

Government Programs Focused on Financial Support for SMEs (2014-2018)

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Abstract

The SMEs or the Small and medium-sized enterprises sector is underlying the Romanian economy, its share representing 99.64% of the total enterprises. As the main driver of economic growth, SMEs are facing several problems, which generate a direct impact on economic competitiveness. Economic competitiveness is based on determinants at the macro (i.e. institutions, public finances, infrastructure, etc.) and micro (i.e. business environment, SMEs' dynamics, entrepreneurship, innovation activity, clustering, development of business networks) level. This paper seeks to address and analyze the 2014-2018 government programs which focused on funding SMEs, given the difficulties that the latter face in developing and increasing competitiveness due to a rather difficult and costly access to financing, but also due to the access to various markets.

Key words: Government programs, funding, SMEs, competitiveness

J.E.L. classification: H11, I25, I26

1. Introduction

In Romania, the legal framework for the functioning of SMEs includes regulations on the establishment of small enterprises, the organization of and engagement in economic activities based on free initiative, the privatization of state-owned companies, etc., which are included in a set of laws, such as: Law 31/1990, Law 35/1991, Law 58/1991, etc. Entrepreneurship, as a field of business, seeks to understand how opportunities to create something new arise and are discovered or created by specific individuals who then use various means to exploit or develop them, thus producing a wide range of effects (Baron R *et al*, 2008, p 5). The European Commission defines microenterprises, small and medium-sized enterprises in Recommendation no. 361/2003/EC, having in view criteria such as total assets, turnover and number of employees, classifying them into three categories, according to their size: Micro, Small and Medium: "The category of micro, small and medium-sized enterprises (SMEs) includes enterprises with less than 250 employees, with an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million"(Art.2).

2. Theoretical background

Micro, small and medium-sized enterprises (SMEs) – sources of entrepreneurial skills, innovation and job creation – play an essential role in the European economy. Public policy spanning a broad range of contexts, ranging from the European Union, to states, cities and local communities around the globe, has turned to entrepreneurship to provide the engine for economic growth, competitiveness in globally linked markets, and jobs (Audretsch *et al*, 2006, p 11) and financial development allows existing firms to exploit growth and investment opportunities (Beck *et al.*, 2005, p.197-227). In this regard, SMEs have certain characteristics, such as: the company is a unit of production and distribution, it has the role of economic agent of primary distribution of

income, the enterprise decides on the main variables of its activity and is a social cell, since, within it, a certain number of employees carry out their activity.

A report from the White Paper of SMEs showed that the Romanian entrepreneurial environment is rather pessimistic as far as the expansion of the economic environment is concerned because only **13.78%** of companies think that the Romanian business environment will enjoy a favorable development in relation to SMEs. The bureaucratic problems continue to represent the main obstacles in business development (61.41%) and, as a consequence, 81.66% of entrepreneurs state that they are not interested in accessing structural funds in the following period. Thus, The National Council of Small and Medium Sized Private Enterprises in Romania has proposed a series of measures, the starting point being accelerated debirocratization, access to adequate financing (mainly European funds), access to markets and internationalization, but also public administration reform. The governmental strategies have aimed, ever since the accession of Romania to the European Union, at the economic readjustment and reinforcement of the SMEs expansion, having in view goals such as: facilitating access to finance for SMEs, accelerating and encouraging innovative actions, a simplified SMEs regulatory framework, encouraging and developing entrepreneurial education, facilitating access to internal and external markets. By accessing governmental and structural programs, the number of SMEs increased from 326,443, in 2012 to 551,868, in 2017.

3. A short overview of government programs aimed at supporting SMEs

In Romania, the indicators regarding the number of persons employed and the value added in the economy are well below the European Union average (Fig.1, Fig.2). The difficulties of these enterprises in finding the right financing, as well as the reluctance of financial institutions or private equity investors to meet the demands of SMEs have a significant role in slowing their development, with negative effects on the remodeling of the productive sectors, the rate of employment and innovation.

