

THE IMPACT OF THE SARS-COV-2 PANDEMIC ON ENTREPRENEURSHIP IN ROMANIA. MEASURES TO AVOID INSOLVENCY AND BANKRUPTCY

Dalina ANDREI*, Liviu C. ANDREI

Abstract. *Our paper findings are based on official statistical data provided from the National Office of the Romanian Trade Register (ONRC) regarding the legal active entities and authorized individuals in Romania. Data will describe how Romanian business environment was affected in 2020 by the Sars-Cov-2 health crisis which also had a major impact on the international business environment. We will search for those statistical data better highlights what is happening in the business environment, given company registrations, insolvencies, plus legislation improvements. We will equally take into account the responsibility of the companies' shareholders face to: expectations, options for financing their own businesses, solutions of resistance in difficult periods, plans and strategies for the near future. The impact of some measures taken by government authorities to support the business of entrepreneurs will also be taken into account.*

Keywords: *new companies formation, entrepreneurship, Covid-19 economic impact, romanian business environment.*

Jel classification: *I15, M1, M13, M14, M2.*

1. Introduction

The Corona virus pandemic proves a major impact not only on people's lives, but also on global economies. Most activities carried out by Romanian firms met a decline in March-April 2020, then a slight return in the following May-June. But there isn't yet any sudden end of crisis to talk about. On the contrary, specific crisis effects are still to be expected the next year, as well. It seems that the real impact of the epidemic on business environment is yet too little captured by the current statistics. Roughly the same for the surveys addressed to companies' shareholders, despite their higher potential of identifying difficulties of the Romanian business

* Senior researcher the 3rd degree at the Institute of Economic Forecasting of the Romanian Academy of Sciences in Bucharest, dalinaandrei@yahoo.com

environment, e.g. regarding funding sources, staff related issues, debt management, planning and long-term strategies [3].

2. Literature review

Of course, there isn't yet even about a substantial literature about the economic impact of Sars-Cov-2 virus either. This phenomenon still is fully working. Though, a number of articles, studies, even short books published are to be accounted by the time of this paper. *Alexander W. Bartik, Marianne Bertrand, Zoe Cullen, Edward L. Glaeser, Michael Luca, and Christopher Stanton (2020)* [1] draw on together a survey of more than 5,800 small businesses in the United States, the one providing insights of the economic impact of Corona-virus (COVID-19) on small businesses¹ [2]. *OECD Policy Responses to Coronavirus*² is another paper that discusses on how SMEs, on the global level, are affected by the current pandemic using surveys that indicate severe disruptions and concerns among small businesses. Some *Harvard Business School experts (2020)* were assigned for an opinion about how the COVID-19 pandemic is likely to change business practice³. *Pierre Olivier Gourinchas and all (2020)* estimate the COVID-19 crisis' effect as number of bankruptcies in the small and medium size enterprises of a number of 17 countries through using a large representative database of firms. *Robert W. Fairlie (IZA Institute of labour economics, 2020)* writes a study about the Impact of COVID-19 on small business run and accounted on their 'Early-Stage Losses' since April 2020. *The World Economic Forum – COVID Action Platform (2020)* offers a description of the devastating Corona-virus effect on small and medium-size enterprises in Europe⁴. National Institute of Statistic in Romania (INSSE 2020) [4] has in context a study on the impact assessment of COVID-19 on the economic environment in last March and April 2020, with a sample of 8831 economic entities, as representative for several economic sectors. Last but not least, statistics of the Romanian National Trade Office (ONRC 2018-2020) draw a reliable basis for our below paper. Besides, a survey coming in November 2020 from two

¹ <https://www.pnas.org/content/117/30/17656#sec-3>

² <https://www.oecd.org/coronavirus/policy-responses/coronavirus-covid-19-sme-policy-responses-04440101/>

³ <https://hbswk.hbs.edu/item/how-the-coronavirus-is-already-rewriting-the-future-of-business>

⁴ <https://www.weforum.org/agenda/2020/11/covid-19-coronavirus-pandemic-europe-business-smes-economics/>

consulting companies that are ‘Frames’ and ‘Sierra Quadrant’ makes some completions (in our help) concerning behavioural aspects of entrepreneurs in Romania and other aspects like business financing, diverse obstacles, hopes and plans for the future in their areas.

3. The Romania’s business environment. A short description

3.1. Companies, as legal entities and their shareholders

In total, there were over 1.4 million legally active companies in Romania⁵ at the end of October 2020, as 4.48% (60,809) more than in the same period of the previous year (1,027,219 active legal entities and 392,319 authorized persons / II / IF). More than 428,235 people were involved in these enterprises as holders or authorized persons / II / IF, and these along with another 1,475,008 shareholders / associates of active legal entities. Of a total of 1.9 million active businesspeople in 2020, as associates, shareholders or owners of legally active companies over 62.17% were men (1,183,214) and 37.83% (720,029) were women.

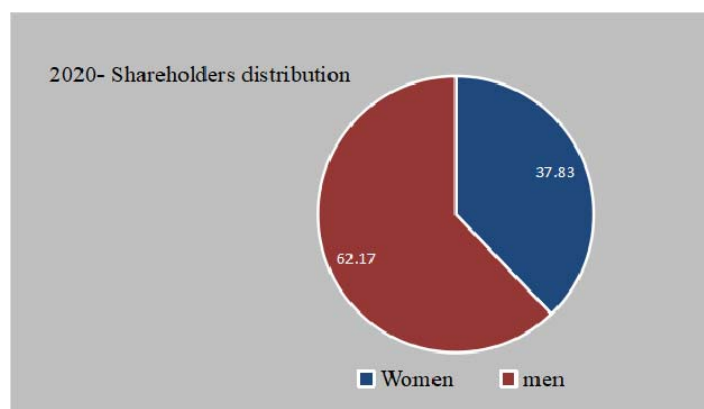


Figure 1. Distribution of shareholders of legally active companies, 2020.

