

The Access of SMEs from Romania to Financing through Financial Instruments. Impact and Results

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Abstract

This paper deals with the impact and the results of the financial instruments available for SMEs, in Romania. The first part of the paper presents the financial instruments for SMEs recommended for use under the Operational Programmes 2014-2020 (i.e. Competitiveness, Regional, Human Capital and Initiative for SMEs), with a focus on their results. The second part of this work tackles the financial instruments for SMEs recommended for use under the National Rural Development Programme 2014-2020 and presents their results. Last but not least, we will also deal with the requirements and the criteria for designating bodies/ funds of funds for the implementation of financial instruments.

Key words: financial instruments, SMEs, results, Operational Programme, National Rural Development Programme

J.E.L. Classification: M13

1. Introduction

As well know SMEs are the backbone of the European economy. According to Eurostat data reflected in Table 1 below, it shows that on average, up to 90 out of 100 enterprises are SMEs. (source: Eurostat, AECM Study Project “The importance of Financial Intermediaries in SME financing and assessment of different economic effects especially of EU Financial Instruments in light of Direct Guarantees vs. Counter-guarantee contracts” January 2017, KPMG).

According to research report number 14, applied on a sample of 1.096 entrepreneurs in Romania - the White Paper on SMEs in Romania, edition 2016 - the percentage of self-financing firms was 71.99% and the percentage of companies that used funds from banks was 22.63%. This is a very difficult problem for SMEs because they are forced to use more own resources and fewer credits, or the development of an SME is very difficult from own resources. The traditional and predominant means should be credits (O. Nicolescu, C. Nicolescu, A. Truică, Ş Corcodel, D. Urîtu, The White Paper of SMEs in Romania, 2016).

Table no 1. Thresholds for SMEs definition established by the European Commission

| EU Commission thresholds for SMEdefinition | | | |
|--|-----------|------------|---------------------|
| Enterprise category | Headcount | Turnover | Balance sheet total |
| Medium-sized | < 250 | = 50 €/mLn | = 43 €/mLn |
| Small | < 50 | = 10 €/mLn | = 10 €/mLn |
| Micro | < 10 | = 2 €/mLn | = 2 €/mLn |

Source: AECM Study Project “The importance of Financial Intermediaries in SME financing and assessment of different economic effects especially of EU Financial Instruments in light of Direct Guarantees vs. Counter-guarantee contracts” January 2017, KMPG

2. Financial Instruments for SMEs recommended for use under the Operational Programmes

2014-2020: Competitiveness, Regional, Human Capital and Initiative for SMEs

The exercise of the *ex-ante* evaluation revealed the following gaps for financing the SMEs in Romania, as revealed in Table 2 below:

Table no. 2. Financing gaps for financing the SMEs in Romania

| Type of instrument | Financing gap until 2020 - million EUR- |
|---|--|
| Bank Financing (Credit Risk Sharing; Guarantees) | Until 1.893 |
| Microfinance (Microcredits; Guarantees) | Until 940 |
| Risk capital investment (Equity) | Until 544 |
| TOTAL: | Until 3.377 |

Source: <http://www.fonduri-ue.ro/images/files/documente-relevante/2016/Romania.Ex-ante.aprobat.pdf>

Based on the market analysis of the issues related to each thematic objective, the following financial instruments were recommended, as shown in Table 3 below:

