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# Small and Medium Enterprises' Access to Financing – A European Concern: Evidence from Romanian SME

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**Abstract**

While small and medium enterprises (SME) are experiencing a period of financial and economic crisis, the European Union is providing interesting business funding opportunities for the 27 European Members States. Empirical research shows that the factors driving SME financing decisions are complex, a state of fact reflected also by an ambiguous theoretical literature. On the one hand, this paper discusses the main characteristics of SME financing in Europe and provides against this background an analysis of the impact of the funds absorption on sustaining economic growth for Romanian SME. The results confirm the fact that for Romanian SME the access to financing is a priority issue in the actual economic situation. On the other hand, the paper points out some avenues for further research on this topic.

**Keywords:** structural funds, operational program, cohesion policy

## 1. Introduction

The principles of the European Union funding of SME have gradually emerged and are constantly analyzed for improvement. Unfulfilled or only partially achieved expectations to the propertyless, deviations from the model for better or worse, complaints, problems, deficiencies noticed in the comparison, all of them are challenges needed to be met by training operations that EU experts will bring out. Given the political interest which European structures manifested in this direction, this process will undoubtedly continue, because it allows better management of financial resources and an increase with large positive effects. Furthermore, access to finance is the most important factor promoting employment, growth and innovation in SME in Europe. Given the size of the Structural Funds, the European Commission tried not to leave to chance the "right to know". In agreement with the Member States, there were established a number of obligations to make the mechanisms of release of these funds be transparent and thus enabling people to know how their money is used.

According to a widely accepted understanding of SME, these are enterprises that have up to 500 employees, are legally independent and whose managers assume financial, technical and commercial responsibility. I follow all through this paper an understanding of SME which follows the one promoted in the European Commission recommendation 361/2003/CE: the category of SME is represented by enterprises with less than 250 employees, have an annual net turnover of up to 50 million and / or having total assets of up to 43 million euros (www.europa.eu.int/enterprisepolicy/smedefinition).

The research period focused in this paper encompasses the years 2007 – 2009. (Note 1) The research methodology used was based on document analysis, secondary data analysis and statistical analysis. The analysis of levels of funding granted through different EU financial instruments has been conducted on basis of statistical analysis of financial information from European Commission budget.

## 2. Structural and Cohesion Financing Sources for SME

According to the Guidelines on financing of small and medium enterprises, funding may be made by calling the internal sources (equity capital) and / or external funding sources (http://www.finantare.ro/ghid-finantari.html).

The internal funding sources are:

- Contributions of the owners or associated members.
- Resources generated by the company's activity (retaining profit).

Internal funding sources have some advantages, such as preserving the independence and financial autonomy, because it creates no additional binding (interest, guarantees), or maintaining borrowing capacity, being a reliable mean of financial support of the enterprise's needs. They also bear disadvantages because the owners have fewer funds to invest in other more profitable activities than the activity which generated the financial overflow (alternative cost).

External financing sources of SME include: loans, grants, and capital market instruments. The needed borrowing is obtained by the analysis of the evolution indicators of costs that are generated by the SME development. This need should be determined from the planning stage of development. Depending on the characteristics of this necessary, one develops the company's financing policy. External financing is necessary if the SME does not have sufficient internal resources to cover the investments necessary for the planned activities.

Regardless of the country, it is intended to facilitate access of SME to external financing sources, especially venture capital, micro-loans, financial mezzanine, and the development of a stimulating legal and business environment. Attracting capital is one of the conditions necessary for both establishing a successful business (especially SME) and for ensuring its development. The use of own resources or loans is often insufficient for start-up firms or those with strong growth potential.

Risk aversion often cause investors and banks to avoid financing companies in the early stage of business. On the other hand, many entrepreneurs need advice regarding the advantages and disadvantages of various forms of funding and how it would be proper to present investment projects in front of the potential donors. In addition, SME often have a poor equity situation, which is subsequently affected by late payments. In fact, an EU annual report 2010-2011 revealed that, depending on the country, SME expect on average between 20 and 100 days to collect bills, and one in four cases of insolvency are due to late payments (http://ec.europa.eu/enterprise/policies /sme/facts-figures-analysis/performance-review/files/supporting-documents/2010-2011/annual-report_en.pdf).

Investors hesitate to invest in start-up companies because of high transaction costs and because the returns do not compensate for risk. Therefore, these companies usually seek a venture capital, which may provide the amounts necessary for entering the market and developing faster. The venture capital is essential for the innovative SME' financing and for the assurance of the best investment opportunities. However, in Europe, venture capital market is fragmented, which affects cross-border investments and growth potential of venture capital funds and reduces the level of investment. Therefore, given the need to improve SME' access to financing (and especially for the innovative ones), the European Commission established facilitating cross-border investments as one of the main objectives, and initiated some measures to overcome regulatory and tax obstacles at EU and each Member State level.