Figure no. 1 Number of persons employed in SMEs

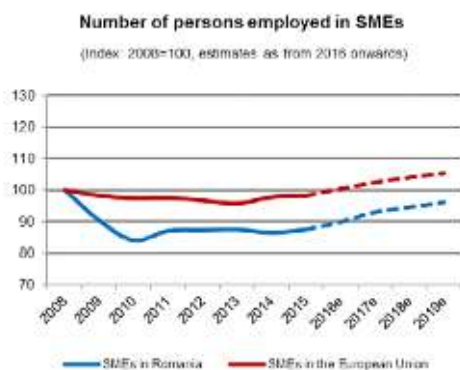
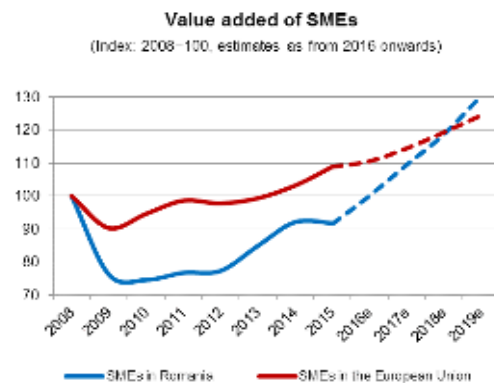


Figure no. 2 Value added of SMEs



Source: <https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

In the 2014-2018 period, the programs aimed at supporting SMEs managed by the MMACA/Ministry for Business Environment, Commerce and Entrepreneurship were carried out according to the following calendar:

Table no. 1 The calendar of the programs aimed at supporting SMEs by MMACA

YEAR	PROGRAM NAME
2017-2018	“Program for Stimulating the Establishment of Small and Medium – Sized Enterprises” – START-UP NATION ROMANIA
2014-2016	“National Multiannual Program for the Establishment and Development of Business and Technology incubators”
2016-2018	“National Program for Organizing the Small and Medium Enterprises’ Fair”

2014-2017	"Multiannual National Program for Trades and Handicrafts Support"
2014-2017	"National Program for the Development of Entrepreneurial Culture among Female Managers in SMEs sector"
2014-2017	"Program for the Development and Modernization of the Marketing Activities of Market Products and Services"
2014-2017	"Program UNCTAD/ EMPRETEC Romania for Supporting the Development of Small and Medium Enterprises"
2014-2016	"Program for Stimulating the Establishment and Development of Micro-enterprises by Beginner Entrepreneurs in Business - SRL-D"
2016-2017	"Micro-Industrialization National Multiannual Program"
2015-2017	"Romania Hub Program"
2016	"National Program for the Establishment and Development of SMEs in Rural Areas"
2017	"Program for Supporting the Internationalization of Romanian Economic Operators, Financed by the State Budget"

Source: Own data processing based on MMACA information about the programs aimed at supporting SMEs available on <http://www.imm.gov.ro/2018/11/14/programe/>

A. "Program for Stimulating the Establishment of Small and Medium – Sized Enterprises" – Start-up Nation Romania

The main objective of this program is to stimulate the establishment of new small and medium-sized enterprises, to improve the economic performance of start-ups, to increase the potential for accessing sources of financing and to facilitate their access to funding. This program has begun in 2010, when it had the assumed objective formulated in the following manner by AIPPIMM/Agency for the Implementation of Projects and Programs for SMEs: "Stimulating the establishment of new enterprises, small and medium, improving the economic performance of the existing ones, increasing the potential of accessing the sources of financing and developing the entrepreneurial skills of the entrepreneurs in order to involve them in private economic structures" (http://www.imm.gov.ro/adaugare_fisiere_imm/2018/11/SIPOCA-5-RI.2-studiu-final.pdf). Until 2017, the annual objective remained unchanged, and for Start-up 2017 the development of SMEs, not just their establishment was added, the focus being on the creation of jobs for underprivileged people, unemployed and graduates, and, last but not least, the investments in advanced technologies. The budget and the achievements of this program in the years 2014-2017 are presented in the table below:

Table no. 2 The budget and the achievements of Start-up Nation 2014-2017

YEAR	BUDGET (EUR)	ACHIEVEMENTS (Registered companies)
2014	2.924.898	56.381
2015	4.499.438	64.417
2016	3.785.517	73.889
2017	375.166.481	98.405

Source: Own data processing based a study of the Romanian Academy on Start-up Nation Romania program available http://www.imm.gov.ro/adaugare_fisiere_imm/2018/11/SIPOCA-5-RI.2-studiu-final.pdf

B. "Program for the Development and Modernization of the Marketing Activities of Market Products and Services"

This program boosts and spurs SMEs establishment and evolution, supporting investments in the main economic sectors. Moreover, it aims to assist economic operators and facilitate access to the acquisition of equipment, means of transport, machinery, work installations, apparatuses and installations for measuring, control and regulation and IT technology, on the one hand, but also to readjust to the demands provided by Romania's status as a EU member state, by boosting competition, creating new jobs (and keeping the previously created ones), developing consumer protection and food security.

C. "Multiannual National Program for the Development of Entrepreneurial Culture among Female Managers in SMEs sector"

This program was designed in order to encourage and assist the creation and evolution of private economic structures created by women; thus, it will ease the access of women entrepreneurs to financing, thus boosting their potential. The program aims to fund and implement the best business plans submitted by women entrepreneurs. This program is focused on the following objective:

- encouraging and assisting the establishment and expansion of private economic structures created by women;
- promoting an information and training system that facilitates the mobility of women in the labor market;
- developing their entrepreneurial skills so as to encourage them to carry out activities within private economic structures, having in view the concerns focused on the balance between family and professional requirements and local prejudices.

D. "Multiannual National Program for Trades and Handicrafts Support"

This program is focused on boosting the evolution of trades and small industries established in Romania; it also envisages the reinforcement of the small tradesmen and handicraftsmen class; since they perform their activities individually or organized through associations or other organizations, especially in the rural area (but also in the urban one), this program was also designed to protect the trades involving a considerable number of manually performed operations, to re-launch their services and products (especially the traditional ones, including folk art and handicraft items), and to promote them on national and international markets. Furthermore, the program aims, by organizing **Regional Crafts and Trades Fairs** and organizing **Traditional Markets**, to support small tradesmen in promoting their own products and preserving and stimulating the wider promotion of local traditions.

E. "Program UNCTAD / EMPRETEC Romania for Supporting the Development of Small and Medium Enterprises"

This program endorses the organization of workshops to support the development of small and medium-sized enterprises in areas of interest for the development of entrepreneurial capacities, in order to acquire theoretical knowledge and with a practical applicability, necessary for starting and developing a business. EMPRETEC is an integrated training program, which offers entrepreneurs training and technical assistance, as well as an institutional framework for developing entrepreneurial capabilities and increasing competitiveness on the local and international market of small and medium-sized enterprises. EMPRETEC is an international program for the development and support of entrepreneurs, under the aegis of the United Nations Conference on Trade and Development (UNCTAD - Geneva), being operational in 32 countries in Central, Latin America, Africa and the Middle East.

F. ROMANIA HUB program

This program combined informing activities with entrepreneurial education, mentoring and public-private consultations and it was addressed to the business environment, young pupils and students, entrepreneurs.

It was divided into four components: a) developing the entrepreneurial skills of young people; b) improving cooperation and communication between the academic and business environment; c) promoting SMEs' funding; d) public-private partnership and the creation of new jobs. During the 2014-2018 period, within this program there were 112 information sessions, workshops addressed to the target group, which meant about 3100 people. In 2015, the program achieved the highest level of success (i.e. 1382 people attended these sessions), while in 2018 the attendance level recorded the lowest shares.