Table no. 3. Types of financial instruments recommended

| Type of instrument | Motivation for the choice of the instrument | Proposed allocation (ESIF+national contribution) -million EUR- | Multiplying effect estimated |
|--|--|--|------------------------------|
| Operational Program: COMPETITIVENESS | | | |
| Equity Funds for start-ups and enterprises in the initial stage of development (Accelerators of entrepreneurship & seed funds) | Investments in start-ups and in innovative SMEs in their initial development stage | 40,3 | 1,1x |
| Risk-sharing loan portfolio for innovative SMEs | Reduction of the credit costs by up to 50% and the partial risk coverage for innovative SMEs Support for the enterprises in the growth stage | 19 | 2x |
| Operational Program: REGIONAL | | | |
| Portfolio of risk-sharing loans for SMEs | Reduction of the credit costs by up to 50% and the partial risk coverage for SMEs Support for the enterprises in the growth stage | 117,65 | 2x |
| Equity Funds for SMEs | Capital investment in SMEs Support for the enterprises in the growth stage | 58,82 | 1,7x |
| Operational Program: HUMAN CAPITAL | | | |
| Risk sharing microcredits (up to 50,000 Euro) for SME / entrepreneurship | Reduction of credit costs by up to 80% and the partial risk coverage for SMEs/ entrepreneurship and the creation of jobs Support for the enterprises in seed and start-up stages | 56,0 | 1,25x |

| | | | |
|--|--|--------------------------|-------|
| Guarantees for microfinance | Covers up to 80% of credit risk for SMEs/ entrepreneurship and the creation of jobs Support for the enterprises in seed and start-up stages | 56,0 | 5x |
| Risk-sharing loan portfolio for social enterprises | Reduction of credit costs by up to 80% and partial risk coverage for social enterprises | 22,0 | 1,25x |
| Guarantees for social enterprises | Covers up to 80% the credit risk for social enterprises | 22,0 | 5x |
| Operational Program: INITIATIVE FOR SMEs | | | |
| Uncapped guarantee instrument | Covers up to 80% of credit risk for SMEs Support for the enterprises in the growth stage | 100 (EU contribution) | 4x |

Source: <http://www.fonduri-ue.ro/images/files/documente-relevante/2016/Romania.Ex-ante.aprobat.pdf>

The *ex-ante* evaluation recommended the fund of funds, as an implementation option of the above listed financial instruments, in order to ensure the flexibility in the instruments and to obtain a better absorption at the level of final beneficiaries.

By implementing the financial instruments financed by the EU structural and investment funds 2014-2020, there will be facilitated the access to finance for SMEs, in Romania, in order to increase productivity, innovation and their ability to increase on regional, national and international markets.

The advantages obtained by the SMEs supported through financial instruments financed from all the above mentioned operational programs (Competitiveness, Regional, Human Capital, Initiative for SMEs) are:

- Reduction of credit costs;
- Reduction of the requirements for collateral guarantees;
- Successful implementation of the projects where the SMEs were supported through financial instruments.

3. Financial instruments under Competitiveness OP. Results Estimated

By using the financial instruments under Competitiveness OP, the following results are estimated:

- Increase in the number of the SMEs that receive support (other than grants);
- Increase in the number of the SMEs that bring new products to the market;
- Increase in the private investment that combines with public funds, in order to support innovative activities and projects of RDI (Research, Technological Development and Innovation);
- Increase in the number of loans and in their value.

By using the 2 financial instruments under the Regional Operational Programme, the following results are estimated:

- Increase in the number of the SMEs receiving support other than grants;
- Increase in the private investment that combines with public funds in order to support innovative activities and projects of RDI;
- Increase in the number of loans and in their value.

By using the 4 financial instruments under OP Human Capital, the following results are estimated (<http://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:52015DC0313>):

- Increase in the number of enterprises (micro and SMEs) that receive support;
- Increase in the loans granted to new enterprises and to SMEs;
- Increase in the number of the entrepreneurs who start a business;
- Increase in the number of social enterprises receiving support.