Source: Calculations based on ONRC data, 2020.

The number of women involved in business increased by 20,000 in the first 10 months of 2020 compared to the previous year, and men

⁵ ONRC: Professionals registered in the Trade Register who have not declared their suspension of activity and are not in any of the states that can lead to the loss of legal personality are considered active, from a legal point of view. Of the total number of professionals recorded by the Trade Register, were excluded professionals with temporary suspension of activity, branches, deregistered professionals, professionals in dissolution, liquidation, judicial reorganization, bankruptcy, insolvency.

involved in the ownership of companies were more with 40,888. At the same time there is to be seen in 2020 a weak trend of diminishing the difference between the two sexes for shareholders, as compared to the previous year (62.52% men in 2019, 37.48% women in 2019). „Statistics show that in the last 10 years women have become an increasingly active presence in the business environment, their presence being significant in the area of creative businesses and those who develop health services, education and social assistance.”

As for the geographical representation, the most legally active professionals were in Bucharest (257476), followed by those in Cluj (75764), Timiș (60831), Ilfov (54168), Constanța (52152), Bihor (52092) counties and Brașov (44301). At the opposite pole there are to be found the counties of Călărași (13620), Tulcea (10,920), Ialomița (9935), Covasna (9419) and Mehedinți (9168)

The total number of legal entities⁶ increased by 4.30% in 2020, compared to 2019, the highest rates coming in Ilfov 8.02% (3592), Giurgiu 6.22% (596), Sibiu 5.46 (1017), Călărași 5.22% (435), and the lowest ones in Brăila 2.15% (210) and Harghita 2.70% (291).

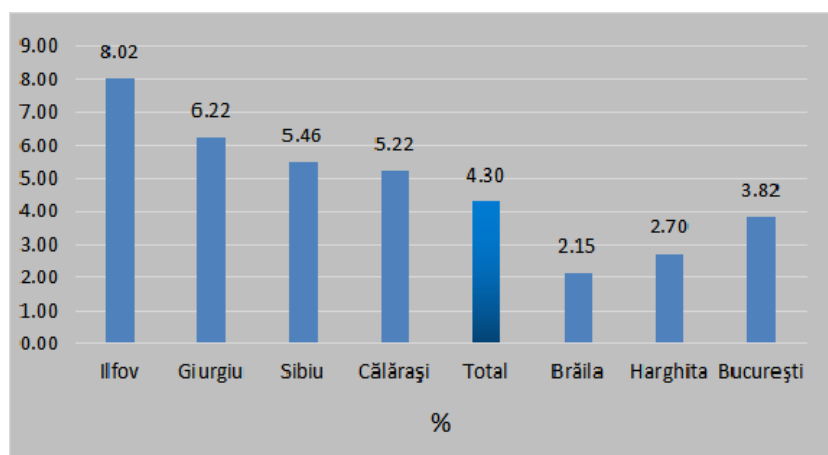


Figure 2. Evolutions of the active legal entities, 2020.

Source: Calculations based on ONRC data, 2020.

⁶ ONRC, Legal entities: General partnership, limited partnership and limited liability company, Debutable limited liability company (SRL-D), Economic interest group, Joint stock company and limited partnership, National company and company, European Holding Company, European Merger, Autonomous Administration, Credit Union, 1st and 2nd Grade Cooperative Society, 1st and 2nd Grade Agricultural Cooperative, European Cooperative Society, European Merger Cooperative, European Society – subsidiary, Branch company or GIE based in Romania, Branch of autonomous administration, Branch of cooperative society, Branch of a company based abroad, Submission of prospectus for the issue of shares.

As in the case of authorized persons, the preponderance of men in business is well known, and in the case of active legal entities (companies) in Romania women who lead or are part of the shareholders of such a company are significant percentage, see over 40% in counties like Braila, Dolj, Galati, Hunedoara, as related to the national average that is 37.29% (see also Table 2). In Harghita the lowest participation of women (32.5%) was found as shareholders of legal entities for a nation-wide average of 62.0% for men (67.5% the same in Harghita, which is the highest percentage throughout all Romania's counties).

Table 1.
Distribution by sex of Shareholders / associates of active legal entities

County	Total	Women	%	Men	%
Brăila	13977	5673	40.59	8304	59.41
Dolj	38738	15562	40.17	23176	59.83
Galați	27558	11282	40.94	16276	59.06
Hunedoara	23647	9623	40.69	14024	59.31
Tulcea	11152	4640	41.61	6512	58.39
Harghita	17889	5814	32.50	12075	67.50
București	336117	122162	36.35	213955	63.65
TOTAL	1475008	549966	37.29	925042	62.71

Source: Calculations based on ONRC data, 2020.

Businesses in the Romanian economy are mostly controlled by business people with life experience⁷. The National Trade Register Office (ONRC) [5] statistics show that the majority holders of authorized persons / II / IF are between 40-49 years old (122,216/28.54%), followed by those between 30-39 years old (105,404/24.61%), those of 50-59 (86,230-20.14%) and those over 60 (70,043-16.36%). The situation is different in the case of two counties, that are Cluj and Timis: the largest number of holders of authorized persons / II / IF belongs to the age group 30-39. The same order by age groups is maintained in the case of companies that are active legal entities included in the ONRC statistics (except for Gorj and Salaj counties, where in 2020, most shareholders belong to the age of 30-39 years).