G. National Program in Rural Areas

This program aimed at rural economic development, job creation and poverty reduction in this environment. The procedure focused on a de minimis aid scheme, its objective being to boost and

assist the establishment and expansion of private economic structures in rural areas. Furthermore, the program was mainly designed in order to ease the SMEs' access to financing sources, in the rural area, and to reduce the discrepancies between the urban and rural areas.

3. Regional Operational Program 2014-2020 (ROP 2014-2020)

With ROP 2014-2020 (as the successor of ROP 2008-2013), Romania focuses on the stability of the strategic regional development, by completing and expanding the directions and priorities of regional development included in the National Development Plan and implemented by means of ROP 2007-2013 and other national programs. By means of Priority Axis 2 - SMEs development and stimulation of regional and local business environment, an allocation of 11.10% of European Regional Development Fund/ ERDF funds for this programming period is received. Within this priority axis, the activities are intended to support entrepreneurship and strengthen SMEs, including micro-enterprises. As with the strategic vision of ROP 2014-2020, it is based on the following **development needs**, identified and prioritized as being most important having in view the current socio-economic development of the Romanian regions and the main strategic directions mentioned in the relevant national and European strategic documents:

1. Limited transfer to market of research results and low level of assimilation of innovation in companies
2. Insufficiently developed SMEs sector, with a negative impact on the competitiveness of regional economies

According to the report "Innovation Union Scoreboard", in 2014 Romania was included in the modest innovators' category, the last of the four categories of the ranking. Romania ranks among the last positions regarding the proportion of innovative SMEs that cooperate with others (2.9%), the number of patent applications, investments in companies or the number of SMEs that introduced an innovative product or process. Furthermore, Romania is experiencing serious competitiveness disparity compared to the other EU countries, as far as all the elements that determine competitiveness are concerned, which is reflected in a low productivity level. A key element in achieving the objectives of the *EU 2020 Strategy* is to increase the competitiveness of SMEs, given that 99% of EU enterprises are SMEs.

Although SMEs benefited from financial assistance through business incubation structures, this was insufficient. According to studies in the field, SMEs that have received support within incubators should be much less prone to the failing risk in their first activity years, due to the numerous services that these structures should provide. SMEs sector can be characterized by relatively weak orientation towards productive activities, reduced access to capital, technology and infrastructure, aspects that negatively affect economic productivity.

ROP 2014–2020 aims as a general objective: *to boost economic competitiveness and to contribute to the improvement of the living conditions of local and regional communities by assisting the evolution of the business environment, of the infrastructural prerequisites and of the services, so as to ensure a sustainable development of the regions, capable of effectively managing resources, to harness their potential for innovation and the assimilation of technological progress.*

The SMEs number, especially the innovative ones, is very small in Romania compared to the EU average, which justifies the encouragement of new SMEs but also the help and support of the existing ones both in size and in activity, in order to increase the competitiveness of regional economies and create jobs. Within the Thematic Objective 3, special attention is given to SMEs which engage in innovative activities, during their first activity years, and to the establishment and development of those structures that assist SMEs in their different evolution phases. Additionally, the existing SMEs are also targeted by assisting the establishment and expansion of the ability to develop new products and services in order to become competitive on regional, national and international markets.

4. Conclusions

As a major factor in increasing competitiveness at all levels, SMEs are a major driver of any economy. A large number of these entities present on the market stimulates competition, creates

added value and jobs, and thus, the productivity and well-being of an economy. However, one of the main obstacles faced by SMEs is access to finance.

National programs to facilitate access to finance for SMEs have over time supported these entities either to develop or to establish and survive under conditions of competition. In the 2014-2018 period, several categories of programs with different addressability coexisted, but with a common objective - to support SMEs by facilitating access to non-reimbursable funds. These government programs were implemented by the ministry in collaboration with numerous institutions that assist SMEs. The implementation of these programs triggered visible results, raising the number of SMEs and the number of jobs, boosting the added value, the exports, and the access to the internal and external markets.

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