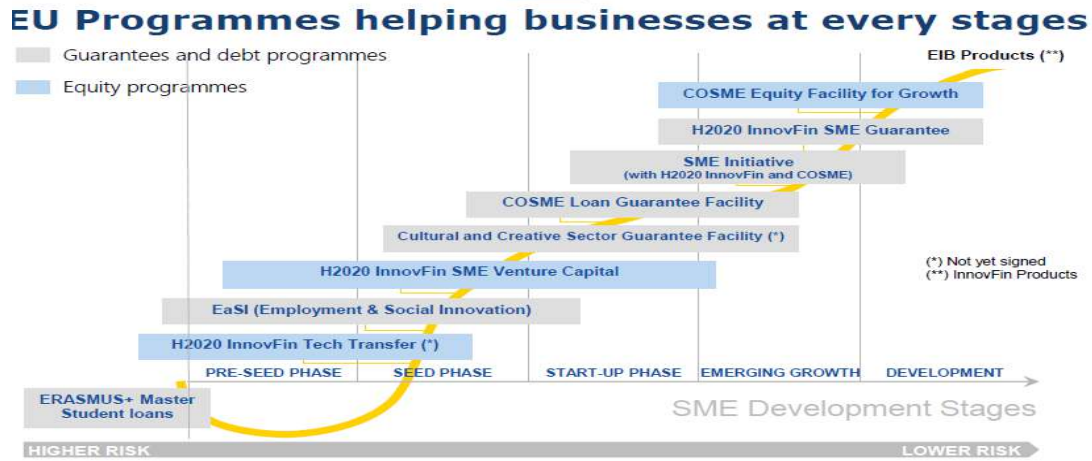
By implementing the OP Initiative for SMEs, the following results are estimated (http://europa.eu/youreurope/business/funding-grants/access-to-finance/index_en.htm):

- Increase in the proportion of successful loan applications by SMEs to 66% in 2023;

- Turnover growth of the SMEs supported by almost 400 billion RON by 2023;
- Supporting 2,500 SMEs by 2023;
- Supporting 2,500 SMEs that receive financial support other than grants by 2023.

Figure 2 below presents, in a schematized way, the financial instruments adequate to business development at every stage.

Figure no. 2. Financial Instruments Adequate to Business Development at Every Stage



Source: European Investment Fund, Pier Luigi Gilibert, Den Hague, 31 March 2016

4. Financial Instruments for SMEs, recommended for use under the National Rural Development Programme 2014-2020

The financing gap in the sectors concerned, revealed by the *ex-ante* evaluation coordinated by MARD, was estimated at approx. 2.36 billion Euros, of which 2.1 billion Euros in agriculture and 0.2 billion in the non-agricultural sectors from rural areas.

The financial instrument recommended in the last *ex-ante* evaluation, for use in the National Rural Development Programme (NRDP) 2014-2020, was the credit risk-sharing instrument.

The total budget of the instrument was estimated at 92.5 million Euros, with a leverage of approx. 1.4x. It was recommended to preserve the flexibility in the allocation of measures, for a better absorption of the instrument at the level of final beneficiaries.

The characteristics of the credit risk-sharing instrument, as resulted from the analyses and from the *ex-ante* evaluation, are (Ex-ante assessment methodology for financial instruments in the 2014-2020 programming period, Volume II, European Investment Bank, European Commission, available at http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/ex_ante_vol2.pdf):

- it will be available both for co-financing investment projects and for granting independent credits;
- the amount of the grant for co-financing the loan will be within the eligible project costs (exclusively for private co-financing); as regards independent credits, the amount will be up to 1 mil. Euros (or the equivalent in RON);
- the risk-sharing rate will be maximum 70%. The losses and recoveries resulting from granting the loan will be assigned to financial institutions and to the funds related to NRDP, proportional to the risk sharing degree (*paripassu* and *pro-rata*);
- when it is combined with the grant, the financial intermediary's decision to grant the loan will be independent of the decision to finance the paying agency; such a project declared ineligible for the grant during the implementation period will entail the chargeability of the co-financing loan;
- the financial allocation for the instrument will not be separated on measures and/ or types of support (independent loan and financial instruments combined with grants), in order to allow the flexibility of the instrument and to adjust it according to the demand.