⁷ *Studiu Frames, 2019*, <https://www.managerexpress.ro/idei-resurse/studiu-frames-profilul-omului-de-afaceri-in-2019-intre-40-si-45-de-ani-studii-superioare-casatorit.html/>

Despite the growing number of creative start-up examples and of businesses created by young people, statistics show that, unfortunately, the number of young people up to 29 years old present in business as shareholders is the lowest level of all age groups (44,342-10.35% for authorized persons and 120,159-8.15% for companies). „The reasons why young people are late to represent an important contingent in the business environment⁸ in the opinion of the authors of a Frames study, they seem to be most likely due to lack of money. As banks are slow to offer loans for investment, especially to beginner entrepreneurs, most young people prefer to find a job as an employee, especially since the economy offers a multitude of jobs on higher wages than in 5-6 years ago", say the analysts from 'Frames'. Beyond the special situation in the Capital City, most young people involved in business come from Brasov, Constanta and Timis. On the other hand, most business people over the age of 60 are in Bucharest, Cluj and Constanța.

We here add the analyses of the management and consulting company Frames⁹ for the level of education and the civil status of Romanian business people: over 52% of the businessmen present in the business have higher education, 36% have secondary education, and 12% have not declared their educational level. In terms of marital status, 64% are married, down 9% from the situation in 2018, 21% are single / divorced / widowed, etc., and 15% did not declare their situation.

3.2 Authorized persons (PFA)¹⁰

The total number of active authorized persons / II / IF increased in 2020 by 3.58%, as compared to the end of 2019, the highest increases being registered in Bucharest 6.05% (1582), Brasov 6.05%, (574), Buzau 7.28% (484), Ilfov 6.50% (352), Sălaj 9.50% (617), and the smallest ones in Argeș 1.71% (167), Bistrița-Năsăud 1.44% (118), Botoșani 1.85% (140), Suceava 1.71% (169) and Vaslui 0.66% (41).

Beyond the preponderance of men in business, there are counties in Romania where, in terms of percentage, women leading authorized persons/ II / IF are significantly present, see, over 40% in Bihor, Brasov, Constanta, Dambovita, Maramures, given that the national average for this category is 39.71%. In the county of Tulcea the share of women as authorized persons / II / IF is the lowest 29.89%. At the country level

⁸ *Ibidem*

⁹ <http://framesmedia.ro/>

¹⁰ See also Annex 1 for a few details.

authorized persons belong to male entrepreneurs, in proportion of 60% and above (e.g. 70.11% in Tulcea).

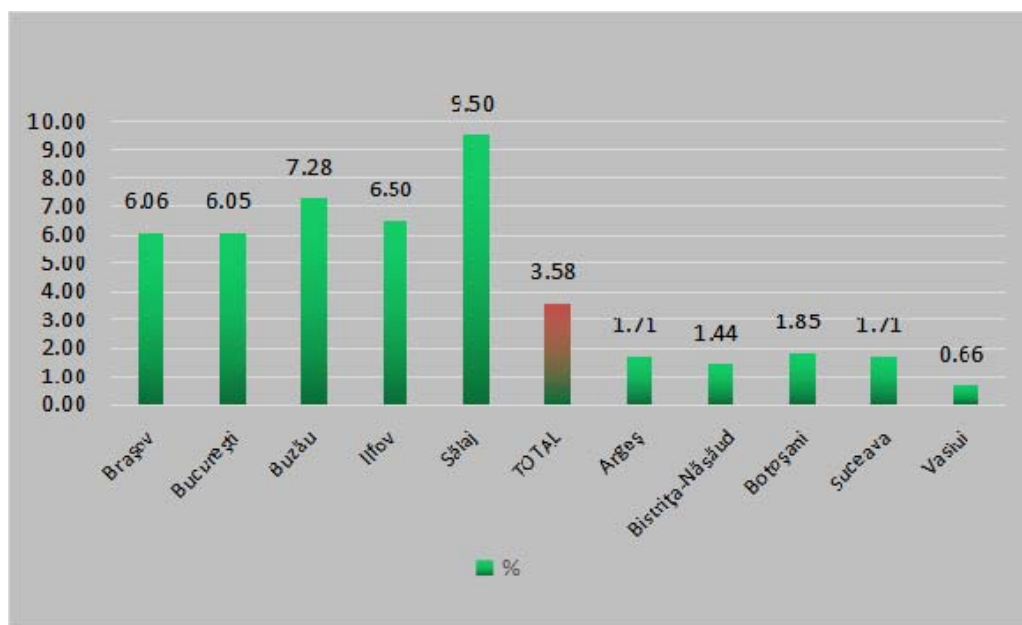


Figure 3. Evolutions regarding PFA / II / IF, 2020.