To become competitive, European venture capital markets wish to increase their efficiency and profitability, and a way to achieve this goal is by extending the benefits of a single venture capital market to facilitate cross-border transactions. The European Commission will evaluate the options for the introduction of a private placement regime to facilitate cross-border investments to stimulate the development of venture capital funds in Europe and will assist Member States to promote programs which stimulate investments.

Regarding financial mezzanine, this is a hybrid financing instrument that combines features of equity and loan and increases the possibilities of companies' financial option. In fact, financial mezzanine can be an important complementary source of financing firms. The most important instruments of mezzanine financing include private placement instruments (private mezzanine) and capital market instruments (public mezzanine).

Mezzanine capital is an appropriate solution especially when the requirements for financing may not be covered by traditional loans. Hybrid forms of financing can be employed also in less dynamic periods (e.g. maturity phase) to optimize the financial mix. Cases of refinancing are also suitable for using mezzanine capital. In these stages of the business, financial mezzanine is an attractive option for companies with positive cash flows and developing perspectives to attract additional funds. Mezzanine financing is inappropriate for restructuring, because in these phases capital flows are volatile and more difficult to predict. Further, financial mezzanine is not recommended for companies with an unstable position on the market and negative forecasts of development, with a high debt rate and accounting and financial weaknesses.

The mezzanine financial instruments are little used now, compared with traditional financial loans, but amid a trend of change and rapid evolution of financial markets, where the survival and development of the companies will require substantial resources, it is estimated that this form of financing will grow significantly.

Micro-loans can be another useful tool to achieve major objectives, like the development of small businesses, but also increasing social welfare or creating new jobs. However, many start-up companies face difficulties in

accessing small loans (fewer than 25.000 Euro). With regard to accessing micro-loans, the European Commission, European Investment Fund and European Investment Bank developed a common initiative known as *Joint Action to Support Micro-Finance Institutions in Europe JASMINE*, which aims to develop micro-loan supply in Europe (http://www.eif.org/what_we_do/microfinance/JASMINE/index.htm). The key actions which are intended in order to achieve this goal are:

- Providing technical assistance for micro-financing institutions to help them be credible financial intermediaries and obtain capital more easily;
- Financing of non-banking financial institutions' activities, so that they can grant more loans.

The program aims to improve access to financing for small businesses, for unemployed people or for people without a current job, who would like to become providers of independent activities, but are unable to access traditional banking services. This program began in 2009 with a three-year pilot phase and an initial capital of 50 million Euros.

## 3. Current Scenarios for Financing SME

The increasing attention paid in the last decade to SME in most countries of the world, as a result of the recognition of their major contribution to economic development and generating new jobs in the economy, is reflected in the development of various public financing schemes. There are two significantly different concepts at the basis of their design and operation:

1. Financing schemes for SME based on governmental economic policies, which aim to achieve certain economic and social objectives by financing with priority some certain categories of firms. Adherents of this approach are the Japanese, who are currently preferentially financing through a variety of public schemes, small businesses which develop strongly and with great potential for job creation (Klein et al., 2003).
2. Financing schemes for SME focused on market requirements, which aim to provide financial resources, but under the same or very close conditions to the market conditions. The main concern is to avoid causing distortions in market competition, which might advantage certain categories of firms. These schemes, which forecast modest subsidies to SME financing costs, have a less sensitive role in stimulating them. In Europe, there are especially in Germany and the UK approaches based largely on this model, while in the period 2007-2009, the previous approach was predominantly used.

Romanian SME' requirements consider the types of investment needed during the development of their commercial activities, the risks related to investments which will be financed, and the factors to be considered when selecting a funding source. In choosing the source of funding for SME several aspects should be carefully considered: what kind of source of funding is best suited to the business' objectives, what financing size can meet the needs of the business and its own assessment of the company, which will be made in order to assess the ability of the business, to have access to financing and to repay it. When the financing source is chosen, the following factors should be taken into account (Nicolescu & Nicolescu, 2008):

a) the costs included in obtaining financing: different types of financing involve different costs, like the costs of financing services, which may be interest rates, flat fees, commissions, etc., but also the anticipated cost, which includes all costs before receiving approval for funding, for example, the evaluation of assets, fees for processing application forms, requests, authorizations, approvals, legal and fiscal taxes, etc.

b) the availability of funds, since business requires funds in accordance with its plans. Therefore, when selecting the source of funding, it would be beneficial to consider the availability of financing funds, the period necessary for the approval process and the type of reimbursement offered.

c) the terms of funding; one should take into account, before applying for funding, the following issues:

- the eligibility criteria required to be met by applicants in order to receive funding;
- the size of the offered financing, which is necessary to match the real needs of the business;
- the existence of guarantees and / or type and size of the required guarantees, the assessment terms of guarantees required by the types of funding. If the enterprise has its own guarantees to cover the need of guarantees, the costs of the financing services are smaller, compared with the case when it has to seek help of a guarantee fund;
- the crediting period and grace period offered by the type of financing. The entrepreneur should check whether these match with the type of business, stage of development and the ability to repay the financing;
- the interest rate required by the lender, which can be fixed or variable;

- the financing currency: in case of foreign currency as financing currency, it is advantageous for companies to involve in export, since in this case the risk and currency exchange costs can be avoided;
- the type of reimbursement requested: there are seasonal activities which means for long-term investment loans that, during certain seasons, there may not be significant sales, which can generate revenue to enable repayment by monthly or quarterly installments. In this case, it is important that financing should provide flexibility for reimbursement payments, such as full reimbursement at the end of the loan;
- the enterprise's own assessment regarding the size of company and its ability to access financing, dividend policy (the company may request co-financing from external sources also for current activity, if also the shareholders reinvest the profit), shareholders' willingness to accept the participation of donors in enterprise management, enterprise's business plans and strategies for future development (for example, investment plans, the development of new markets and new products);
- the use of funds, since in search of funding, each SME knows exactly for what purpose it will implement the investment and how to increase the business. In accordance with these aspects, the enterpriser will consider the funding offer relating it to the company's ability to repay the financing in accordance with the repayment schedule (scheduled payment dates). He will consider further whether the funding harmonizes with the business' development and its ability to repay financing (credit, leasing, etc.), and the financial management forecast of the business (the management policy with regard to collecting money from customers and paying suppliers).

Bearing all these in mind together with the needs of SME as the largest and increasingly important economic sector, which became dominant in many branches and sub-branches of activity of the national economy, I concluded that there are not only in Romania, but also in other countries, an infinite number of principles for funding SME, among which:

- conducting direct marketing activities to publicize the availability of financing and eligibility criteria that are to be met; thus one can identify the SME that meet the criteria on the one hand, but also arouse the interest of others to design their business so that it becomes eligible for financing on the other hand;
- collaboration, cooperation and informing between all economic, administrative and political links involved directly and / or indirectly in funding the programs;
- generating information by each actor involved, according to its position in the process and providing funding for information transmission to all people;
- the analysis of the received information, the preparation and transmission of feedback by each actor to all others that are or may be concerned;
- adequate learning and practicing of methods and procedures that will operate at all times during the relationship of funding by all actors involved;
- ensuring in good faith the guarantees established in the financing relationship and restoring or attributing them to the entitled ones;
- strict adherence to deadlines concerning communication and payments as provided by law and / or signed contracts in the funding relationship by all direct or indirect actors involved in it;
- sanctioning of deviations in communication and payment terms by bearing the created damages, the compensation of those affected adversely, and loss of the advantages which the guilty parties might have obtained.

Applying any of these principles will inevitably reveal details concerning the value of the principles that can complement or complete the list above.

## 4. An Outline of Financing SME in Romania

In Romania, public schemes which promote SME financing can be divided mainly into four categories (Figure 1).

Financing schemes by grants provide, under certain conditions, grants for SME. Generally, these grants address companies from certain economic sectors or areas of the country. Most often, there are financed investments in equipment and, more rarely, in capital. The basic principle of providing grants is financial co-participation, which implies the allocation by the SME of a part of the funds necessary for the whole project at a clearly stated minimum level. Such schemes were operationalized through some foundations (CRIMM, FIMAN) or governmental agencies (the National Agency of Small and Medium Enterprises, the National Agency for Regional Development, the National Employment Agency) and ministries (Ministry of Transport, Ministry of Labor and Social Protection, etc.).

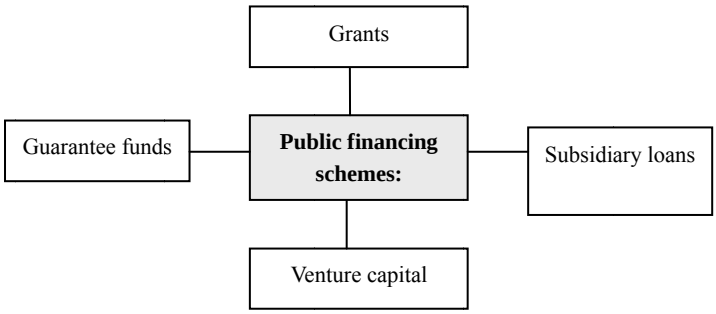


Figure 1. The main types of financing schemes for SME in Romania

EU Structural Funds are managed by the European Commission and have as destination financing the structural aid measures at communitarian level, in order to promote the regions with delays in development, reconversion of areas affected by industrial decline, combating long-term unemployment, and promoting the employability of young people or rural development. If one considers that Romania would benefit by 2013 from structural funds of about 28-30 billion Euros from the EU (http://www.cnipmmr.ro/statistica/2011sem1.pdf), it is of great importance to known the level of the Romanian SME connected with the accessing of these forms of financing.

