

The SME Sector: Objectives, Ways of Stimulating and Results (2010-2014)

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Abstract: *Known as the driving force to increase the competitiveness of the economy, the small and medium enterprises (SME) takes on particular importance in the approaches related to the theory and practice of business. Regulatory preoccupations in terms of improving access to finance for SMEs have also experienced significant growth, discount on this sector in an effort to overcome the last generalized economic crisis. What we intend, through this paper is to highlight the most important steps taken at national level in the last five years, both in terms of eliminating bureaucratic barriers and facilitate SME access to financial sources, insisting on statistical results. The scientific basis of our research is provided by consulting the latest literature titles and the latest reports published by institutions established in the field.*

Keywords: *SME financing; multiplier effect in the economy; regulatory approaches; encouraging entrepreneurship; workforce; GDP.*

Introduction

Concepts related to micro, small and medium enterprises (SMEs) are continuously updated thanks to economic developments in the last two decades, regarding the inflation and productivity growth, and registered practical experiences. A definition accepted at European level (EC no. 361, 2003) is the one stating that the company that this is "an enterprise employing fewer than 250 persons and whose annual turnover does not exceed 50 million Euros or whose assets annual total does not exceed 43 million Euros". Meanwhile, a small enterprise is defined as "an enterprise employing less than 50 persons and whose annual turnover and / or annual total assets does not exceed 10 million Euros", and micro-enterprise is considered "an enterprise employing less than 10 persons and whose annual turnover and / or annual total assets does not exceed 2 million Euros".

1. Small and Medium Enterprises (Smes) in the Current European and National Context

Currently it is estimated that in the European Union, the SME sector is more dynamic in growth core competitiveness of the economy - national and European (GEO no. 6, 2011). Study enterprise falling in the categories shown, but also in the entire sector concerned, considered as "molecular structure of the economy" has been the subject of numerous studies and research [3; 4; 5; 6; 7; 8]. The approaches of the issue in cause became more important as the search for solutions for the SME sector expansion involved the investigation of related issues, such as sustainable development, specific management and regulation, of the accounting implications etc. [9; 10; 11; 12; 13; 14; 15; 16; 17]. Justified by the fact that the SME sector is the one generating in each EU country, between 55% and 95% of GDP and produces goods at significantly lower costs than large companies, in the context that the 21 million SMEs in the EU totals 99% of businesses in internal market and employs 70% of the total workforce (90 million people), it is considered an exceptional innovative system. Nationally, the sector include 99.7% of Romanian enterprises (491 805 entities), generating 66% of jobs among companies in Romania and 50% (100.8 billion. lei) of gross value added at factor cost of production of the economy (OUG no. 6, 2011). However, SMEs achieved 28% (34.4 billion Lei) of the total direct exports and over 59% in Romania (48.5 billion. Lei) of turnover among all businesses. However, remember that in Romania there are on average 24 SMEs per 1,000 inhabitants, while the EU average is 42. The key indicators regarding the analyzed sector are shown in Table no.1, and the evolution of the number of active enterprises, while Romania-EU (2008-2013), it is shown using Figure 1.

Table no. 1. Key indicators regarding SME sector in Romania*

Number of companies				Employment			Added Value		
Romania UE27				Romania UE27			Romania UE27		
	Number	%	%	Number	%	%	Billion EUR	%	%
Micro	475536	89,6	92,2	993079	24,9	29,6	7	14,4	21,2
Small	45131	8,5	6,5	840848	21,1	20,6	8	17,8	18,5
Backgrounds	8348	1,6	1,1	843021	21,2	17,2	9	20,5	18,4
SMEs	529015	99,7	99,8	2672948	67,2	67,4	24	52,7	58,1
Large	1527	0,3	0,2	1304963	32,8	32,6	22	47,3	41,9
Total	530542	100	100	3981911	100	100	46	100	100