Source: Calculations based on ONRC data, 2020

Table 2.
Distribution by sex of active PFA / II / IF holders / members

County	Total authorized persons	Women	%	Men	%
Bihor	19450	8455	43.47	10995	56.52
Braşov	10,295	4415.00	42.88	5880.00	57.12
Constanţa	11,641	5071.00	43.56	6570.00	56.44
Dâmboviţa	14,993	6486.00	43.26	8507.00	56.74
Maramureş	13,915	6176.00	44.38	7739.00	55.62
Bucureşti	28,612	10948.00	38.26	17664.00	61.74
Tulcea	6,503	1944.00	29.89	4559.00	70.11
TOTAL	428,235	170063.00	39.71	258172.00	60.29

Source: Calculations based on ONRC data, 2020

4. The Covid-19 pandemic context for 2020

4.1 The legal entity registrations

The number of company, of authorized individual (person) and all the other legal entity registrations decreased in the first ten months of 2020 by 21.09%, compared to the similar period of 2019, to 92,179 companies, most of which are limited (Ltd) 64,833, then authorized persons 19,452 and the rest to the other categories of companies mentioned above in the first part of the study, according to the data centralized by the National Office of the Trade Register. Most registrations were done in Bucharest, respectively 15,623, but in dynamics, it represents an increase of only 1.02%, compared to 2019, in reality, rather stagnation or reluctance. An increase in absolute number but also in dynamics is observed in Ilfov (4.26% increase, approx. 220 companies). Bucharest and Ilfov are the only territorial districts that meet a timid growth in registrations, compared to the previous year, the rest of the counties meeting dramatic decreases in this respect, see 13% -38%.

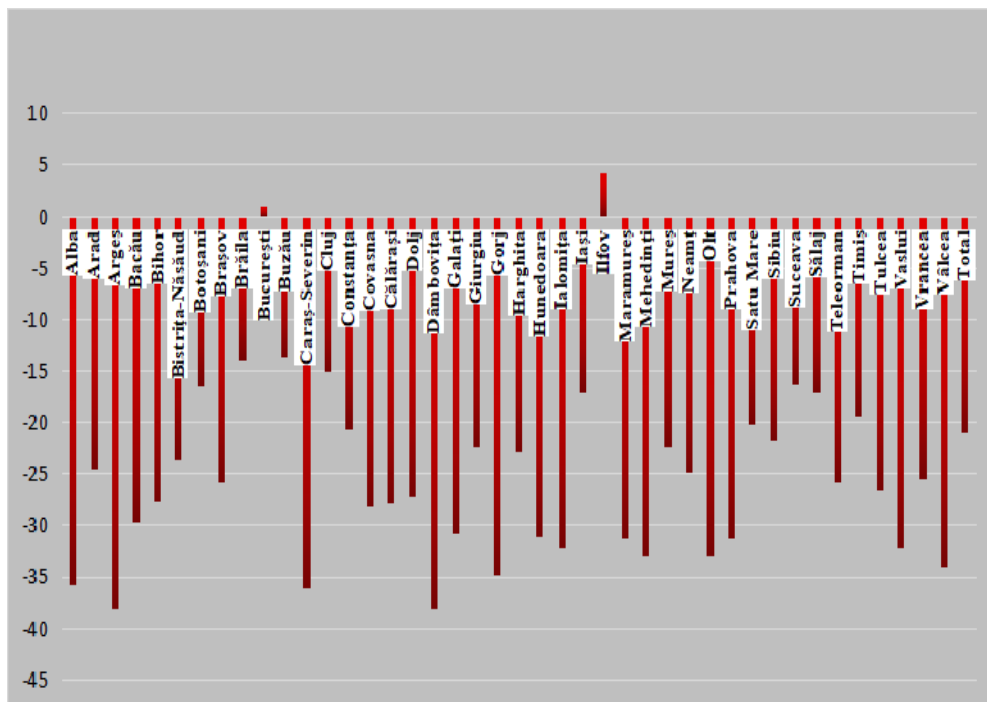


Figure 4. New company registrations, 2020/2019.

Source: Calculations based on ONRC data, 2020

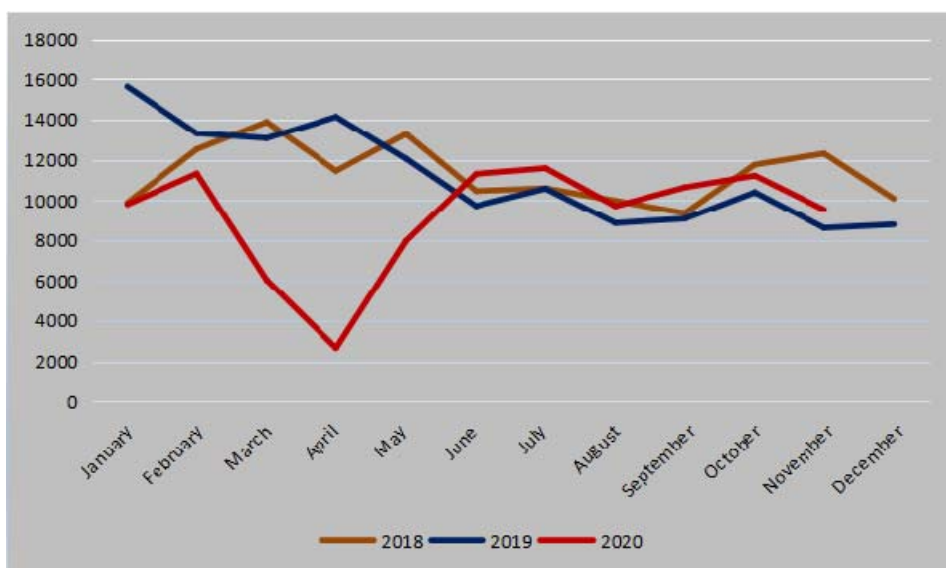


Figure 5. Young Companies- monthly (numbers).