The analysis of the situation of SME in 2009 according to their age reveals mainly that the companies that are less than 5 years old have the highest proportion among companies which did not access the Structural Funds (58,93%) (http://www.finantare.ro/fonduristructurale-finantari.html). Companies which are over 15 years old have higher percentages of SME at the stage of elaborating drafts for their projects (6,70%) and of contacting a consulting firm / organization to assist employers (16,27%). 10-15 years old firms stand out with higher percentages of organizations that inform regarding the Structural Funds (33,58%), economic operators who have submitted the project (2,92%) and SME that have received approval for funding (2,19%). Surprisingly, companies from the capital Bucharest show the highest percentage of SME where there is no interest for structural funds (72,83%), a situation explained by the existence of very strong competitors in all areas of activity in the region, and by the fact that this area is more developed economically, while European authorities mainly aim to reduce regional disparities (Figure 2). On the opposite side are the Center region companies (69,49%), followed by the South-Western and the North-Western region companies.

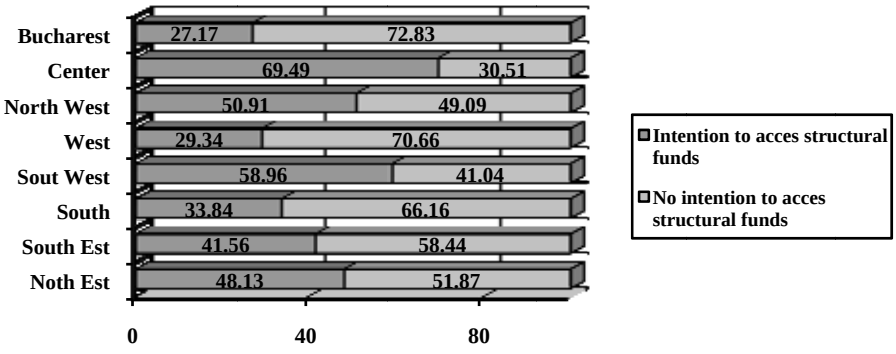


Figure 2. The intention of the entrepreneurs from the eight regions to access structural funds

Another component of the financial package that Romania benefits from is the cohesion funds. The European Union provides financial assistance through four development funds that replace the three pre-accession funds PHARE, ISPA and SAPARD. Cohesion funds finance environmental and transport infrastructure projects, as well as professional and social retraining ones. The total amount received by Romania is 5.973 billion Euros for 2007-2009, respectively 2,4% of GDP in 2007, 3,2% of GDP in 2008 and 4% of GDP in 2009.

For the period 2007-2013, within the framework of Romania's integration into the European Union, dozens of public financing schemes for SME are provided, which are structured into seven operational programs, as shown in Table 1.

Table 1. Operational programs

| No. | Operational Program | Management Authority | Structural instruments |
|---|---|---|---|
| 1. | Sector Operational Program for Transport | Ministry of Transport (www.mt.ro) | European Regional Development Fund, Cohesion Fund |
| 2. | Sector Operational Program "Environment" | Ministry of Environment and Sustainable Development (www.mmediu.ro) | European Regional Development Fund, Cohesion Fund |
| 3. | Sector Operational Program "Competitiveness" | Ministry of Economy and Finances (www.mfinanțe.ro) | European Regional Development Fund |
| 4. | Regional Operational Program | Ministry of Development, Public Work and Housing (www.mdlpl.ro) | European Regional Development Fund |
| 5. | Sector Operational Program "Human Resources Development" | Ministry of Labor, Family and Equal Opportunities (www.mmssf.ro) | European Regional Development Fund |
| 6. | Operational Program "Increasing of Administrative Capacity" | Ministry of Interns and Administrative Reforms (www.mai.gov.ro) | European Social Fund |
| 7. | Operational Program, Transport" | Ministry of Economy and Finances (www.mfinanțe.ro) | European Regional Development Fund |
| 8. | National Rural Development Program (NRDP) | Ministry of Agriculture and Rural Development (www.maap.ro) | |

*Source:* White Charter of Romanian SME's in 2009.

The billions of Euros allocated via Structural Funds and Cohesion Fund come from taxes paid by EU citizens and ought to be managed in an efficient, transparent and impartial way. The situation on 30.11.2009 regarding submission and approval of projects, signing contracts and making payments by grant recipients is presented in Table 2.

