

## **REALITIES OF THE SELF-EMPLOYMENT PROCESS IN ROMANIA**

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*The present analyse was developed within the framework of Self-Employment project, i.e. "Guidance and counselling for self-employment", financed under EU Leonardo da Vinci Programme. The aim of this project is to identify the location and the value of guidance and counselling services addressed to people considering self-employment. The project conducted a survey of existing guidance and counselling services in different location addressed to educated and experienced persons who wish to start their own business, how they were assisted and provided necessary guidance. The project partners are from Austria, Poland, Romania and Finland.*

*This complementary partnership represents the background of counselling and guidance, academic and education, research and analysis fields strengthen by small business orientation and experience in self-employment project. They represent environments of different level of national awareness, policies and educational offer.*

*The present paper is based on the findings of the field study, aiming to identify the real needs of the self-employed and of the people considering self-employment and if supporting services available are suited to their needs.*

### **1. Introduction**

One of the main challenges facing the European Union Member States is the need to boost entrepreneurship. That is one of the ambitious objectives set by the Lisbon European Council in March 2000, with a view to improving performances in terms of employment, economic reform and social cohesion within the European Union. The European Commission opened the public debate by publishing, at the start of 2003, a Green Paper on "Entrepreneurship in Europe", which focused on two questions in particular: why do so few Europeans set up their own business and why are so few European business growing?

For the EU as a whole some 29 million people were self-employed (i.e. working in their own business, professional practice or farm for the purpose of earning a profit) in 2004, compared to around 161 million employees. This puts self-employment's share of total employment at around 16% in 2004, up slightly (by 0.2 percentage points) on the year before. However, at EU level the share has remained more or less stable around 16% since the late 1990s, and has remained essentially unchanged compared to 2000. Excluding agricultural employment, the self-employed population in the EU totalled 24 million in 2004, equivalent to a

share of around 13% of total non-agricultural employment.<sup>1</sup>

According to a Eurobarometer survey held within the European Economic Area and the United States in April 2004, a relatively high proportion of EU-25 citizens declared a preference for being an employee; with 50 % aspiring to be employees compared with 45 % who would prefer to be self-employed (5 % 'do not know').

Among those EU-25 citizens that declared a preference for ideally being self-employed, the main reason given was that self-employment was perceived as providing independence and self-fulfilment. Other overlapping reasons were an interest in the tasks accomplished (77 % of respondents), as well as the possibility of creating their own working environment (16 %)<sup>2</sup>.

Comprehensive information about the situation of one-person-companies in Romania is rather limited, although natural independent persons (as they are named in official statistics of Romania National Institute for Statistics) represent 18.4% out of the total employment of the country.

This paper addresses self-employment needs and enhancing support measures for one person companies, being the result of a survey realized in Romania by Dunarea de Jos University of Galati. It is important to bear in mind that the survey is not necessary significant from statistical point of view, and even the data collected are a helpful source of information, it cannot be generalised over the entire self-employed population in Romania.

## **2. Methodological Approach**

The survey was conducted during May – August 2006, using both computer-aided and face to face interviews.

Due to the low statistic data available on one-person companies the survey was carried out with the full support and help of Galati County Employment Agency in disseminating the questionnaires and reaching the self-employed. Galati County Employment Agency disseminated the questionnaires over entire Romania using the existing network of employment agencies, one in each county.

The sample was set up according to the projects possibilities. Targeted respondents were selected at random in all Romanian counties. Survey sampling principles were not necessary applied in selecting respondents.

A standardized questionnaire was used to investigate the needs of people interested in self-employment to improve their ability to succeed. Sample for each country was defined as 400 persons who are already self-employed for maximum 1 year.

Additionally, a total of 40 in-depth interviews with experts from such training field as business psychology and career counselling were provided. The aim of qualitative research was to identify and examine the efficiency of existing support services and counselling addressed to people considering self-employment from institutional point of view.

The project defines self-employed as one-person companies. Romanian legislation<sup>3</sup> is a bit different and defines self-employed as a person who conducts his/her activity at his/her own headquarters (authorised individuals/ natural independent persons) or runs an individual business without employing other persons, with the possibility of assistance from unremunerated family members (family associations).

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<sup>1</sup> European Commission Directorate-General for Employment, Social Affairs and Equal Opportunities Unit A.1, Manuscript completed in September 2005 Employment in Europe 2005, Recent Trends and Prospects

<sup>2</sup> European Commission Flash Eurobarometer 160, 'Entrepreneurship' Directorate General Enterprise and Directorate General Press & Communication

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<sup>3</sup> Romanian legislation is suffering last minute adjustments and adaptations in order to comply with EU rules, in view of the 2007 integration into European Union. Unfortunately, it is rather hard for the authors of this report to keep track of all the changes over very short period of time.