Source: Calculations based on ONRC data, 2020.

Interesting here might be where the number of newly created companies is highlighted monthly, here trying to capture the shock that the pandemic had on the Romanian business environment. Even in the midst of the lockdown of the global pandemic, on average about 9,000 new companies were formed each month during 2020. Despite a clear activity decline in April 2020, when only 2651 companies appear to be created, the next May then came with 7964 new companies. However, this is a figure equalling those of January and February, before meeting COVID-19.

Back to April 2020, this month showed the most significant decrease in the number of new companies. This may simply reflect many people still struggling with the reality of the lockdown without an action plan. Surprisingly, there was not an overall decrease in the number of new companies due to the pandemic. The virus has certainly affected the economy as a whole, but people still live, work and shop at home, ensuring a constant demand to companies for meeting their needs. According to ONRC data, in Bucharest in the first ten months of 2020, 15,623 new companies were registered, of which 464 companies in April, the month in which the pandemic shock was most manifested. As compared to April the number of registrations doubled in the next May, i.e. 1100 companies.

Why has the number of new companies decreased? The reluctance of entrepreneurs may be due to the limitation of the movement during the

state of emergency, but also the fact that they asked themselves if the year 2020 would still be suitable to start a business. Even in "perfect" economic conditions, no business is guaranteed to be successful. The opening of a new business [8] depends on the own evaluation of the potential of the new enterprise and on the prediction of the possible risks. The ONRC data for 2020 show, in 2020, and especially in the acute moment of the crisis that is March and April 2020, the creation of new businesses continued. These businesses are already starting up confronting with difficulties and are supposed to have better ability to adapt and change as the crisis eases.

Table 3.
*Counties with over 100 new companies per month
 in the 1.01.2020- 31.10.2020 interval (number of companies)*

County	Jan	Febr	March	April	May	June	July	August	Sept	Oct
București	1596	1888	1063	464	1109	1647	2043	1757	1994	2062
Bihor	298	416	194	130	232	397	379	321	332	361
Ilfov	458	536	260	138	352	517	617	493	546	588
Cluj	489	651	298	122	385	599	572	536	549	594
Constanța	383	416	252	118	273	446	383	353	371	430
Iași	479	521	260	126	281	413	478	401	494	472
Timiș	360	484	298	123	356	467	556	442	537	481
Brașov	305	396	199	107	238	336	376	359	374	420

Source: Calculations based on ONRC data, 2020

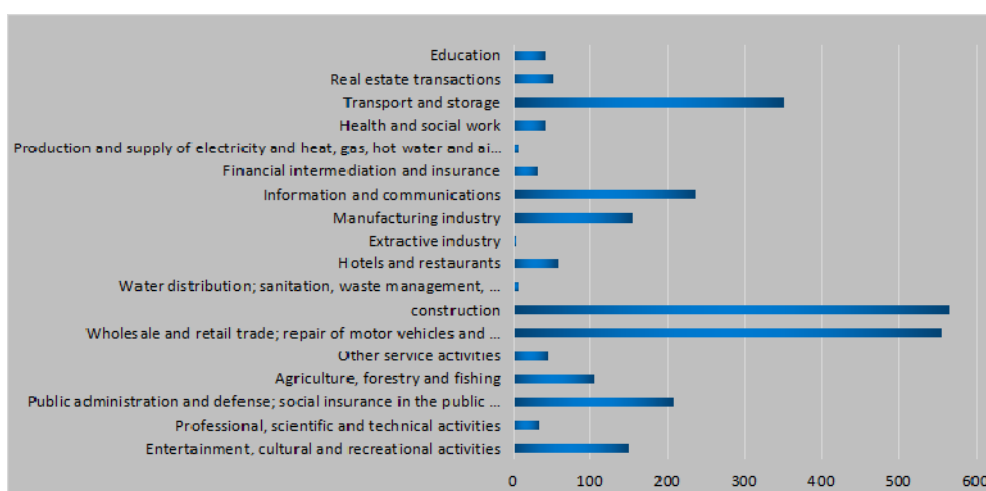


Figure 6. Domains of companies registered in April 2020.

Source: Calculations based on ONRC data, 2020

4.2. The companies' behaviour during the emergency and alert state against pandemic

During the state of emergency¹¹ (due to the impact of the Covid epidemic-19), the Romanian authorities have adopted a series of exceptional measures. These were consisting in restrictions imposed against virus spread – the ones meaning restrictions, up to fully stopping some activities with their natural and expectable consequences –, then in measures taken in order to limit these last economic consequences of the pandemic, e.g. temporary suspension of bank loan and leasing instalments payment at demand; the State supporting technical unemployment benefits.

Although the pandemic crisis and their corresponding measures taken had profoundly affected the business environment, the legislative framework on insolvency and bankruptcy then remained largely unchanged up to next May 2020.

Many economic operators stopped their activities as totally or partly as affected by the authorities' measures taken. Despite that, the existing legal insolvency procedure – i.e. the obligation of insolvency procedure opening in maximum of 30 days since the de facto insolvency by the entity/company – was kept in force unchanged onwards.