Table 2. Situation on 30.11.2009 regarding submission and approval of projects

| Operational Program | Current reporting/ Previous reporting | Allocations UE 2007-2009 (cumulate) EURO | Submitted Project | | Approved Projects | | Degree of fund absorption (%) |
|---|---|---|---|---|---|---|---|
| | | | Number | Total Value (Lei) | Number | Total projects value (lei) | |
| PO Regional | 30.11.2009 | 1.175.429.871 | 2.828 | 29.892.174.379 | 672 | 6.771.361.067 | 22,65 |
| | 31.10.2009 | 1.175.429.871 | 2.582 | 27.663.593.075 | 648 | 6.468.220.815 | 23,38 |
| | Difference | - | 246 | 2.228.581.304 | 24 | 303.130.252 | - |
| POS Environment | 30.11.2009 | 1.288.182.545 | 133 | 13.508.646.650 | 64 | 5.797.014.726 | 42,91 |
| | 31.10.2009 | 1.288.182.545 | 133 | 13.459.355.351 | 64 | 5.797.369.833 | 43,07 |
| | Difference | - | 0 | 49.291.299 | 0 | -355.107 | - |
| POS Transport | 30.11.2009 | 1.307.638.271 | 41 | 15.739.705.408 | 17 | 3.083.146.959 | 19,58 |
| | 31.10.2009 | 1.307.638.271 | 41 | 15.739.705.408 | 17 | 3.083.146.959 | 19,58 |
| | Difference | - | 0 | - | 0 | - | - |
| POS Increasing | 30.11.2009 | 730.266.902 | 5.304 | 29.382.497.423 | 1.236 | 4.326.590.928 | 14,72 |
| Economic | 31.10.2009 | 730.266.902 | 4.981 | 28.007.635.207 | 1.082 | 3.874.987.097 | 13,83 |
| Competitiveness | Difference | | 323 | 1.374.862.216 | 154 | 451.603.829 | - |
| POS Human | 30.11.2009 | 995.700.446 | 5.202 | 32.083.136.025 | 912 | 3.584.644.236 | 11,17 |
| Resources | 31.10.2009 | 995.700.446 | 5.088 | 31.920.475.360 | 864 | 3.521.740.311 | 11,03 |
| Development | Difference | - | 114 | 162.660.665 | 48 | 62.903.925 | - |
| PO Administrative | 30.11.2009 | 89.157.178 | 654 | 647.718.127 | 109 | 202.983.844 | 31,34 |
| Capacity | 31.10.2009 | 89.157.178 | 634 | 610.897.851 | 108 | 200.983.844 | 32,89 |
| Development | Difference | - | 20 | 36.820.276 | 1 | 1.190.000 | - |
| PO Technical | 30.11.2009 | 56.358.210 | 28 | 201.841.322 | 15 | 130.104.476 | 64,46 |
| Assistance | 31.10.2009 | 56.358.210 | 22 | 181.387.635 | 14 | 130.061.476 | 71,70 |
| | Difference | - | 6 | 20.453.687 | 1 | 43.000 | - |
| TOTAL | 30.11.2009 | 5.642.733.423 | 14.190 | 121.455.719.334 | 3.025 | 23.835.026.234 | 19,62 |
| | 31.10.2009 | 5.642.733.423 | 13.481 | 117.583.049.887 | 2.797 | 23.076.510.335 | 19,62 |
| | Difference | - | 709 | 3.872.669.447 | 228 | 818.515.899 | - |

*Source:* White Charter of Romanian SME's in 2009.

Romania's EU accession has brought more opportunities for small business financial support. Funding will be granted for the following major areas:

- productive investments and preparation for the market competition of enterprises;
- support for strengthening and upgrading the productive sector through investments in facilities, equipment, acquisition of technology patents, trademarks, licenses and know-how;
- procurement of professional services and access to international standards certification, implementation and certification of quality management systems, implementation and certification of environmental management systems, product certification and eco labeling, development and accreditation of testing / analysis laboratories, metrology calibration.

Further support will be given to the Romanian companies' access to new markets and their internationalization by:

- stimulating SME' participation to fairs and exhibitions to promote their products and business internationalization;
- facilitating access to credit and financing by the introduction and development of financial instruments appropriate to small businesses;
- strengthening the National Credit Guarantee Fund for SME;
- creating and developing innovative financial instruments that will help entrepreneurs involved in research projects and implementation of research results;
- development of entrepreneurship as an important factor in strengthening existing businesses and in supporting start-ups will be another major objective of financial support policies;
- encouraging the development of specific business infrastructure such as incubators and business centers;
- promoting SME' access to quality advice for the development of projects / business plans, for product development and business strategies, as well as the development of inter-firm corporations and joint investments, investment consulting, financial consulting, marketing activities and promotion of companies, management and human resource development, organization of production, modern technologies, information technology and e-business, innovation and protection of intellectual property rights;
- encouraging inter-firm cooperation, in order to integrate them into the clusters and supply chains in various areas of economic activity.

The estimated value of European support given to the SME sector through the mentioned measures will be around 800 million Euros for the whole period 2007-2013 (http://ec.europa.eu/regional_policy/atlas2007/fiche/nsrf.pd). This funding will be ensured from the Structural Funds of the European Regional Development Fund (ERDF) in the programming documents.

