
Competitiveness of Romanian Small and Medium-Sized Enterprises in European Union

Author: **Daniela POPA**, Academy of Economics Study, Bucharest, Romania, Kosovo, popa_c2o@yahoo.com

It becomes a common place to speak of SMEs as an engine of economic growth for any European Union country. The SMEs accounted the higher turnover and provides jobs for most of employed population. Romania is no exception, in 2009, the turnover of SMEs represents over 60 % (but for hotels and restaurants SMEs turnover was around 85 %). The article analyses the vulnerabilities of the sector, the main possibilities for financing, as well the framework created in Romania to stimulate business by development of SME's.

Keywords: *SME's, entrepreneurship, competitiveness, funds, marking*

Introduction

Without productivity, innovation and entrepreneurial spirit we can not look for a present that ensure a good future. Innovative force of SMEs is not limited to the development of innovations for manufacture of products, but it is manifested in very different ways. Thus a small company, but with a high degree of flexibility, can exploit greater the Romanian culture, by example an ancient buildings that can be restored and introduced into the cultural circuit. [1]

Beyond what the authorities can do to encourage SMEs, entrepreneurs effort remains critical to keep up with their business. Therefore initiative and courage are essential ingredients to start up a

business and for development becomes important the management skills to ongoing technical expertise. [3] In these circumstances the Romanian entrepreneur must be well connected to the economic environment and develop skills that allow a better assessment of opportunity and future risks.

SMEs evolution

By 2010, the turnover of European SMEs recovered with a growth of 2.6 percent in the aggregate. The effects of the financial and economic crisis of 2009 were still felt by European SMEs in 2010. The number of SMEs stabilized in 2010, albeit with declines in the small and medium size classes, while the micro enterprises by and large stood up well to the adverse economic conditions. [5]

The beginning recovery of EU SMEs in 2010 has, been mainly featured growth in numbers of turnover and value added. The picture of SME performance in 2010 in terms of value added and employment in the EU include Romania in the first group of Member States whose SMEs had both positive growth in value added and employment (P-P countries): Austria, Germany, Luxembourg, Malta, Romania, Sweden and United Kingdom. [5]

In Romania during 2006-2008, the proportion of SMEs with 1-9 employees in total active companies increased from 88.4% to 89.2% and the proportion of SMEs with 10-49 employees and 50-249 employees registered a relative decrease. [4]

Table 1: Number of SMEs operating, size class in absolute numbers and share in the national economy

	2006		2007		2008	
	N	%	N	%	N	%
1-9	408,160	88.4	441,791	88.4	476,359	89.2
10-49	42,510	9.2	46,536	9.3	46,112	8.6
50-249	9,302	2.0	9,687	1.9	9,633	1.8
Total	459,972	99.6	498,014	99.6	532,140	99.6

Source: EIRO CAR on 'SMEs in the crisis: Employment, Industrial Relations and Local Partnership

By economic sector, in industry the number of SMEs increased with 9,384, in construction with 14,568, in commerce with 10,344 and in market services with 37,612.

Despite a negative real GDP growth of Romania in 2010 (-1.3 percent forecasted by Eurostat in the European Economic Forecast - Spring 2011), the country shows favorable development of GVA and employment in the SME sector. The GVA of Romanian SMEs grew by 5.8 percent in 2010, while that of micro enterprises recorded an even higher growth of 6.5 percent in the same period. [5]

Undoubtedly, SMEs face a number of vulnerabilities, many of which are inherent to their status, among which: addiction by one person, namely the entrepreneur, limited resources and low technical level. In certain circumstances, for SMEs these vulnerabilities can be fatal if are ignored and are not finding ways to treat the exposure to risk.

It is obvious that SMEs are most affected by the decrease of funding during the economic crisis, moreover are perceived by Romanian bank that have a higher credit risk compared with larger companies. Starting from the fact that business is not charity, and business failure of SMEs is a reality the bank policy becomes clear.

Relevant is that, on June 2009 the SMEs financial health indicators were below compared with those of corporations: the earnings before interest was low (77 percent vs. 173 percent), Debt/Equity Ratio was more pronounced (3.1 to 1.4), new cash flow recorded a double deficit (6 billion vs. 3 billion).