Then a real law providing concrete and very specific protection that was Law number 55 on 2020, called as 'providing measures of preventing and fighting the Covid-19 pandemic effects' came to be voted by the Romanian Parliament on 13 May 2020. Two categories of companies were here targeted: those meeting financial difficulties (e.g. of liquidities; of debt increasing) and those already meeting pre- or full insolvency [7]. And here there are the provisions brought by this Law:

/ suspending the obligation of procedure opening required in maximum 30 days after the de facto insolvency and that for both such a state existing and occurring during the declared state of alert;

/ for creditors, on the other hand, they get able to file the request to open insolvency proceedings, but this is compulsorily basing on the evidence of previously attempting all possible payment agreements with their debtors;

/ such a request to open insolvency proceedings, for both debtors and creditors, meets the limit of minimum 40 – 50 thousand RoN;

¹¹ Actually the first economic measures taken in this pandemic new context. They refer to insolvency and its preventing.

<https://www2.deloitte.com/ro/en/pages/business-continuity/articles/procedurile-de-prevenire-a-insolventei-si-de-insolventa-pe-durata-starii-de-alerta-primele-masuri-adoptate-in-contextul-actualei-pandemii.html>

/ besides, all enforcement on insolvencies will be banned for cases of debts of more than 60 days.[6]

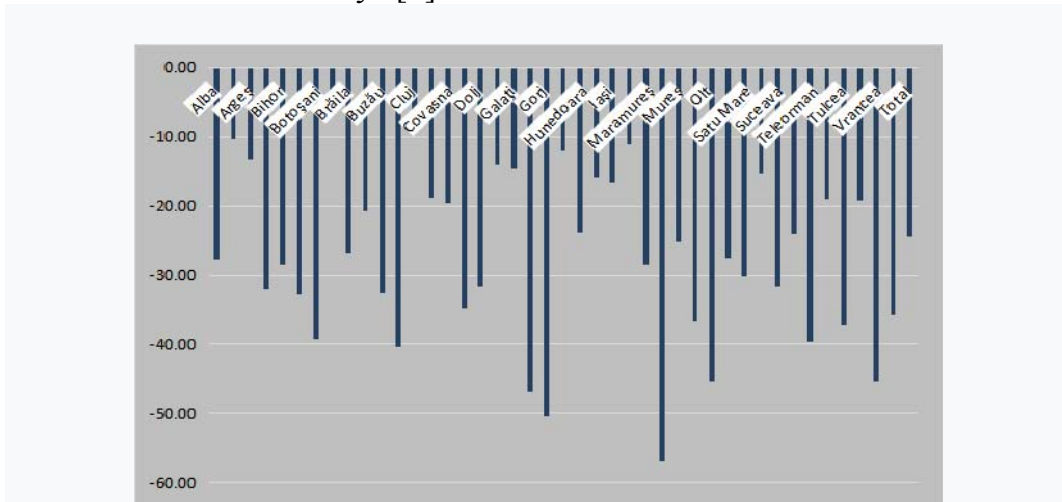


Figure 7. Dynamics of company suspensions 2020/2019.

Source: Calculations based on ONRC data, 2020

4.3. Fewer companies suspended their activity. An interesting case

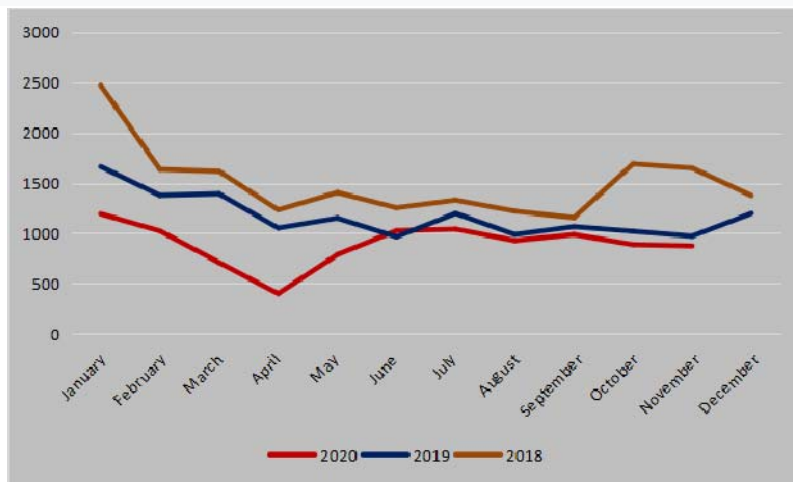


Figure 8. Company suspensions 2018-2020.

Source: Calculations based on ONRC data, 2020.

An explanation for this activity suspensions' diminishing might be that there was not about suspensions, but about simply interrupting activity in the emergency state declared. According to the 'Deloitte' consultants'

estimations number of Romanian companies acted on their own to prevent the Covid-19 threat be it by such activity interruption, by alternative forms of activity, e.g. online, or by continuing existing activity with harsh precautionary measures applied against specific risks¹².

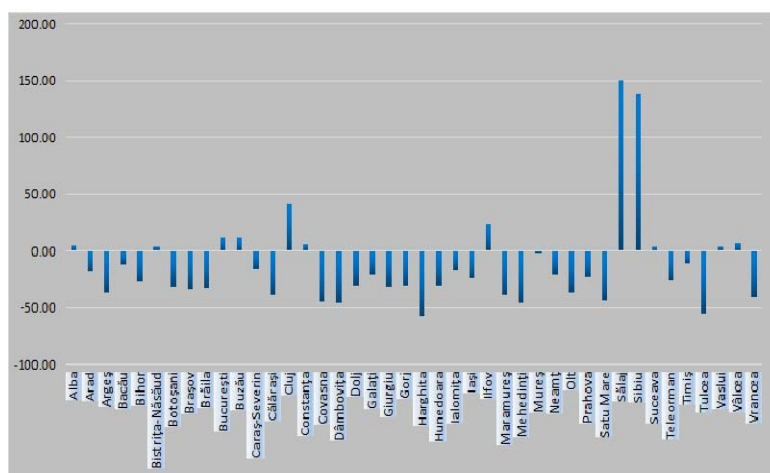


Figure 9. Professionals entered insolvency between 01.01.2020 - 31.10.2020 compared to the same last year period.