Among the financial instruments, SOP Increase of Economic Competitiveness (SOP - IEC) is the most important resource for non-reimbursable financial assistance addressed to the SME in Romania. The program is funded by the European Regional Development Fund (ERDF). On the one hand, SOP IEC answers to the first priority of the National Development Plan (NDP) 2007-2013, namely "developing competitiveness and knowledge-based economy", and, on the other hand, to the second priority of the National Strategic Reference Framework (NSRF), namely "long-term development of economic competitiveness", contributing at the same time to the implementation of all the other priorities of the NSRF.

The aim of implementing the program is that, by the year 2015, the average productivity increase will be of approx. 5,5% annually, which will ensure the achievement of a level of about 55% of the EU average.

Loan financing schemes aim to meet separately or cumulatively two categories of requirements:

- SME' access to credit, given the difficulties of obtaining them from banks because of their distrust in this class of customers and the lack of necessary know-how on the side of banks;
- partial subsidy of credits interest, taking into account the very high interest rates and their fluctuating character.

In Romania, several credit lines for SME were opened, mostly having international financing - the World Bank, European Bank for Reconstruction and Development, the European Union PHARE, etc. The Romanian government participated with a certain quota to all these lines. These credit lines are selectively available to SME in certain economic sectors and / or in certain areas of the country and for certain types of businesses. Similarly, some programs of interest subsidies on loans were opened, in the operationalization of which the Ministry of Finance, the

Romanian Development Agency, Ministry of Labor and Social Protection, etc. were involved. They targeted certain types of companies, often generating jobs or exporting activities. The usefulness of these guaranteeing funds lays in their participation, under certain conditions, to the partial credit guarantee required by entrepreneurs, alleviating this way their access to credits. They offer further an overview of the types of accessible public funding to entrepreneurs, helping them to determine the funding sources they need.

SME have started to use more diversified portfolios of finance and the structure of portfolio is much different from one sector to another. Largest share have the own resources, followed by bank loans and, thirdly, by the sources of financial assistance grant, the budget allocations and grants from the European Union. The share of capital market sources is insignificant.

Although own resources remain the main source of financing investment projects, the importance of bank loans tends to increase. The use of own resources in investment projects varies from sector of activity to sector of activity, from 100% for SME in hotels and restaurants sector to 51,70% in the case of agricultural enterprises. SME in trade often apply for bank loans (59,10%), followed closely by SME from transport and communications (51,70%), and those from agriculture (46,80%). With regard to financial assistance programs supported by the European Union, enterprises from agriculture emerge as the ones applying most frequently for this source. Thus, 26,60% of the investigated agricultural enterprises intend to use this source of financing their investments, while only 0,60% of SME from the commercial sector expressed this intention. This small share of this source in financing portfolio for investment in companies from the commercial sector stems from the fact that this sector is not eligible for financial assistance grant (http://www.cnipmmr.ro/statistica/2011sem1.pdf).

Concerning the ways of financing economic activities chosen by entrepreneurs / managers of SME in 2009, the investigation reveals the following results: 64,42% of companies were self-financed, 51,05% of companies received bank loans, 29,57% of companies used leasing, 8,74% of SME used grants, and 3,91% of them used factoring as a source of funding. One should note that 3,09% of SME acquired loans from specialized institutions, 2,73% had access to the National Credit Guarantee Fund for SME, and 1,46% of companies issued shares on the capital market. This highlights the average self-financing capacity of businesses, and the relative maintaining of the degree of bank loans and leases compared to previous years, as well as an reduced use of other methods of financing in most SME in Romania.

When taking the age of SME as criterion, one notices the following (Table 3):

- companies not older than 5 years are mostly self-financed (65,82%);
- 5 to 10 years old companies have a higher percentage of SME that used factoring (4,64%), but a lower percentage using grants (7,54%) or loans from specialized financial institutions (2,32%);
- among the 10 to 15 years old firms no economic units were financed by issuing shares on the capital market, and there is the highest proportion of SME that were credited (60,58%), have turned to leasing (33,58%), loans from specialized financial institutions (5,11%), and accessed the National Credit Guarantee Fund for SME (3,65%);
- over 15 years old enterprises have the largest shares of economic units that were financed by issuing shares on the capital market (2,25%) and by grants (12,16%).

One can thus observe a more pronounced diversification of financing methods in the case of companies younger than 10 years, due to superior expertise and higher credibility in front of the banks / financial institutions.

