

FACTSHEET #3

Start-up Nation

1 Policy context

The European Structural and Investment Funds (ESIF) are the main source of funding for investment priorities in Romania in many sectors.

Complementary to the consistent funding provided for business creation and development by ESIF, several national programmes which are funded from the State Budget (SB), through International Financing Institutions (IFI) or bilateral agreements target business creation and development. In 2020 the Romanian Government, through the Ministry of Economy, Energy and Business Environment had seven national programmes supporting SMEs in implementation:

1. The Start-up Nation programme – addressed newly created companies (with less than one year of activity) with annual calls for proposals, which have been implemented between 2017 and 2020.
2. The Retail and Market Services Support Programme – supporting SMEs investments in the retail sector.
3. The Micro-industrialisation Programme – supporting SMEs in priority industrial sectors, funding investments in technology, equipment, promotion and entrepreneurship training.
4. Crafts and Handicrafts Support Programme – consisting in the National Arts and Crafts Fair.
5. The Romanian - Swiss SMEs Support Programme – supporting access to bank loans finance.
6. The “Woman Entrepreneur” Programme – including support to entrepreneurs and a “de minimis aid” scheme for SMEs managed by women.
7. UNCTAD/EMPRETEC Programme – funding for the development of entrepreneurial skills.

The Start-up Nation Programme is the largest one in terms of funding allocated and the number of benefiting SMEs supported. The 2019 call for proposals (part of the Start-up Nation 2018 allocation) collected over 30 000 applications out of which 10 000 were contracted. The other programmes listed above have a smaller scale, with up to 200 beneficiaries of direct funding in a call for proposals at national level.

2 The Start-up Nation Programme

2.1 Overview – the policy in numbers

Introduction

The Start-up Nation programme was designed to encourage and stimulate the establishment and development of SMEs, to support the improvement of their economic performance and viability, and access to markets. The programme aims as well at creating new jobs, work opportunities for disadvantaged people, the unemployed and graduates, and at increasing investment in innovative technologies.

The programme has a national coverage and a multiannual budget extending over four years of implementation:

- 2017: RON 1 713 798 000 (€ 369,879,138);
- 2018: RON 2 000 000 000 (€ 431,034,483);
- 2019: RON 2 000 000 000 (€ 429,184,549);
- 2020: RON 2 000 000 000 (€ 418,410,042).

Two calls for proposals were already carried out, and a third one was scheduled for 2020. In November 2020 the Romanian Government announced that the third call for proposals will be postponed for a date after the closure of the COVID-19 pandemic.

Table 1: Programme implementation data

Assessment aspect	Romania			Stakeholder's area (Botoşani, Iaşi, Vaslui and Galaţi counties)			
	2017	2018	2017 and 2018	2017	2018	2017 and 2018	% 2017 2018 in total national
No. of applications assessed	10 001	13 005 ¹		Data not available	Data not available		
No. approved projects	7 139	9 779	16 918	494	847	1 341	7.9%
No. of finalised projects	7 139	2 184	9 323	494	156	650	7.0%
Total Grant disbursed (€)	283 500 000	92 000 000	375 500 000	19 500 000	6 500 000	26 000 000	6.9%
Grant average/company (€)	39 711	42 125	81 836	39 474	41 667	81 141	-0.8% ²
Field of activity; Production	3 686	3 581	7 267	259	294	553	7.6%
Field of activity: Services creative industries, IT	3 453	6 198	9 651	235	523	758	7.9%

Source: Programme Implementation Unit, Iaşi (conversion rate 1 EUR = RON 4.67).

Intervention logic

At the programme level, the problems addressed through this intervention are linked to the low survival rate of the Romanian start-ups. These are present on the market for less than 12 months, and “about a third of the start-ups fail to reach the second year of activity”, according to the 2019 edition of the EY Start-up Barometer Europe³. Moreover, the proportion of those who are still present on the market 2-3 years after establishment decreased to 21% in 2019 from 26% in 2017, after initially increasing from 17% in 2016. The SMEs’ needs to consolidate in the first year of operations include financial resources to invest in modern equipment, technology, know-how, and working capital to cover operational costs (mainly salaries).