*Cf. *NACE (Cambridge Econometrics), Rev. 2, Sect. B-J, L, M și N, Apud. Calea europeană, 2012, November 9. There are not considered businesses operating in agriculture, forestry, fisheries or enterprises that provide non commercial services,*

<http://www.caleaeuropeana.ro/afaceri-importanta-imm-coloana-vertebrala-economia-nationala-europeana/>

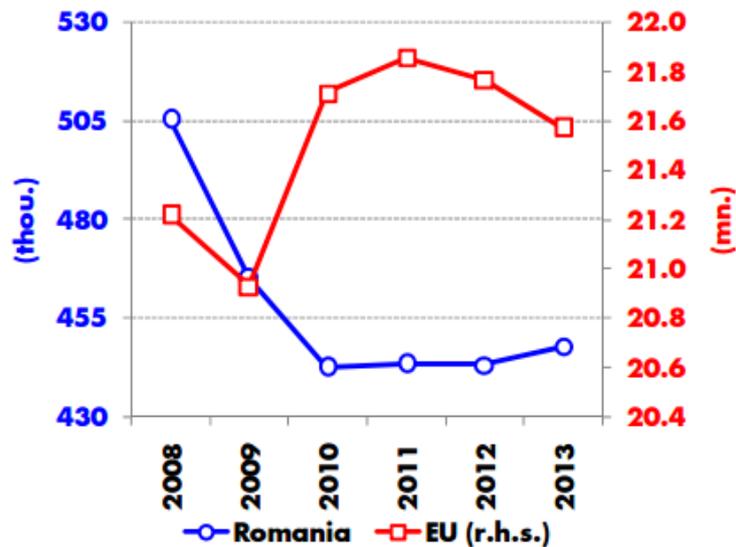


Figure no. 1. The evolution of number of active SMEs in Romania and EU

Source: European Commission, Ministry of Finance, Raiffeisen RESEARCH, apud. <http://www.consiliulfiscal.ro/prezentare-31.03.2015-ionut.pdf>

Today, thanks to the economic importance of the sector analyzed, it has found an important place in European and national strategies to support business development, a special priority constituting the improvement of access to finance for SMEs, on a competitive financial market, to contribute to reducing disparities in competitiveness.

2. The Implications of the Financial Crisis on the SME Sector and Efforts of Counteractions

The global economic crisis has affected the Romanian economic system, due to slowdown of growth, with immediate negative effects on people and businesses focusing in general jobs and sales volume [15]. Romania has been severely affected by the recession since "pre-crisis economic expansion was based mainly on foreign direct investment, which shrank drastically when the global economic crisis effects were felt by foreign investors" [18]. Obviously, the recession has left its mark on the SME sector (P/OUG, 2013), by reducing the number of active operators in the market, tighter credit conditions and limited access to credit and guarantee of SMEs and, in general, low capitalization of this group of companies.

The factors that determined the stopping of positive developments previously known for a relatively long period of time to the SME sector (2000-2008) are considered the following [15]:

- Tough ensuring of the necessary funding, liquidity and lending blockage;
- Massive drop in demand for products and services nationally and internationally, reflected in lower exports and domestic sales;
- High taxes;
- Increased prices for raw materials, energy and utilities;
- Fluctuations of exchange rates;
- Financial blockage caused by late payments;
- Lengthy legal proceedings in resolving commercial cases;
- The changing legislative frame and bureaucratic barriers in conducting many SMEs activities.

To these, it can be added the insufficiency of measures to support SMEs during the crisis, as well as the reduced degree of absorption of community funds, even if about the latter factor it was considered to "represent an opportunity, not only in the context of socio-economic development set out in the National Development Plan of Romania 2007-2013, but also to correct the effects of the economic crisis" [18]. Including in the year 2014, the most pressing problem facing SMEs, are those of the nature mentioned (Figure no. 2).

