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## Empirical Research on Access to Financing SMEs in Romania

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### Abstract

Improving SMEs' access to finance is a priority for the development of this sector of the international economy. This article presents the evolution of financing sources for Romanian SMEs and analyzes the future stage of development of these sources of financing. The results show the survival and development of companies will require financing resources that it will register a significant growth.

### Keywords

Structural funds, access to finance, economic growth, development, regional policies

**JEL Codes:** D80, G20, G30, M21

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### 1. Introduction and literature review

The implementation of the regional policies is based on the Structural Funds considered to be the most valuable financial instruments with the help of the contributions of the Member States, related to their economic power (Martineau and Pastoriza, 2016). The European Commission sets out the main directions for regional policy objectives for each programming stage. Member States formulate multi-annual regional development programs able to raise funding through structural instruments (Schleicher-Tappeser, 2001; Grilo and Thurik, 2004; Provasnek *et al.*, 2016).

The literature shows that setting up and developing SMEs and deepening their internationalization involves attracting funding sources that respond to new economic opportunities brought by technical progress (Baporikar, 2015; Eisenhardt and Martin, 2000; Pohjola, 2002; Pek-Hooi *et al.*, 2004; Floyd and McManus, 2005; Riederer *et al.*, 2005; Majumdar, 2007; Muthaih and Venkatesh, 2012).

For all that, according to the modalities of financing the economic activities appealed to by entrepreneurs from small and medium-sized enterprises throughout this year, the results of the investigation are as follows: 71.99% of companies have self-financed, 22.63% of companies have received bank loans, 21.26% of the companies resorted to the supplier credit, 7.94% used the leasing as a financing source, 2.83% of the SMEs used the clients credit, and 2.46% used the National Credit Guarantee Fund for SMEs. It was noted that 2.10% of SMEs have used non-reimbursable funds, these companies have resorted to other forms of financing in a small proportion (<https://www.eco-innovaera.eu/>).

On the other hand, according to the White Paper on SMEs (2016), if we consider the age of SMEs we can observe the following:

- companies that are less than 5 years old, self-finance to a greater extent (80%);
- the companies that have an age between 5-10 years are those that use loans from specialized financial institutions, they appeal to a greater extent (2.51%);
- companies that are between 10 and 15 years old are calling for a higher proportion of the supplier credit (23.21%), the guarantee from the National Credit Guarantee Fund for SMEs (3.38%) and equity issues. on the capital market (2.11%);
- companies that are over 15 years old have a higher percentage of SMEs that use bank loans (28.28%), leasing (12.07%), non-refundable funds (2.41%) and customer loans (3.10%).

Regarding the grouping of SMEs by their size we can remark that:

- microenterprises largely use self-financing (76.47%) and supplier credit (21.75%), less appeal for bank loans (18.76%), leasing (4.00%) and non-repayable funds (1.66%);

- Medium-sized enterprises appeal more to bank loans (53.03%), leasing (33.33%), and to non-reimbursable funds (6.06%) and customer loans (4.55%) have resorted to a smaller size.
- in small companies, they appear more often in terms of financing such as: the guarantee from the National Credit Guarantee Fund for SMEs and the issue of shares on the capital market (4.65% and 5.43%).

Creating a favorable general environment for the development of SMEs in Romania also involves stimulating the lending activity for non-banking institutions (Prahalad, 2012). Thus, amid a trend of rapid evolution of financial markets, where the survival and development of companies will require substantial resources, it is estimated that this form of financing will register a significant growth (Brown, 2002; Damanpour and Wischnevsky, 2006).

## 2. History, present and perspective on SME financing from structural funds in Romania

The funds aim to fulfill the European Union's priorities in promoting competitiveness and creating new jobs (Trott, 2005). With the help of the Lisbon strategy, cohesion policy focuses on supporting economic growth, competitiveness and employment. In order to support economic growth and employment, Cohesion Policy must be linked to the Lisbon Agenda by: improving accessibility, providing quality services and protecting the potential of the environment so that regions become more attractive for investments; stimulation of innovation, entrepreneurial spirit and development of information technologies and communications; job creation, increased adaptability of employees, human capital development (Jones and Tilley, 2003; Pellitero, Buesa and Heijs, 2008; Martineau and Pastoriza, 2016).