Beneficiaries

The eligible beneficiaries are microenterprises and SMEs all over Romania, and which are committed to creating at least one new job. The funding is awarded based on the “de minimis aid” framework.

Needs

- Access to finance to invest in technology, modern equipment and increased access to markets

¹ Around 33 500 applications were submitted, but due to the limited funds only the first 13 000 entered the evaluation and selection process.

² Variation of the grant average in the stakeholder territory compared to the national average (%).

³ <https://start-up-initiative.ey.com/wp-content/uploads/2019/10/EY-Start-up-Barometer-Europe-October-2019.pdf>

- Improving the low surviving rate. One of three start-ups fail in the first year of existence while half of the Romanian SMEs survive up to four years since establishment.

Actions

- Grant sup to € 40 000 and access to bank loans for co-financing of the investment and for cash flow needs;

Eligible actions and costs included:

- Acquisition of technological equipment, IT, spaces for production, services and trade, means of transportation, furniture, office supplies, air conditioning equipment, intangible assets, software.
- Salaries and operating costs:
 - Training, consulting;
 - Non-deductible VAT;
 - Financial expenses.

Output and output indicator

- The expected output is the large extent of the support offered to start-ups—at least 10 000 companies supported each year. Only 71% of the indicator's target was reached in 2017 while in 2018 the figure went up to 98%.

Expected results

- Creation of new SMEs and increased survival rate of the existing SMEs at the national level;
- Other effects include:
 - New jobs created;
 - Disadvantaged people employed.

Result indicators

No result indicator was defined in the programme design. However, the most suitable indicators at the level of outcomes are those related to the problem addressed, i.e., the survival rate in the first three years of life.

Results achieved in the region

The assessment of the results in the stakeholder territory was limited due to the unavailability of data at the county levels. Programme implementation data was available only at for the national and the regional levels.

- 1 341 start-ups from the stakeholder territory were supported with up to € 40 000;
- € 26 000 000 are expected to be absorbed by the stakeholder territory by the end of the implementation phase of the 2018 annual programme;
- 5 192 jobs were created in the funded SMEs;
- 4 170 persons from the disadvantaged groups were employed.

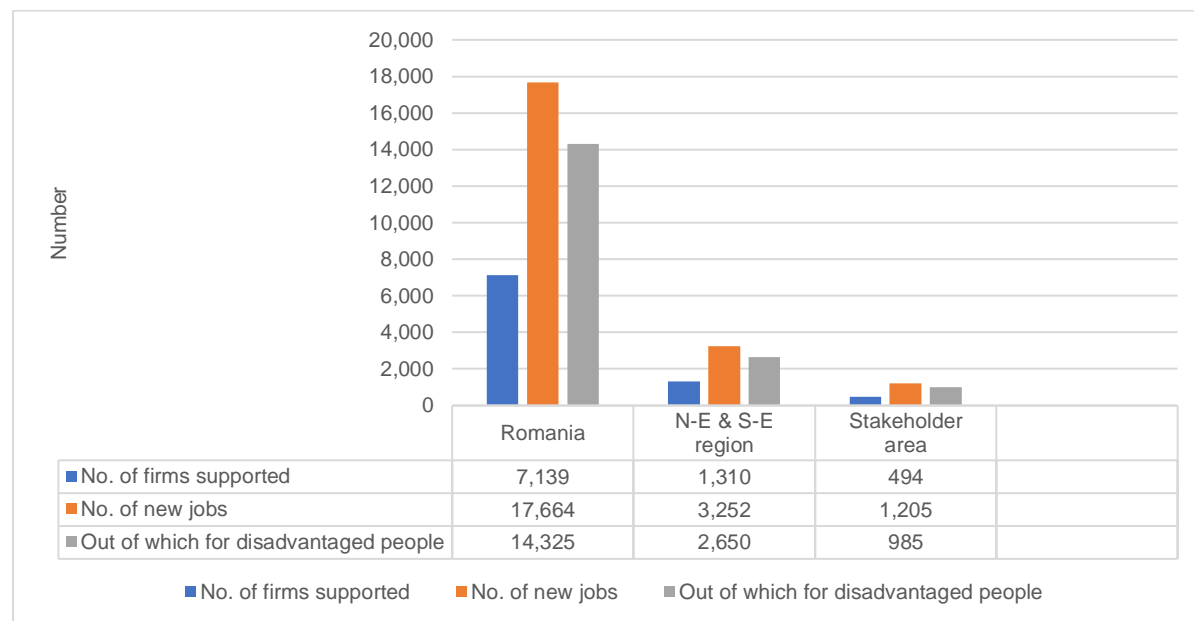
Through the selection criteria and the scoring system in the technical evaluation, the programme was designed to encourage the following: job creation and the employment of disadvantaged people, investment in energy efficiency and modern technology. Jobs created and employment of disadvantaged people are monitored by representatives from the programme implementation structures.