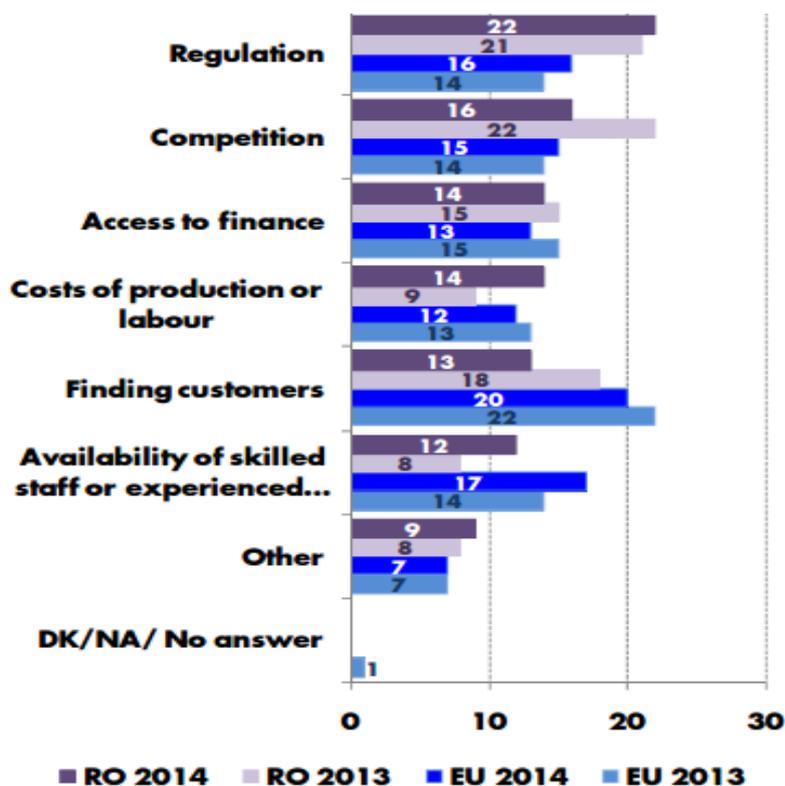


Figure no. 2. The most pressing problems facing SMEs – in Romania and EU

Source: *The most pressing problems for SMEs, European Commission, Annual Report on European SMEs 2013/2014*, apud. <http://www.consiliulfiscal.ro/prezentare-31.03.2015-ionut.pdf>

In fact, in the entire EU area, the problem of access to finance for SMEs is considered urgent. Variations in this chapter meet relatively reduced area (Figure no. 3).