By using the NRDP funded financial instrument, the following results are estimated:

- Increase in the number of loan contracts signed with final recipients;
- Increase in the number of final beneficiaries supported by loans.

5. The requirements and the criteria for designating bodies/ funds of funds for the implementation of financial instruments

The Regulation (EU) no. 1303/2013, art. 38, and the Delegated Regulation (EU) no. 480/2014, art. 7, in conjunction with the Guidelines for Member States regarding the selection of the implementing bodies of the financial instruments included in the European Commission Communication 2016/C276/01, describe the requirements and the criteria for selecting the implementation bodies/ fund of funds for the implementation of financial instruments.

A management authority must ensure that the entity to which it provides the management of financial instruments financed by the Operational Programme that it coordinates meets the following:

1.a. It is authorized to perform the relevant execution tasks under the EU legislation and the national law;

1.b. It has adequate economic and financial viability;

1.c. It has the adequate capacity for the implementation of the financial instrument, including the organizational structure and the governance framework, and it provides the necessary assurance to the management authority;

1.d. It has an effective and efficient internal control;

1.e. It uses an accounting system providing accurate, complete and reliable information in a timely manner;

1.f. It agrees to be audited by the audit bodies of the Member State, the Commission and the European Court of Auditors;

2. Depending on the nature of the financial instrument to be implemented, the managing authority of the relevant body examines the past experience in implementing similar financial instruments, the skills and the experience of the proposed team members and the operational and financial capacity of the body.

To this end, the MA uses at least the following selection criteria:

2.a. A reliable and credible methodology for identifying and assessing financial intermediaries or final recipients, as applicable;

2.b. The level of costs and management fees for implementing the financial instrument and the methodology for their calculation;

2.c. The applied terms and conditions related to the support provided to final recipients, including pricing;

2.d. The ability to mobilize resources for investments in final recipients, in addition to the contributions provided by the program;

2.e. The ability to demonstrate an additional activity besides the present activity;

2.f. If the body implementing the financial instrument allocates financial resources typical of the financial instrument or shares the risk, there are measures proposed for the alignment of interests and for the mitigation of potential conflicts of interest.

3. When implementing financial instruments through the fund of funds, the Managing Authority shall ensure that the financial intermediaries satisfy the requirements and the criteria listed in paragraphs 1 and 2 above.

6. Conclusions

The main component of the Romanian economy is represented by SMEs. In Romania there are approximately 1350 large firms and over 500.000 SMEs, which account for 90% of the Romanian capital. Creating a business-friendly business environment - through the stability of laws and policies, a fast and functional legal system, Europeanization of the domestic banking system, reduced bureaucracy, low corruption, encouraging innovative and performing firms, investment and job creation - Is the solution to increase the density of SMEs in Romania from 24-25 per 1000 inhabitants, to the EU average of 64-65 per 1000 inhabitants, to offer them the opportunity to be as powerful and performing as their counterparts in the West Europe. Strong SMEs mean economic and social stability, more jobs, products, services, taxes, taxes, exports and investments - that is, more development and a high standard of living.

The conclusions of study are divided into two broad categories:

1. The effects of using financial instruments on the development of SMEs:

- increasing number of SMEs
- amplification of the human and economic potential
- enhancing innovation in SMEs
- generating a considerable number of new jobs in the EU economy
- reducing unemployment especially among the youth

2. The improvement of access to financing of SMES, by:

- A. Supporting the establishment of a special bank dedicated to SMEs or of special credit programs of small entrepreneurs;
- B. Establishment, according to European practice, of the credit mediator for SMEs, at county level, according to the French model, which ensures the achievement of three goals: increase of SMEs lending, providing solutions for the companies, especially in SMEs sector, to obtain financing from banks and Government notification in the case of major unresolved issues.

In conclusion, in Romania is necessary a specialized bank for small and medium-sized enterprises is needed, as in Germany, France and the United Kingdom, countries with developed banking systems who have seen the need for such a financial institution.

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