Regarding the evolution regarding financing from structural funds between 1994 and 1999 (McIntyre and Dallago, 2003), the main objectives were:

- supporting less economically developed regions, reported according to the average GDP at European Union level;
- the reuse of the industrial domains that are in decline in the regions with high unemployment;
- reducing unemployment, employment, training and retraining, ensuring equal opportunities and adapting production and industrial changes;
- supporting the development of rural regions through the reform of the Common Agricultural Policy;
- supporting the development and adaptation of regions with low population density.

For the period 2000-2006, they were supported by a budget amounting to 5.35% of the budget allocated to regional policies, four Community Initiatives ([www.animmc.ro](http://www.animmc.ro)). The objective of these Initiatives was to specify universal resolutions on the issues facing the European Union. The four initiatives are:

- INTERREG III - focuses on cross-border, transnational and interregional cooperation, and is supported by the European Regional Development Fund;
- LEADER + - is intended for sustainable development in rural areas, with the support of the European Agricultural Guidance and Guarantee Fund;
- URBAN II - is intended to restructure urban areas, to solve development problems. The programs are supported by the European Regional Development Fund;
- EQUAL - addresses European cooperation on the fight against discrimination and inequalities in access to work and is funded by the European Social Fund.

Regarding the increase of the quality of the regional development strategies, during the period analyzed, a fund for Innovative Actions was created, with a budget of approximately 0.5% of the total budget.

Between 2007-2013, the Cohesion Fund no longer fulfills its autonomous role, but is part of the convergence objective ([http://ec.europa.eu/enterprise/entrepreneurship/docs/sba\\_consultation\\_report\\_final.pdf](http://ec.europa.eu/enterprise/entrepreneurship/docs/sba_consultation_report_final.pdf)). The cohesion fund is an instrument of solidarity policy, with the role of promoting economic and social progress, sustainable development, ensures the functioning of the market and the single currency, in terms of efficiency, the main priorities being the energy, transport and environmental fields. The Cohesion Fund supports the actions regarding the trans-European transport networks, energy efficiency projects, environment, the use of renewable energy sources, the strengthening of intermodality in transport, etc. The same rules for program management and management apply to the three Funds. The three new objectives integrate the missions of the old objectives 1, 2 and 3, as well as those of the previous community initiatives: INTERREG III, EQUAL AND URBAN II. INTERREG III is continued under the European territorial cooperation objective, the URBAN II and EQUAL programs are assimilated to the European territorial cooperation and convergence objectives and the Leader + program and the European Agricultural Guidance and Guarantee Fund (EAGGF) are replaced with the European Agricultural Fund for Rural Development (EAFRD). The Financial Instrument for Fisheries Guidance (IFOP)

becomes the European Fisheries Fund (EFF). The EAFRD and the EFF have autonomy and are no longer part of cohesion policy. The main objectives in the programming period 2007 - 2013 were identified as: the "Convergence" objective covering the regions with GDP / place below 75% of the European Union average, the "Regional competitiveness and employment" objective, and "European territorial cooperation" ([www.europa.eu.int](http://www.europa.eu.int)). The objectives of the Economic and Social Cohesion Policy of the European Union between 2007 and 2013 were as follows:

- Convergence (regions with GDP/place <75% EU average, states with GDP/place <90% for FC) - budgetary allocation 81.54% of the total 347 billion. The convergence increases the degree of institutional, administrative similarity, reduces the economic and social gaps, improving the conditions of economic growth and employment, emphasizing the need for innovation, the knowledge society, the quality of the environment, economic and social flexibility. This objective supports the development of the regions lagging behind and is financed from the three structural instruments: Structural Funds European Regional Development Fund (ERDF), European Social Fund (ESF) and Cohesion Fund (FC).
- Regional competitiveness and employment, (regional programs for EAFRD and national for ESF) - allocating 15.95% of the total of 347 billion allocated to cohesion policy financing, aims to ensure competitiveness, regional attractiveness, human factor employment and attractiveness of regions, thus contributing to anticipating economic and social changes, promoting innovation and entrepreneurship, protecting the environment, as well as accessing, adapting and developing inclusive labor markets. The objective is funded by the ERDF and the ESF.
- European territorial cooperation (border regions and regions) includes transnational, cross-border, interregional cooperation - 2.52% allocation. The objective is financed by the ERDF and aims to support common solutions for national authorities, in the sectors of urban, rural and coastal development, the expansion of economic relations and the inter-relationship of small and medium-sized enterprises. The cooperation is focused on research, development, information society, environment, risk prevention and integrated water management. Transnational cooperation includes the South-East Europe Operational Program aimed at developing transnational partnerships, integrated cooperation in the field of water management, development of the SME sector, research, development and innovation, natural and technological risk prevention. The cross-border cooperation component includes the Operational Programs Romania - Hungary, Romania - Bulgaria, Romania - Serbia, Romania - Ukraine - Moldova and Romania - Hungary - Slovakia - Serbia, the Black Sea Operational Program with strategies for infrastructure development, strengthening economic relations, sustainable development, strengthening of cultural, social ties, fight against natural disasters, cooperation between states. Interregional cooperation aims to promote the exchange of information and good practices, urban development, public services, social inclusion within the INTERREG IV c and URBACT II Inter-Regional Programs.

For the period 2014-2020 there are financial instruments that act with the purpose of eliminating economic and social inequalities between regions, achieving economic and social cohesion, funds known as Structural Funds respectively:

- in the field of human resources, Romania, through the Human Capital Operational Program (POCU) establishes investment priorities, objectives and actions, continuing the investments made by the European Social Fund between 2007-2013 and helping to reach the general objective of the Partnership Agreement (PA 2014 -2020), at the same time of the European Structural and Investment funds from Romania, more specifically, to reduce the differences of economic and social development between Romania and the Member States of the European Union;
- the Operational Competitiveness Program (POC) is created to support investments that respond to the needs and challenges related to a lower level of economic competitiveness, first of all regarding insufficient support for research, development and innovation (RDI), and in secondly, with regard to the underdeveloped ICT (Information and Communications Technology) infrastructure and poorly developed services, being interested in developing these factors, as Romania is a poorly developed country in these areas;
- the Large Infrastructure Operational Program (POIM) was developed to meet Romania's development needs, being identified in the Partnership Agreement 2014-2020, in accordance with the Common Strategic Framework and the Position Paper of the European Commission services. This strategy of the Large Infrastructure Operational Program is oriented towards the objectives of the European 2020 Strategy, correlating with the National Program for Reform and with the Country Specific Recommendations, whose objective is to focus on sustainable growth by promoting an economy, based on low carbon consumption, by promoting the use of specially designed transports to not only pollute the air, but also a more efficient use of resources;
- the Regional Operational Program was established in 2007, being a project made for 2007-2013. This program was renewed for the period 2014-2020, being one of the programs through which Romania accesses European

funds for investments, these being from the European Funds for Regional Development (ERDF), between 2014-2020;

- the Operational Capacity Administrative Program (POCA) is created to promote the creation of a public administration and to facilitate the social economic development. Their creation is through competitive public services, offering good quality investments and regulations, thus contributing to achieving the objectives of the European 2020 Strategy. The Operational Capacity Administrative Program is addressed to the 8 development regions of the country.
- the Technical Assistance Operational Program 2014-2020 aims to ensure an efficient and effective implementation process of the European Structural and Investment Funds in Romania, in accordance with the partnership rules, such as evaluation, communication, monitoring and control, programming, management, in particular financial management, based on responsibilities that are shared between the Member States and the European Commission. The objective of this program is to ensure a better capacity of the instruments necessary for the safe coordination, management and control of the interventions financed from the European Structural and Investment Funds, as well as a well oriented, correct and efficient implementation of the Operational Technical Assistance Program (OPER), the Large Infrastructure Operational Program (POIM) and the Competitiveness Operational Program (POC).