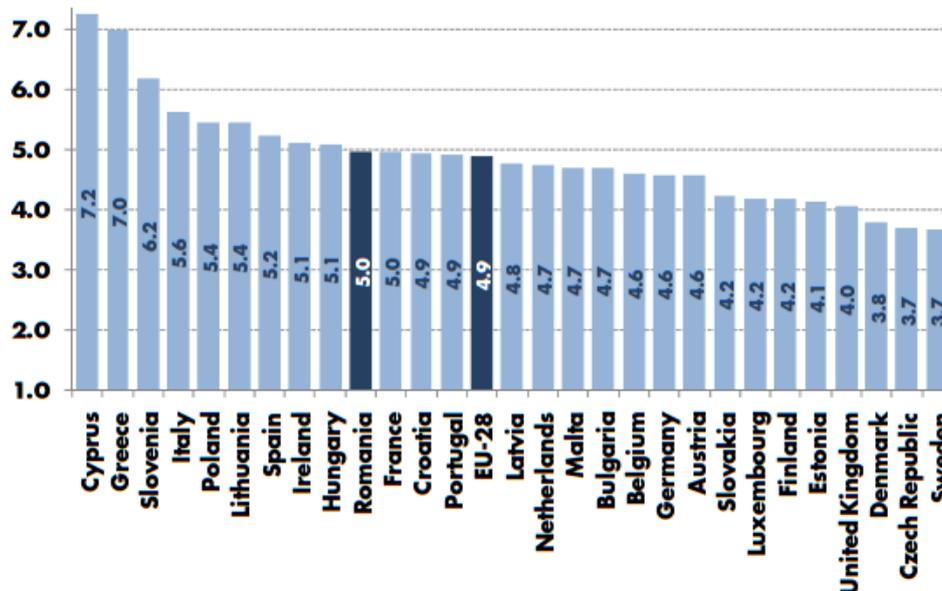


Figure no. 3. Reflecting how pressing it is solving the problem of access to finance in EU Member States
How pressing is the Access to finance problem (1 – not at all; 10 – extremely pressing)?
Source: European Commission, Annual Report on European SMEs 2013/2014

Although some steps have been taken at national level in the last five years, both in terms of eliminating bureaucratic barriers and facilitate SME access to financial resources (Dial 1), the results were not as significant as expected.

Dial 1

During the last crisis, the State was asked to take steps to improve the situation including on micro and SMEs, considering inducing multiplier effect in the economy of their operation.

- *On this background was conceived and adopted the OUG no. 6/2011, in order to stimulate the creation and development of micro-enterprises by young entrepreneurs. Micro start-ups by beginner entrepreneurs can enjoy a range of financial incentives: obtaining irredeemable grants and acquisition of guarantees for loans contracted in order to achieve business plans. Entrepreneurs covered by Ordinance benefit from exemption from registration fees at the trade register, and counseling / training from institutions involved in the program.*

- *Through OUG no. 23/2009 it was established the Romanian Fund of Counter guaranteeing (RFC) intended to provide reducing the cost of guarantees for properly part of the credit risk that has been taken over count guarantee. All credit guarantee funds operating in Romania have concluded agreements with RFC. The granting of indemnity is based on four minimis aid schemes, developed and implemented in accordance with Community regulations on the matter. Counter guarantees are given for both SMEs with a history of operations as well as for the start-ups.*

- *Through OUG no. 92/20133 it was intended to stimulate SMEs' access to credit and guarantee. Credit guarantee program for SMEs is one type of encouraging their development available for a period of three years from the entry into force of the implementing rules of OUG invoked. It consists in granting a credit line, a maximum of 5,000,000 lei / SME over a period of up to two years and credit guarantee by the State in proportion of 50% of the funding.*

Source: I. Bostan (2014) [20]

Consequently, referring only to Romania, among the SMEs existing, approximately 40% recorded profit (SME-FISC, 2015), the rest trying to keep afloat. Accordingly, in analyzing the chart below (Figure no. 4), we note that in 2009-2013, due to crisis effects, 26.48% of SMEs have reduced their activity.

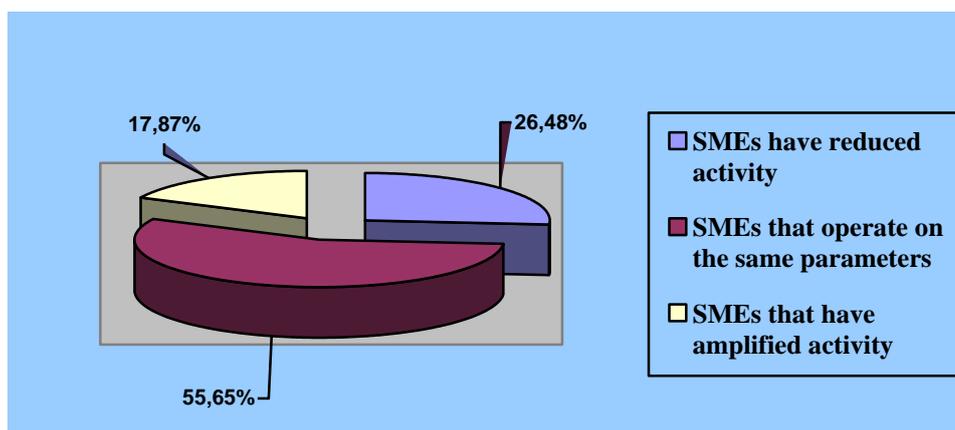


Figure no. 4. The dynamic of SMEs' activities (2009-2013)