Thus, the 2017 edition of the programme financed 7 139 companies and led to the creation of 17 664 new jobs, of which 14 325 for disadvantaged people.

The 2018 edition of the programme financed a number of 9 779 companies and led to the creation of 46 465 new jobs, of which 35 328 jobs for disadvantaged people.

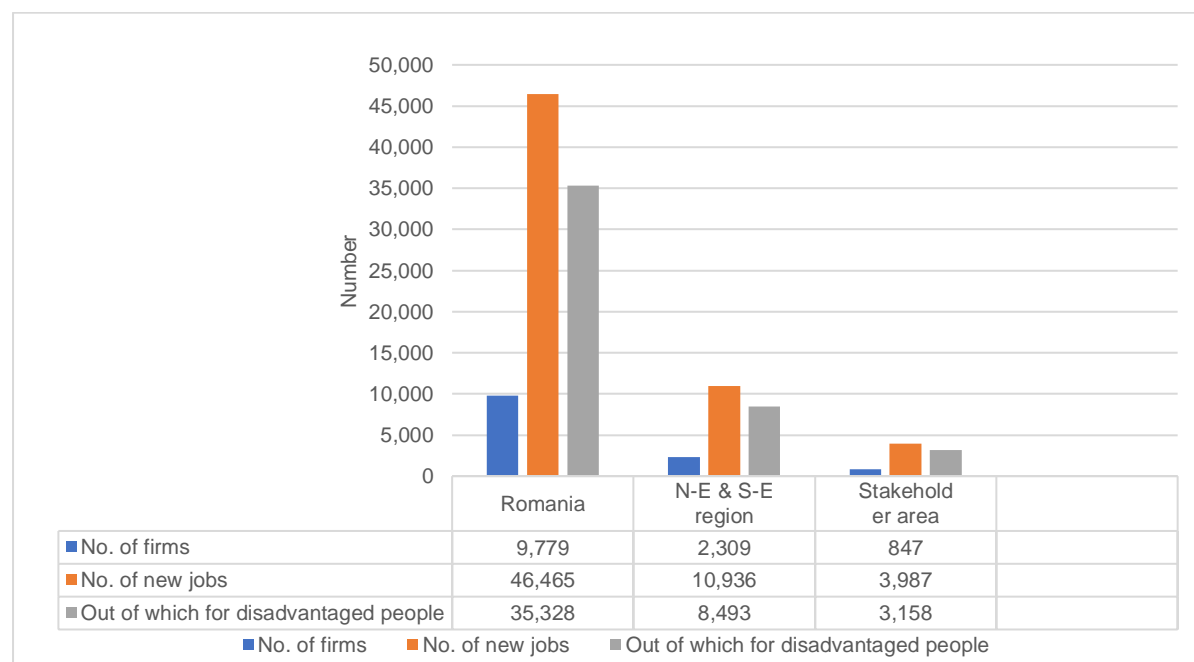
The graph below shows a comparison of the situation at the country level in the two development regions (NE and SE) and in the stakeholder area (Botoşani, Iaşi, Vaslui and Galaţi counties), in the two years when the Start-up Nation programme was operational (2017 and 2018).