The same applies for the statistical data available in Romania, self-employed data includes both authorised individuals and family association.

Other categories of one-person companies in the spirit of the project definition that might be found in Romania are companies with 0 employees<sup>4</sup>, micro-enterprises with 1 employee<sup>5</sup> or independent professions<sup>6</sup>.

But these last categories are very hard to reach since to the best of our knowledge there are not any data collected specific for them; they are included in small/micro-enterprises categories.

According to Romanian National Statistic Institute<sup>7</sup> in 2004, the number of entrepreneurs<sup>8</sup> was approximately 410.000, meaning 48% out of the total number of active economic and social operators of national economy.

### **3. Main results regarding the advantage of being self-employed, the constraints of the process and the support measures received**

#### **3.1. Main problems/obstacles**

The survey also looked into the main problems that new self-employed seemed to encounter in their activity. Multiple choices were possible.

According to the persons interviewed main obstacles are related to: lack of financing 88.3%, bureaucratic barriers 66.5%, legal framework on taxation 61.3%.

<sup>4</sup> Under certain conditions, defined under Romanian law the sole associate of a company cannot be employed by the respective company.

<sup>5</sup> One of the conditions to be micro-enterprise is to have at least one employee.

<sup>6</sup> There are not clear definitions or regulations concerning independent professions (profesii liberale in Romania), except the rules concerning their taxation. They are regulated by special laws, and there are specific professional associations: e.g. Lawyer Associations, Medic Associations a.s.o. The main differences to authorised individuals seems to be that independent professions can hire help under labour contract.

<sup>7</sup> Romanian National Statistic Institute, Romania Statistic Data 2004, Chapter 15, Enterprise Activity, Active Economic and Social operators by size class;

<sup>8</sup> Entrepreneurs, defined by Romanian National Statistic Institute in this Enterprise Activity Statistics as natural independent persons and family associations;

But significant percentages received also requirements to be met, lack of information on the market, working against the clock, long periods with hardly any income. A detailed distribution of answers is shown in the table below.

**Table 1**

#### **Opinions about main problems/obstacles that new self-employed can come across**

Lack of financing	88.30%
Bureaucratic barriers	66.50%
Legal framework concerning taxation and social insurance	61.30%
Legal framework concerning requirements for establishing one	41.30%
Lack of information of the market	31.00%
Working against the clock	28.00%
Long periods of time with hardly any income in the beginning	27.30%
Prejudices	20.50%
Low support of family and friends	16.30%
Lack of occupational experience in the specific sector	13.30%

We also asked the respondents to specify five more important character features of a self-employed person.

Attributes named by the interviewees were influenced by the examples shown in the question to some extent. Most mentioned attributes were: initiative of one's own, ambition, determination and independence.

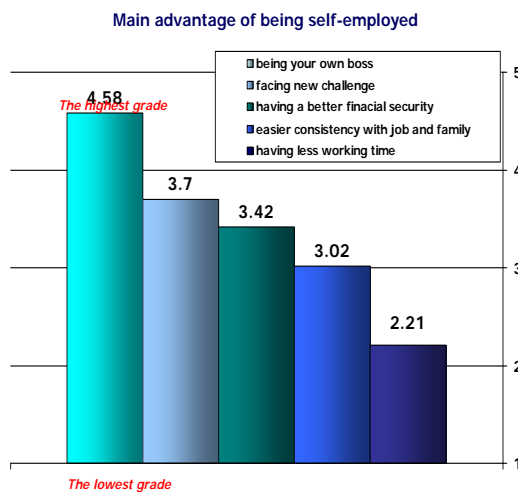
#### **3.2. Main advantage of being self-employed**

On a scale from 1 to 5, where 5 is the highest and 1 is the lowest, interviewees chose what they considered to be the main advantages of

being self-employed. It was a closed question and the possible answers were predefined.

Being one's own boss and facing new challenges received the highest grades and less working time the lowest grade. The score for each advantage is presented in Figure 1.

Figure 1



### 3.3. Characteristics of self-employed persons

We were interested to learn how the respondents saw themselves by comparison with employees and owners of small enterprises (up to 10 employees).

There were presented several statements, and the respondent was supposed to specify for which person the presented statement is more accurate. The numbers do not always sum up to 100 because there were also "no answers" or "both of" cases that were not included in table, but of course were counted when processing data.

When compare themselves with employees, self-employed interviewed consider that they earn more money, pay more taxes, work more hours, overtake more responsibilities, have to have a better knowledge of legal framework and have more financial risks. It is worth mentioning though that 58% did not answer the question on income earned.

When compare themselves with small companies' owners, self-employed interviewed consider that they earn less money, pay less taxes, work less hours, overtake less responsibilities and are less recognised by society.

Also they consider that small companies' owners have to know more about the law and carry more financial risks, but the differences in percentages are considerably lower than for the other statements.

