, around 83.000 persons benefited from entrepreneurship skills** development in POCU-funded entrepreneurship projects, including vulnerable categories. Women accounted for more than half of participants. Persons from rural areas, young people and inactive are the vulnerable categories best represented. Others include elderly people, minorities (Roma), participants with disabilities.
- **POCU support for entrepreneurship lead to the creation of over 9000 enterprises and more 20,000 jobs.**



CONCLUSIONS (CONT.)

4. Diversified portfolio with possibly sustainable results

- **Well diversified geographical portfolio and across sectors.** Well diversified geographically covering all regions. Most enterprises are in low-tech sectors (manufacturing), but also in scientific and technical activities, and creative industries.
- **Good survival perspectives:** Financial performance of start-ups is relatively good with up to 60% having positive GRM. The vast majority of enterprises survived their first three years.
- **POCU approach to supporting entrepreneurs was appreciated** as highly beneficial by the entrepreneurs.



VĂ MULȚUMIM!

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ANNEX



UNDERSTANDING SUCCESS

A participatory approach was used to design the calls for proposals. The implementation was favored by the numerous and highly interested target groups, as well as by the generally low access barriers. The two competitive calls (Romania Start-Up Plus and Diaspora Start-Up) imposed few limitations in terms of eligibility of the economic activities to be developed by the future entrepreneurs.

In Diaspora Start-Up calls, entrepreneurs were mobilized from around the world. Depending on their strategy, and sometimes on the foreign partners, some project beneficiaries focused on a country (for example Spain), while others extended their outreach efforts across the globe. Most entrepreneurs come from Spain (27.09 percent), Italy (25.27 percent), United Kingdom (13.99 percent), Germany (5.90 percent) and Moldova (5.14).

Two step implementation scheme was efficient. The investment was well spent with most of the funds going to the final beneficiaries directly and indirectly through TA. Only 8% were used for the administration.