Figure 1: Start-up Nation annual programme 2017 - implementation data



Source: Agency for SMEs, Investments Attraction, and Export Promotion, Iaşi

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Source: Agency for SMEs, Investments Attraction, and Export Promotion, Iaşi

Qualitative data on the implementation and the results of the Start-up Nation programme 2017 are provided by the National Council of SMEs in Romania based on a survey conducted between November 2018 and February 2019. 380 SMEs benefitting of funding from the following sectors participated in the survey: production (68.9%), creative industries (25.2%), IT (3.2%) and services (2.6%). Most companies (81.6%) are non-VAT paying companies.

The main conclusions of the study on the implementation of the Start-up Nation 2017 programme are:

- Most beneficiaries found out about the programme from the internet / social media (47.4%);
- Approximately 90% of the beneficiaries confirmed that without the support from the programme they would not have started a business;
- 72.4% of the beneficiaries used the consultancy services for preparing their application and for project implementation;
- 96.8% of the beneficiaries appreciated the evaluation of the business plans as optimal;
- The banks were the entities registering the highest delays in implementation (23.2%);
- The majority of respondents (52.1%) considered that reaching the break-even point in their business will be achieved in the next 12 months.

3 Case study

3.1 Case study 1. Hbebe Iași

Hbebe is a veritable family business, born from Flavia H's passion for creating and producing clothes for her son. All the members of her family are involved, including young children who patiently wait for their parents to end a day's calls.

Hbebe started out with one employee, but soon a feasible growing plan was laid out by the time the Start-Up Nation programme was announced. New equipment for the business was essential at that time.

Although pricey, the consulting services paid off, in her view: "we paid twice the eligible amount for reimbursement, but it was worth it. We spotted on the internet an experienced consulting firm from Bucharest".

The story of Hbebe, a clothing brand for children started in 2017 as a hobby and in the present the business offer jobs to five persons. The € 40 000 grant from the programme helped foster the business dream and the everyday work and concerns of the entrepreneur and helped trigger the change and opened up a new development perspective.

The creation of new jobs was part of the evaluation criteria for the applications. In order to stand a chance at getting the grant, they had to explain how their business plan will lead to the creation of new jobs, an indicator which was part of the evaluation criteria for the applications. For Hbebe this was a positive challenge as their business needed new people onboard. However, in the future, maintaining additional jobs is not without challenges due to the high costs associated with the workforce, and which would probably decrease their overall profit.

Currently, Flavia H. produces overalls, T-shirts, dresses and shirts in her workshop in Iași, and sells them to parents all over the country via digital platforms. The business has a high potential to diversify current products and to extend its market outreach to the national and the EU levels.

The marketing and sales functions are extensively digitalised, covering the promo, pre-orders, selling, and payments. She participated in the fairs organised in Iași and which turned out to be very useful as the company already registers monthly increases.

The first step forward for Flavia H. is to have her own company shop in the central area of Iași. The next steps concern product diversification (embroidery and knitting), new equipment and an investment of at least € 50 000. A new workshop is planned to ensure the work processes are efficient.

The planned expansion is directed towards the Western markets. The Moldovan market, the Russian and the former Soviet states do not offer opportunities for them. However, Hbebe is interested in the acquisition of materials from Moldova. In their view, the Moldovan market holds some potential albeit the commercial relations are described as “complicated”.

Results and impact

Among the net effects of the programme materialised in this project we can list the following: four additional jobs, a company with a strengthened position on the regional and national markets, increased capacity and willingness to continue development. The experience in entrepreneurship of Flavia H.’ family can be an inspiring example for many young people.

3.2 Case study 2. SC Polandra Smart Choice – Alexandra’s Goodies Pastry

An original pastry and artisan confectionery laboratory opened in Botoșani on November 1, 2019. The event was possible because of the financing provided through the Start-Up Nation programme. The patisserie has state-of-the-art professional equipment worth RON 40 000 lei (about € 8 500) and four employees, of which three are apprentices.