### 3.4. Support Measures Received

No matter if the search was made superficially or extensively, the interviewees addressed the following institutions: County Employment Agencies 50.3%, Town Hall (13.7%), Chamber of Commerce (20%), agencies/institutions implementing external funded programmes supporting unemployed people (such as EU or World Bank programme) 14.10%, but also non-profit foundations and associations implementing external funded projects.

An interesting aspect is that the people with lower education were the ones looking more into support measures available.

All the respondents with up to 10 classes' education looked for information, extensively or not. Only 20.4% of the high school graduates, 5.4% of the people in terminal college or university years and 12% of college or university graduates looked extensively for information.

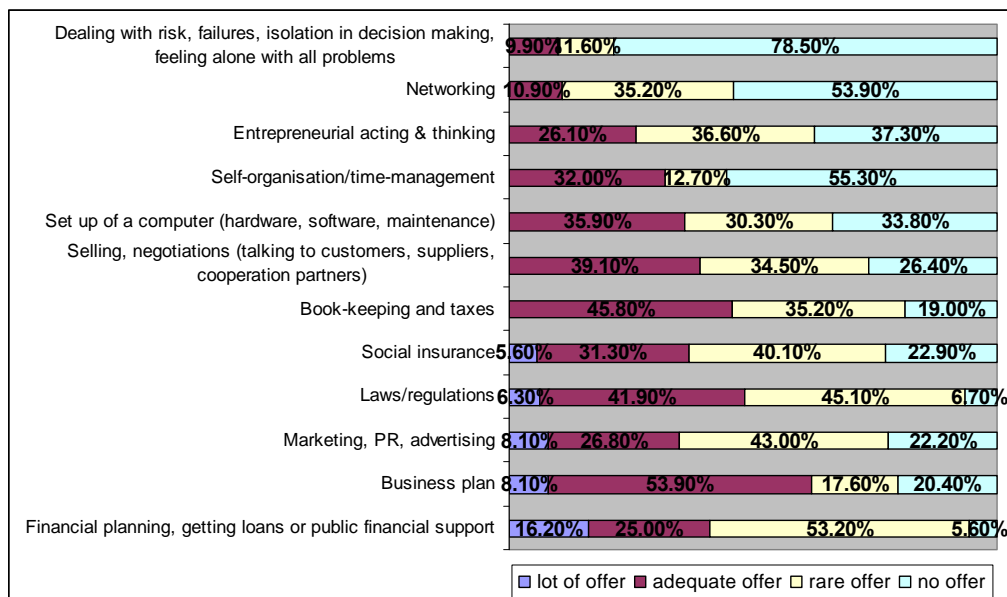
Out of the respondents who did not search for support measures, almost half 48.4% were college or university graduates, 37.9% were high school graduates and 13.8% were in terminal college or university years.

The respondents who informed themselves about the existent support measures were also asked if the offers covered and to what extent several domains.

The possible answers were: lot of offers/ Adequate offers/ Rare offers and No offer. The results are presented in Figure 2. Overall, the below data suggests that the training and

guidance offers targeting self-employed is not really sufficient.

**Figure 2. Respondents' assessment on availability of support measures**



#### 4. Concluding remarks

The Romanian survey concluding remarks are about:

- Self-employed persons participating in the survey are more active in services than trade. They mainly address private persons, even sometimes provides services for institutional clients also;
- The respondents most often work in their own external premises but also at home or at clients' premises. More than half of the interviewees work 41-60 hours per week, more than a regular employee. In spite of the long working hours only a quarter considered the income obtained as sufficient, and more than half as almost sufficient;
- Half of them are using external help in their current activities and mostly for financial issues and tax purposes;
- The greatest advantages of being self-employed are considered to be: being one's own boss, followed by facing new

challenges, and having a better financial security;

- The main obstacles for being self-employed are considered to be: lack of financing, bureaucratic barriers, legal framework concerning taxation and social insurance;
- When it comes to the organisations representing interests of self-employed only 32.3% of the respondents considered that such institutions exist, while almost 7 persons out of 10 felt no one is representing their interest.
- Less than half of the respondents took advantage of the support measures available for self-employment. The most common reason indicated is that the support available was not tailored for their needs. They rather preferred to use self-study or help from friends;
- On the other hand, most of the self-employed that attended training or career counseling sessions evaluated them as

positive and useful experiences. Even the percentages of the respondents indicated they felt something was missing during counselling (22.10%) or training sessions (43.6%) were rather high, very few actually indicated the missing aspects. Most critics indicated the training was too general and counselling too superficial.

Different countries have various ways to help the self-employed. In Romania it is the small business enterprises rather than self-employed that benefit from such forms of support. There is a wide potential in support measures for one-person companies. Small and medium enterprises are regarded as jobs generators and little importance is paid to people who generate their own job.

### ***References***

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