SMEs financing

Related the access to finance for SMEs, there are a positive evolution. Thus, the National Loan Guarantee Fund for Small and Medium-Sized Enterprises, in 2010 granted 490 million Euros, 26 percent more than in 2009. The fund provides guarantees to commercial banks or financial institutions, up to a maximum of 80%, for those seeking loans in lei or foreign currency for: short, medium and long-term loans to finance investment projects or the production cycle; leasing contracts (maximum of three consecutive installments); lines of credit.

The procedure for granting a financial guarantee involves the following steps: all documentation must be submitted to the financing bank; if the project is deemed viable but lacking in sufficient guarantees to justify a loan, applicants may seek a risk-sharing arrangement through a financial guarantee from the Fund; the fund notifies the bank of its decision on the financing guarantee within seven days after the bank has received the complete dossier; the bank then signs the loan contract with the SMEs on the basis of the Fund's guarantee, the Fund charges a fee for all guarantees issued. For short-term loans this is calculated as a percentage of the amount guaranteed, and for medium and long-term loans it is a percentage of the annual balance of the loan which has been approved. The fee is paid in a single installment and its amount depends on the duration of the loan. [1] Moreover, the Government allocated EUR 200 million for the creation of new jobs, which improved the terms for the applicants, by lowering the investment threshold from EUR 30 to 10 million, and the minimum number of newly created jobs from 300 to 100.

Similarly, SMEs with a workforce of 10 or more employees may benefit from non-refundable funding of up to EUR 1.5 million for the purchase of land, erection of manufacturing facilities, or procurement of machinery, equipment, software. [4]

Under the National Plan for Rural Development 2007-2013, micro enterprises operating in the rural areas may receive a maximum of EUR 200.000 as non-refundable finance for investment in the processing of agricultural produce, production of traditional consumer goods, rural tourism, etc.

SMEs may also receive support for investment in upgrading slaughter houses, building grinding mills, procuring equipment for wine and dairy production, in an amount of maximum EUR 2 million per project (50% of the eligible expenses).

Financing SMEs is an area that has a high potential and bank must realize this growth potential and to understand that supporting SMEs ensures the future development of their business. Furthermore is vital for banks to work with SMEs to meet a real partnership framework or to reform the specialists so that they correctly interpret the small entrepreneur balance, to understand its business plan and even to offer advices.

Banks can support SMEs in at least the following directions:

- understanding the operation principles of commercial banks, including that the banks role is to promote business and not blessings;
- development of entrepreneurial capacity, take in consideration that to the limited access to financing sources, an contribution have the lack of training and experience in business management;
- access to information, given that large companies are located in major cities, where banks are well represented, and SMEs are more dispersed in the territory, which limit the opportunities for information on funding offers.

At the EU and national level to support small and medium enterprises sector is a priority because this category of businesses, more dynamic and more flexible, in many cases, than large companies, can be the backbone of any modern economy.

The European Union proposed to strength entrepreneurship in Europe and creates the necessary conditions for development of innovative practices that lead to the development of SMEs. Achieving these objectives is vital to ensure the economical sustainability and the social progress and not least environmental protection. To achieve their growth potential, the EU is working towards to create a friendly business environment for small businesses.

Experience shows that SME's sector can make a substantial contribution to the achievement of gross domestic product, to create new jobs and stimulates exports. In Romania is appreciated the importance of SME sector as a basis for development of a competitive economy. Such a sector of small and medium enterprises well developed can support stability and growth. [1]

Framework to stimulate SME's development

In order to create a favorable framework to stimulate business by development of SME's the Government adopted and approved laws that view increasing the young entrepreneurship. [6] The elaboration of specific normative framework, took into consideration, the following:

- the negative effects of the crisis manifested by decreasing the number of operators on the market,

- tight credit conditions;
- the need to stimulate entrepreneurship, in particular of young people by development of new policies need for economic recovery that will lead to less unemployment and an better participation on economic and social life of young.

In this respect it should be encouraged the increasing of SMEs share in public procurement contracts for goods, works and services. SMEs benefit of discounts of 50 percent for the turnover criteria, the participation guarantee and performance bond, required in public procurement of products and services.

SMEs benefit from access to information through the Euro Info Centers, regarding the relevant legislation and electronic information services on to applications submitted by bidders. It is important that in order to progress and develop their activities, SMEs benefit of information services from technical, technological development consultancy.