Alexandra’s Goodies Patisserie brought to the people of Botoșani the “gozleme” (Turkish sticks) made on a Turkish hob. Their products are made using potato paste, cabbage, chicken breast, sweet cheese, feta cheese and parsley, and they also make use of recipes with a Mediterranean touch.

The investment was made by a young entrepreneur who aims to produce “goodies for all tastes” from the traditional Romanian and Turkish products to different types of cakes, pizza and sandwiches.

Results

Four new jobs were created in this project with financing provided through the Start-Up Nation programme.

3.3 Case study 3. Eco cleaning oxygen – Botoșani

A businesswoman from Botoșani wanted to prove to herself that a business inception under the framework of the Start-Up Nation programme can be a success. Carmen G., an engineer with valuable business management experience, applied for financing through the Start-Up Nation programme to start her business - **Eco cleaning oxygen**.

Five people were employed for laundry-cleaning activities, and at a later stage the range of products they could cover has become larger (from carpets to everything textile). This large a volume can only be done by using the latest technology and the programme grant was direct into acquiring this new equipment.

Customers experience has increased due to the fact that the cleaning services can be requested online, without additional costs, and the company using only biodegradable and environmentally friendly detergents.

The company's team is highly customer-oriented, offering fast services, flexibility in collecting orders, pick-up and home delivery.

Results

Five new jobs were created in this project with financing provided through the Start-Up Nation programme.

3.4 Case study 4. Oliroby – Muntenii de Jos, Vaslui county

Teodora B, from Vaslui county, returned to the countryside at the end of 2017 with her husband, after 11 years of working abroad, in Italy. Her plan for the return to Romania was to open a business with processed food products (biscuits), following the successful model of the factory where both her and her husband worked while abroad.

The idea of starting their own business emerged at the beginning of 2017 when they heard on the Romanian TV that the government will offer non-reimbursable funds under the Start-Up Nation programme to people working abroad and willing to return to set-up a business in Romania.

Their project idea - the biscuits' factory was financed, and, as a result, they rented a space in Vaslui, which they arranged and equipped with a biscuits machine and a baking oven, and created an online platform for their business.

Success in their case was achieved by the experience they gained working in a biscuit laboratory in Italy and through hard and dedicated work.

In their laboratory one can spot a unique way of working and also original recipes and qualitative ingredients without additives resulting in what the owners proudly promote as "Romanian products".

Results

Two new jobs were created in this project with financing provided through the Start-Up Nation programme.

3.5 Case study 5. M&G Food studio

Gabriela and Mihai are two young entrepreneurs who laid out the foundations of a successful business - M&G Food Studio, which combines the art of cooking and enjoying of unique dishes with qualitative time spent in a relaxing manner with friends, colleagues or family.

The company administrator, Gabriela, says the business is the result of hard work and a mix between the professional experience and the passion for cooking of one of the entrepreneurs and the experience of the other in the field of organising corporate and private events.

The business inception was possible through the Start-up Nation 2017 programme, financing the purchase of the equipment and covering a part of the start-up expenses. The road to success was challenging, requiring patience to find the proper space that met all their requirements, to arrange it

according to the entrepreneurs' vision, and to equip it with high-performance equipment to help them adapt to different themes and different cooking styles.

The manager of the M&G FOOD STUDIO describes the recipe of success as a mix between the experience gained in years of activity in the hospitality industry, the equipment purchased through the Start-up Nation programme and the accessible location chosen.

Among the type of events that can be organised at the M&G FOOD STUDIO:

- team buildings (can be focused on teamwork, competitive, charitable, etc.);
- wine tastings and their association with dishes - together with the chef of the location, a sommelier can be involved to reveal to the participants the secrets of the association of wine with dishes, to improve the culinary experience, etc.;
- anniversaries - the chef of the location and friends, colleagues or family can help to prepare a festive menu, in a relaxing setting;
- company and private parties - in which the team members and participants cook under the guidance of the chef, and then they can spend time together in the especially arranged area in the studio.