Source: O. Nicolescu, *Carta albă a IMM*, 2013, <http://itrends.ro/wp-content/uploads/2013/08/Prezentare-cart-a-alba-a-imm-urilor-din-romania-2013.pdf>

But even under these circumstances, the approximately 500,000 Romanian SMEs have generated 2/3 of jobs among companies in Romania and half of gross value added at factor cost of production in the economy. On the other hand, from the total direct exports of the country, SMEs achieved approx. 1/3, while recording almost 2/3 of the turnover of all undertakings active at national level.

3. Attempts to Stimulate the SME Sector through Invoice Normative Acts

Governmental Strategy for Supporting Small and Medium Enterprises Sector in 2009-2013 took into account the important objectives in this regard. Stimulating is a necessity to ensure the number of active enterprises in the market and to increase the number of jobs (P / (P/OUG, 2013). In order to create a favourable framework for harnessing existing opportunities for economic development of Romania and stimulating business environment, knowing that the development of SMEs and improving their access to finance are essential, important measures were to support and guarantee SMEs access to credit, as already stated. However, the legislative framework (including documents of community acquis) is wider, being operated by a relatively large time period:

- European Charter for Small Enterprises (ECSE), replaced in 2008 (considered obsolete by new economic and social realities of community space), the new SME policy document of the EC, called Small Business Act for Europe;
- European Commission Communication C.E. COM (2008) 394 final, "Small Business Act for Europe" (SBA) consultative document addressed to the Member States;
- Law no. 346 of 2004 on stimulating the establishment and development of small and medium enterprises;
- Governmental Strategy for Supporting Small and Medium Enterprises Sector in 2009-2013;
- Government Emergency Ordinance no. 23 of 2009 on the establishment of the Romanian Counter;
- Government Decision no. 656 of 2002, through which Romania committed, before joining the EU, to initiate and implement harmonization measures in the field of SMEs;
- Government Decision no. 1211 of 2001 establishing the National Credit Guarantee Fund for Small and Medium Enterprises;
- Government Decision no. 65 of 2009 republished on the establishment, organization and functioning of the Agency for Implementation of Projects and Programmers for SMEs.

Knowing precisely that in current and future economic conditions SMEs are crucial in generating jobs, the regulatory framework must always be adapted, meaning its improvement, in line with the interests of SMEs, aiming at promoting and supporting the development and increased competitiveness and performance of the sector in question [22].

Among the aimed objectives, within the objectives of the EU Lisbon Strategy, it should not be omitted the following:

- Active encouragement of entrepreneurship in educational and formative institutions;
- Reviving the business model used for medium-term survival of SMEs when the owner decides to sell;
- Support of development and internationalization investments of SMEs, to increase competitiveness and expand their business into new markets;
- Providing advice and assistance to entrepreneurs in developing their business competitive;
- Stimulating the absorption of European funds by SMEs.

To these, to ensure a complete framework of incentives to stimulate SMEs, should be added stimulating the investments with technological transfer component, supporting the adoption of good business practices, stimulating RDI (research, development and innovation) with an economic closure and investments that generate high productivity jobs.

Conclusions

Decision makers at national and European levels see in SMEs the main factor of economic growth, innovation, employment and social integration. Therefore, entrepreneurship and the role of SMEs are found to be central to the Europe 2020 strategy, aimed at opening up the single market in front of the small entrepreneur. Nationally, it is recognized the great importance of SMEs, instituting various support tools by national and European funds, but also by developing a favourable regulatory framework. Beyond the difficulties to which we referred in the paper, perfecting the institutional framework applicable to SMEs, we estimate the recording of favourable effects for the Romanian economy, consisting of a higher intake of increased consumption and thus GDP, as well as increasing the number employees, taking from the burden of the state major unemployment-related spending.

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