Also, the Eurostars program offers assistance and financing specifically designed for small businesses, adapted to the needs of small businesses, supporting their participation in international actions in the field of research and development (<http://www.eurostars-eureka.eu/home.do>), and Eureka is a Pan-European network focused on industrial research and development, which supports the competitiveness of European companies by creating links and innovation networks in 36 countries. EUREKA offers project partners access to a variety of knowledge, skills and expertise throughout Europe and facilitates access to public and private funding programs (<http://www.eurekanetwork.org/>).

Although the prospects for SME financing from structural funds are keeping an upward trend, Romania still faces significant challenges in development issues, which require strategic investments to avoid obstacles to development and to unlock the economic potential of small and medium-sized enterprises among which: competitiveness (maintaining a low level of productivity at international level in various industrial fields; fragmentation, excessive standardization, inefficient use of resources and absence of a development strategy); the human factor (there are large discrepancies of opportunity, wealth, training, skills, health that have intensified, having a zonal character, or between urban and rural areas); infrastructure (economic growth is obstructed by poorly developed and outdated infrastructure).

### 3. Results and discussions

The low degree of absorption of European funds causes that the development of Romania, as a member state of the EU, suffers losses at economic, social and political level. This low rate is justified by the poor information at the level of the economic actors, the bad management, corruption, bureaucracy, the modifications during the necessary documentation, the submission data, "Corrigende to the Guides of the Applicant", the lack of motivation of the personnel involved in the development of the structural funds, lack of documents and standardized procedures for the different management authorities (MAs), procedures for public procurement and the long evaluation period of the projects, which lead to delays.

One of the reasons for the low absorption rate is the lack of a motivation system for the officials involved, which leads to bottlenecks and delays in the project cycle (Manolova *et al.*, 2010). One of the solutions would be to motivate the officials through an adequate remuneration system, to attract a body of experts in the field, to outsource the processes to private organizations for the evaluation of the projects and the reimbursement requests.

Another cause would be non-unitary interpretations of the institutions, changing rules during the game, modifications, non-transparent procedures, generating delays and negative impact on the projects (Lumby, 2005). However, financial support for developing the innovation capacity of SMEs in order to improve their competitiveness in the current economic context is an important solution for counterbalancing the negative effects of structural adjustment and economic recovery processes, generating economic and social alternatives. In this context, the Member States were determined to adopt new packages of measures, after the initial ones, focused more on injecting cash for bank bailouts, did not work. Currently, the measures envisaged are more focused on encouraging economic demand by granting tax incentives and supporting sensitive economic sectors. The European Commission has adopted a draft legislative package that will be a framework for EU cohesion policy. The new proposals are designed to strengthen the strategic dimension of the policy and ensure that EU investments are focused on Europe's long-term goals of growth and jobs ("Europe 2020"). Through the partnership agreements agreed with the Commission, Member States will undertake to reduce their range of investment priorities, in line with these objectives.

#### 4. Conclusions

For almost three decades, small and medium-sized enterprises occupy a significant place, being one of the main topics of debate among economists, researchers and practitioners. SMEs are important for all the economies of the world, but especially for those of the developing countries that are facing problems related to employment and income distribution per capita. The lack of adequate financing as well as the reluctance of financial institutions or private equity investors to meet the needs of SMEs (regardless of their stage of development) contribute to a significant extent to slowing their development with negative repercussions on remodeling the productive sectors, employment and innovation.

By joining the European Union, Romania has access to European funding. Most of the companies are self-financing, but another part of the companies uses other financing sources. The statistics show us that with the help of EU funding, Romania is developing quite economically, offering new jobs, a more developed productivity, but also a higher profit. Of great importance are the programs that have been created in order to have much easier access to European funds. Through these programs, the state receives certain amounts of money from the European Union to help the country develop economically and socially.

The Europe 2020 strategy has brought new changes to stimulate a new kind of smart, sustainable and inclusive growth, by: raising the quality of skills and maintaining lifelong learning, developing research and innovation, efficient use of smart grids, digital economy, re-technology and the expansion of the industry, the efficient use of energy and resources, the promotion of a high employment rate economy, which will ensure social and territorial cohesion; strengthening governance through: regular and transparent monitoring, decision making at high levels, recommendations, warnings, sanctions; closer economic coordination, reports on economic reform programs and stability and convergence programs, providing the funds needed to finance the programs.

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