Source: Calculations based on ONRC data, 2020.

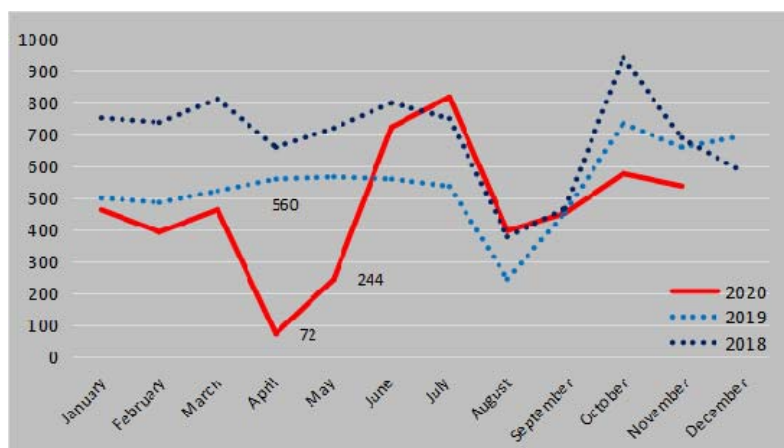


Figure 10. Insolvency professionals in the period 2018-2020.

Source: Calculations based on ONRC data, 2020.

¹² What is the company’s manager supposed to do to diminish risks afferent to his/her responsibility in Covid-19 pandemic circumstances? (Deloitte). https://www2.deloitte.com/ro/en/pages/business-continuity/articles/ce-poate-face-managementul-societatii-pentru-a-diminua-riscul-raspunderii-personale-in-contextul-pandemiei-COVID-19.html?fbclid=IwAR2Cf02S9Bih_R5oB49uexjxKGtNpvmGP9b2b3b-XN8WxpkeQLJ2aIRuc

There cannot be excluded the truth that there equally are companies that succeeded to adapt and fast to newly available ways of products and services providing to their client companies and/or individuals while the whole rest of the economy got devastated – e.g. activities assuming the people’s free movement. Actually, even the lockdown proved able to boost market demand for some goods and services to be delivered some ways. *‘One month after the emergency state declared about 40% of companies were continuing activity, 37% of companies were reducing it and 23% of companies stopped it. Then, about 20-30% of the active companies in Romania have got exposed to insolvency’*.¹³

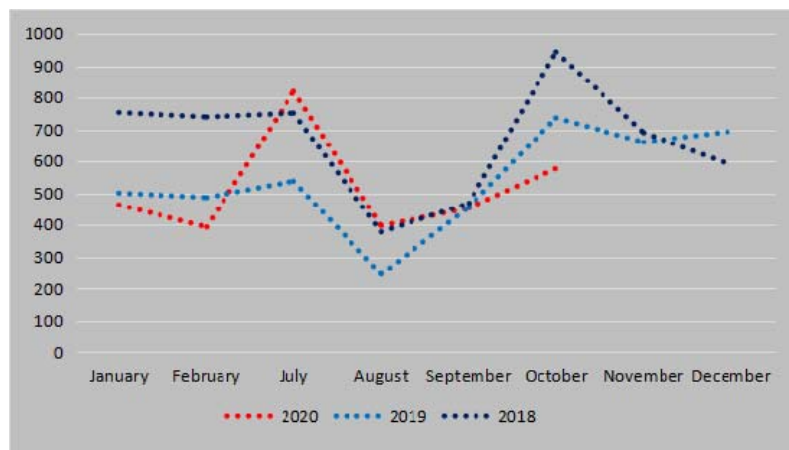


Figure 11. Professionals who went into insolvency during 2018-2020 Excluding the period March-June 2020.

Source: Calculations based on ONRC data, 2020.

Even during the worst financial accidents, most of normal life goes on, and most healthy businesses are able to survive a period of low income and activities. Increases in 2021 are all over expected.

4.4. The V shape reaction of companies reflected in statistics

While other recent recessions had been caused by financial shocks that have radiated from the financial markets, the recession caused by

¹³ <https://www.musat.ro/ro/concordatul-preventiv-mecanism-de-salvgardare-a-companiilor-afectate-financiar-de-covid-19/>

Covid 19 creates a kind of ‘artificial’ recession. Louise Sheiner of the Brookings Institution¹⁴ states that: “The Great Recession was the result of financial imbalances, while this health crisis stems from a factor that is totally external (the COVID-19 disease). ”The main reason for the decrease in some activities was mainly the limitation of the population movement. This could mean that the recession caused by Coronavirus is short and sharp – a dramatic V-shape on the financial charts – rather than the long and slow recoveries we have faced since the 2008 financial crisis.

4.5. Attractive areas for investment in 2020

The most attractive areas for investment, judging by the number of newly established companies in 2020, are those in trade and car services (22,561 companies, of which 4046 only in the period March-May 2020), construction (11695 companies, of which 2441 in the interval March-May)), information and telecommunications (5811 companies of which 1080 in the period March-May 2020), transport and storage (9704 companies of which 2004 in the period March-May 2020).