Table 3. Overview of methods of financing SME taking the age of SME as criterion

| No. | Method of financing | Age of SME | | | |
|---|---|---|---|---|---|
| | | 0-5 years | 5-10 years | 10-15 years | over 15 years |
| 1. | Self-financing | 65,82% | 65,51% | 59,85% | 62,61% |
| 2. | Bank loans | 46,43% | 48,99% | 60,58% | 56,76% |
| 3. | Leasing | 26,02% | 32,17% | 33,58% | 29,73% |
| 4. | Issue of shares on the capital market | 1,28% | 1,74% | 0,00% | 2,25% |
| 5. | Grants | 7,65% | 7,54% | 9,19% | 12,16% |
| 6. | Loans from specialized financial institutions | 3,06% | 2,32% | 5,11% | 3,15% |
| 7. | Factoring | 3,06% | 4,64% | 3,65% | 4,50% |
| 8. | Guarantee of the National Credit Guarantee Fund for SME | 2,04% | 2,90% | 3,65% | 3,15% |

*Source:* White Charter of Romanian SME's in 2009.

An analysis of the financing methods according to the regional affiliation of SME reveals the following main aspects:

- businesses in the South-Western region recorded a higher share of firms that issued shares on the capital market (4,48%), used grant funds (14,93%) and factoring (8,96%);
- economic units in the North-Eastern region have the highest percentage of SME that resorted to bank loans (60,96%) and the National Credit Guarantee Fund for SME (4,81%);
- companies from the Western region were mostly self-financed (77,33%) and used to lesser extent bank loans (38,67%);
- companies in North East, South West, Centre region and Bucharest are singled out by the absence of SME that issued shares on the capital market, the firms in the South, West and Central region were not funded by factoring, and SME in the West did not use the National Credit Guarantee Fund for SME.

Turning to size of SME as criterion, one obtains the following results (Table 4):

- the lowest share of firms that were financed by bank loans, leases, grants, factoring, loans from specialized financial institutions or using guarantees from the National Credit Guarantee Fund for SME is among the small businesses;
- the highest percentage of firms which resorted to leasing, issues of shares on the capital market, loans from specialized financial institutions or using guarantees from the National Credit Guarantee Fund for SME is among small businesses;
- medium-sized enterprises turned to a greater extent to loans from banks (66,14%), grants (18,11%) and factoring (10,24%), while the small-sized enterprises are mostly self-financed (65,69%).

Table 4. Overview of methods of financing SME taking the size of SME as criterion

| No. | Method of financing | Firms' dimension | | |
|---|---|---|---|---|
| | | Micro | Small enterprises | Medium enterprises |
| 1. | Self-financing | 65,69% | 62,78% | 62,99% |
| 2. | Bank loans | 40,69% | 63,33% | 66,14% |
| 3. | Leasing | 21,90% | 39,44% | 38,58% |
| 4. | Issue of shares on the capital market | 0,82% | 3,06% | 0,00% |
| 5. | Grants | 4,90% | 11,94% | 11,11% |
| 6. | Loans from specialized financial institutions | 2,45% | 4,17% | 3,15% |
| 7. | Factoring | 1,63% | 5,56% | 10,24% |
| 8. | Guarantee of the National Credit Guarantee Fund for SME | 1,63% | 4,17% | 3,94% |

*Source:* White Charter of Romanian SME's in 2009.

Assessing the methods of financing SME by industry highlights the following features (Table 5):

- companies from services sector have the lowest share of SME that used the funding by bank loans (37,82%) and leasing (26,47%), but present an increased percentage of firms that used grants (12.61%);
- most companies from industrial sector were self-financed (70,61%), but also used factoring as a source of financing (5,70%);
- SME in constructions sector recorded the highest percentage of companies that turned to leasing (39,82%) and to the National Credit Guarantee Fund for SME (7,08%);
- companies from tourism sector registered higher percentages of SME that contracted bank loans (64,00%) and loans from other specialized financial institutions (12,00%), and registered the smallest share of firms were self-financed (52,00%);
- companies operating in constructions, tourism and transport are marked out by the absence of SME that were financed by issuing shares on the capital market;
- tourism and transport companies turned to the National Credit Guarantee Fund for SME.

Table 5. Overview of methods of financing SME taking the industry of SME as criterion

| No. | Method of financing | SME by Industry | | | | | |
|---|---|---|---|---|---|---|---|
| | | Industry | Construction | Trade | Tourism | Transport | Services |
| 1. | Self-financing | 70,61% | 59,29% | 61,24% | 52,00% | 67,21% | 65,97% |
| 2. | Bank loans | 57,46% | 53,10% | 55,26% | 64,00% | 40,98% | 37,82% |
| 3. | Leasing | 32,02% | 39,82% | 28,23% | 28,00% | 29,51% | 26,47% |
| 4. | Issue of shares on the capital market | 0,44% | 0,00% | 2,87% | 0,00% | 0,00% | 1,26% |
| 5. | Grants | 10,96% | 6,19% | 7,18% | 12,00% | 1,64% | 12,61% |
| 6. | Loans from specialized financial institutions | 3,07% | 5,31% | 2,15% | 12,00% | 3,28% | 2,94% |
| 7. | Factoring | 5,70% | 5,31% | 3,59% | 4,00% | 1,64% | 2,94% |
| 8. | Guarantee of the National Credit Guarantee Fund for SME | 3,95% | 7,08% | 1,67% | 0,00% | 0,00% | 2,52% |

*Source:* White Charter of Romanian SME's in 2009.