Government approves annual programs to encourage and stimulate the creation and development of SMEs based on programs developed by the National Agency for Small and Medium Enterprises and Cooperation. Annually by state budget is allocated funds, around 0.4 percent of GDP for financing development programs and measures to support business start-ups and SMEs development. Also, National Agency for Small and Medium-Sized Enterprises drawn-up the Guide to Sources of Financing for SMEs that covers funds from: the state budget; the PHARE Programme structural funds; bank guarantees; loans.

In order to improve activity and strengthening the system, the amounts allocated to for supporting SMEs development is highlighted separately in the state and local budgets. Small and medium development programs financed from the state budget through the National Agency for Small and Medium Enterprises and cooperatives run programs through private organizations or institutions.

Starting a business is based on several important elements whose combination creates an supports mechanism well defined.

Any business is a combination of a product or service technology, product or service features, customer satisfaction that creates a potential or affective relationship among a buyer and a seller. This relationship is based on entrepreneurship, which involves motivation and ability to identify and

use an opportunities adding value or obtaining a benefit and not least experience sharing.

Experience sharing and work in associations and networks can help entrepreneurs to find ideas and guidance, to have access to technology and information and identify new partners.

By SMEs the responsible entrepreneurship "is the structure and the strength of many communities" and such approach can complement public resources and can expand the range of services offered to consumers not only by quantity but also by quality.

In these respect domestic and international markets has imposed marking. European Commission marking is a declaration by the manufacturer that the product meets all the appropriate provisions of the relevant legislation implementing certain European Directives. European Commission marking gives companies easier access into the European market to sell their products without adaptation or rechecking. The initials "EC" do not stand for any specific words but are a declaration by the manufacturer that his product meets the requirements of the applicable European Directive(s).

Depending on the risks, is determined by product group if the issued specification must be certified by testing by an independent or accredited.

If the product complies with all applicable criteria set forth in the European product standard there is a "legal presumption of conformity with the Directive requirements" applicable to this product. An independent third party based on European standards certifies and confirm the presumption of conformity of the product. [1]

If the product is also subject of other Directives, covering other aspects which also provide EC marking, this indicates that the product is considered comply with those directives. When one or more of these Directives allow the manufacturer, in the transition period, to choose options, the EC marking indicates compliance with the Directives applied by the manufacturer. In this case, the particulars of the Directives applied must be presented in the documents, notices or instructions required by the Directives. One of the conditions for access of Romanian on single market was implementation of the European Union standardization. Procedure

requires that before the launch of products on market that are covered by directives standards to undergo conformity assessment procedures. [2]

Conclusions

Support for SMEs is widespread but at the same time is necessary a continuous awareness process of local actors to have a mobilizing effect. To survive on the EU market, Romanian companies need to understand and apply harmonized standards, which is an essential requirement for certification and a quality system.

After accession, Romania is not only a full member of the single market but also a fully integrated member. It is important that Romanian companies to acknowledge the role of European standardization and efficient use of standards.

Romania is a country that has the capacity and the need to develop SMEs not as survivors of the crisis but as promoters of development, innovation, labor productivity, which in fact is a catalyst for economic growth.

References

- [1] Popa, D., Popa, C. (2011), *Uniunea Europeana si mediul de afaceri*, Editura Universitara, 2011
- [2] Popa, D. (2007), *Integrarea Romaniei in Uniunea Europeana, o optiune ireversibila*, Editura Monitorul Oficial, Bucuresti
- [3] Isarescu, M. (2011), *Rolul IMM-urilor in asigurarea cresterii economice in Romania*, Bucuresti
- [4] *Romania: EIRO CAR on 'SMEs in the crisis: Employment, Industrial Relations and Local Partnership'*, access from <http://www.eurofound.europa.eu/eiro/studies/tm1010039s/ro1010039q.htm>
- [5] *EC (2010) Are EU SMEs recovering from the crisis? Annual Report on EU Small and Medium sized Enterprises 2010/2011*, Rotterdam, Cambridge, 2011 <http://ec.europa.eu/enterprise/policies/sme>
- [6] *Ordonanta de Urgenta nr.6/2011 pentru stimularea infiintarii si dezvoltarii microintreprinderilor de catre intreprinzatorii tineri*