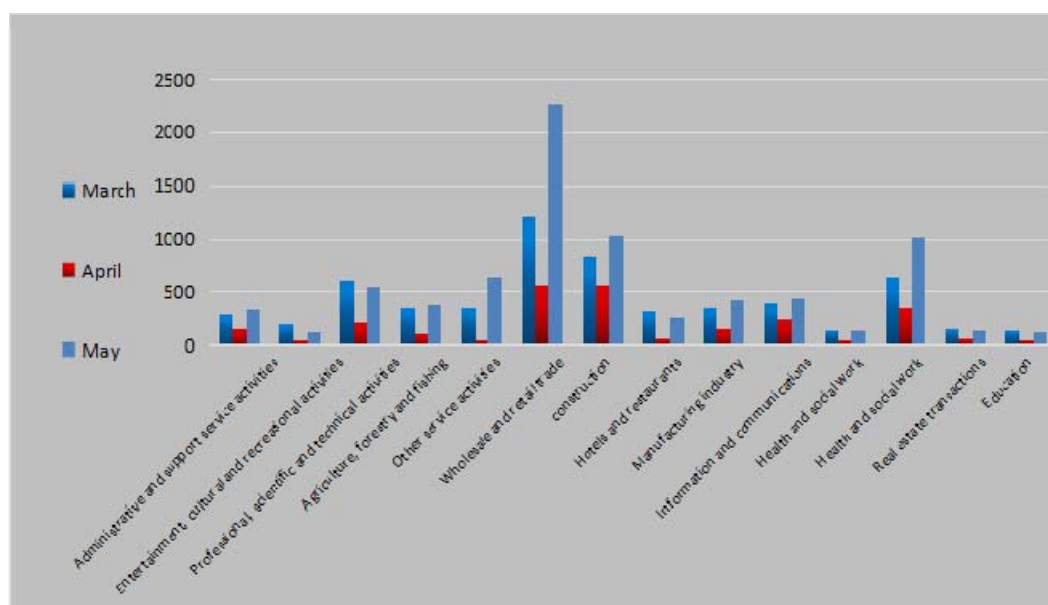


Figure 12. New companies, March-May 2020 /sectors.

Source: Calculations based on ONRC data, 2020

¹⁴ <https://www.brookings.edu/experts/louise-sheiner/>

If we look at the counties where the new companies originated from, we see that Bucharest is by far the champion of the newly established companies, followed by Ilfov, Cluj, Timiș and Constanța. At the other end we find Mehedinți, Sălaj, Harghita, Ialomița and Covasna. We added to those presented above a recent study conducted by the consulting firms Frames and Sierra Quadrant¹⁵, based on which surveys from November 2020, we can draw other conclusions that available statistical data can not provide.

These data are related to financial aspects that companies face in the midst of a pandemic, they are linked to strategies and plans for overcoming the crisis, but also to the perception of entrepreneurs on the evolution of their business and the economy in general.

5. Conclusions

The ONRC's data¹⁶ indicate some advancing interest of Romanians for business despite challenges of all kind in the first 10 months of the year in study – i.e. 2020, with 92179 companies and authorized persons; it is true about 21.09% less than in the same period of the previous 2019.

The pandemic pushed many companies to close gates, but on the other hand there also were those finding their best moments to start different business – this is what the ONRC's data reveal beyond the more than 90 thousand new firms hoping for profit. It is equally true that there won't be for all of these to survive. The National Institute of Statistics' data¹⁷ say that 4 of 10 new firms are over after one year functioning – survival rate of a business in Romania one year after its establishment is

¹⁵ This study is called 'Barometer of the economic state' was done in the 10-15 November interval of the year 2020 using on-line, e-mail and by phone questionnaires to a number of 300 companies of diverse activity areas, e.g. trade, financing, agriculture, energy production and distribution, ready-made clothes, IT.

¹⁶ The National Office of the Romanian Trade Register is a public institution with legal personality, organized under the Ministry of Justice. It maintains, organizes and manages central computerized business records. The trade register offices are organized under the subordination of the National Trade Register Office and operate in Bucharest and in each of the 41 counties in Romania. They keep, organize and manage local commercial records. In accordance with Law no. 26/1990, the trade register contains information on registered professionals,

¹⁷ *INSSE 2020, Intreprinderi noi si profilul intreprinzatorilor din Romania*

about 60%. New entrepreneurs are the ones with a business idea upon which they then built a firm to develop it or the ones previously losing their jobs and so seeing themselves forced to join the entrepreneurship alternative¹⁸. As for the domains chosen by entrepreneurs, the first option was trade – as already shown above. As for difficulties facing, firms mention first the ‘lack of funds’, then the one of customers, the customers’ delaying payments, finally the similar lack of skilled workers. Highly frequent demand related difficulties are high competition, ‘this business is yet unknown’ and ‘low resources customers’. Statistics of the first 10 months of 2020 confirm an economic phenomenon that even widened in the last years – enclaving business around big cities¹⁹. *‘The Romania’s economic development brings some ‘extremes’ in territory. Some big cities collect the most investment flows, while other regions themselves abandoned by investors and that despite enough lowered specific costs of investments. The problem might belong to missing infrastructure and labour, that last migrating first to the big cities. And this explains the fact that districts like Botoşani, Vaslui, Tulcea, Covasna, Harghita, Olt, Teleorman, Mehedinţi and even others met a real step back in their economic development. And that was not only business, but obviously the people’s life standard, say the analysts. Lastly the companies’ restructuring gets obviously needed as the very solution for the business’ survival on the short term in 2021, no matter the pandemic end or not.*

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