Financing is perceived by Romanian SME as a crucial constraint for their development. In order to improve this situation, it is necessary to act on multiple levels, the government, banks and institutions having the main role in ensuring the transparent, effective and fair development of a range of tools meant to support SME.

## 5. Concluding Discussion

Considering the results presented above, one can identify and outline areas where the following priority actions are recommended:

1. Gradual establishment of a system of guarantee funds for financing entrepreneurs at national and regional level.
2. Significant reduction of the amount of guarantees and fees required by banks in lending in accord with the EU practices.
3. Simplifying procedures for obtaining credit.
4. Interest subsidy on loans to SME, at least in certain sectors with competitive advantages and for certain groups (youth, disabled persons, etc.).
5. Developing a national training program for entrepreneurs in order to access structural funds based on the principle of public - private partnership.
6. Providing adequate grace period on loans for investment. It is also necessary to give credits for investment for a longer period of time, at least 5-7 years. These two measures would facilitate a comprehensive and rapid development of SME.
7. Transforming a state bank in a development bank (investments) for SME.

Other measures that may be adopted in order to improve SME' access to finance are:

1. A more intense publicity concerning the guarantee funds in Romania on the one hand, and simplifying guarantee mechanisms on the other hand.
2. Promoting the use of non-traditional financial instruments such as venture capital funds.
3. Creating a database with information on funding opportunities for SME (financial aid grant, guarantee funds, venture capital funds).
4. Practicing more attractive interest on loans from the unemployment insurance budget, the National Agency for Employment, and for certain interest groups that could initiate and develop business that fall within the SME sector, such as students or the unemployed.

*There is a paradox in the financing SME by grants: they are relatively small and yet Romania does not succeed in successfully absorbing funds, which represents an intriguing problem, especially since the European Union provides Romania with millions of euros, mostly non reimbursable money*. These funds were not absorbed because there was not a public-private partnership based on fair principles in line with the practices of the EU acquis (Nicolescu, 2008). Bureaucracy and lack of information are considered by SME as main obstacles in the way of accessing grants. 50% of projects are completed exceeding the budget, 25% fail completely, and only 25% of projects are successfully completed (http://www.cnipmmr.ro/statistica/2011sem1.pdf).

The programs funded by the Romanian government were not the most important in terms of allocated sums, but were a partial solution to social issues arising from economic reforms, established a general framework for development of SME private sector and paved the way for future funding programs from alternative internal or external sources, because they helped identifying the main needs of private SME, the main problems in carrying out such programs and helped training funds beneficiaries to participate in other grant programs.

After the involvement of banks in these financing programs offered by foreign institutions or by the Romanian government, the commercial banks have become more interested in financing SME. They perceived these programs as useful in working with SME, have acknowledged how to develop their range of products and services and have learned to attract new customers or to support those existing during the development effort. Their financing programs for SME started to adapt to the needs of this segment of customers, but still need improvements.

SME financing has come a long way in recent years in Romania. However, as in many other countries in the region, there is still a long way to go until one reaches the appropriate support for the development potential of SME. Not only is the number of SME in Romania lowest, producing little more than 50% of GDP, while in the EU they produce over 70% (www.animmc.ro), but also their long-term viability is fragile. Incentives such as tax reduction, technical assistance, special purpose grants, etc., are necessary, but it would be beneficial to be also implemented and monitored carefully, in order to support SME sector development in a sustainable way. The different financing schemes for SME can be considered useful only if they reach the target market and are properly implemented, since each of these schemes has both advantages and weaknesses.

The Small Business Act is an important step towards a Europe of entrepreneurs and provide active support for the development of SME in Europe by facilitating access of SME to European programs, increasing their participation in public contracts, reducing bureaucracy, eliminating barriers to cross-borders work and facilitating SME access to finance, particularly risk capital, micro-loan and mezzanine finance.

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**Notes**

Note 1. There was a two years delay in making public the statistical data concerning the Romanian SME during this period, the statistical data was made public in 2011. A further aspect playing an important role when choosing this research period (2007-2009) is related to the impact of the economic crisis on the Romanian economy generally and on SME sector in particular. Starting with 2010, the general impact of economic crisis on SMEs in Romania became drastic, and they were no longer able to meet the criteria and requirements for access to funds. Thus the policy of access to funds slowed down, and an inquiry on the present topic during 2010 would not be so rewarding. Compared to other European countries, apart from the large number of SME that declared bankruptcy in Romania, many others, according to a survey conducted in May 2009 by the National Credit Guarantee Fund for Small and Medium Enterprises, had faced a decrease in sales figures (21-50%).