

THE EFFECTS OF THE CRISIS ON THE SMALL AND MEDIUM ENTERPRISES (SMES) AND THEIR NEED FOR DEVELOPMENT IN ROMANIA

Lucia-Ramona, Popa¹

Abstract: *The small and medium enterprises (SMEs) have a substantial contribution to the gross domestic product (GDP), to the creation of new jobs, to the creation of the gross added value in the economy, by boosting competition on the market. In Romania, even from the beginning of the crisis, hundreds of thousands of companies have suspended their operations or were removed. Therefore, I consider it important to analyse the factors that have generated this development of the SMEs as well as the measures that have to be taken for this sector to flourish in our country.*

Keywords: *supporting small and medium enterprises (SMEs), efficiency, competitiveness*

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1. Introduction

The SMEs have always played an important role in the social and economic life of any country, being at the basis of the economic development. The dynamism, flexibility, adaptability and the innovative potential are some of the features that the SMEs encompass and which are considered to be essential for the harmonious development of the economy of any state. In Romania, the SMEs generate dynamism and profitability, increase competitiveness and also increase the employment rate of the active workforce. In the case of the deep financial and economic crisis that we are facing nowadays, the most affected segment is that of the SMEs. It was the first which was affected and it is from its part that the signal of the economic recovery is expected, being considered, in any country with a developed economy, a strategic sector of the national economy in question.

2. The Importance of the Development of the SMEs in the Romanian economy

In Romania, as in any market economy, the SMEs have beneficial effects for the economic system due to the roles they perform:

➤ Their small size helps to reduce the bureaucratic practices and avoid depersonalization of human relations, due to the shortening of both the documents and information flow in the enterprise. Therefore, the SMEs account for a higher quality of employment, in terms of performance and job satisfaction. The relations in these enterprises are less formalised and there is a closer link between the individual effort and the enterprise's objectives;

➤ The emphasis on the processes of innovation, both in terms of technology and management, is another important feature of the SMEs;

➤ Another important role is that they increase the competitive nature of particular markets, they for themselves being sources of competition and, thereby, determining a better meeting of consumers' needs;

➤ They ensure combinations of some inputs that otherwise probably would not be used: local resources, secondary products of large companies and others. With the large enterprises, the SMEs have cooperation relations which are presented either as partnership agreements (financial, technological etc.), or as sub-supplies (capacity, specialised etc.);

➤ The SMEs contribute to the supply of goods and services and, thus, to the creation of the GDP, to the increase of exports and domestic investments;

¹ Ph.D. Assistant Professor, "Constantin Brâncoveanu" University

- The SMEs are important sources of job recruiting, thus they contribute to the social stability of the respective zone;
- The SME sector is the main source of creation of the middle class which has a decisive role in ensuring the socio-political stability of the country. This is possible because the distribution of the economic power through the SME system leads to a favorable distribution of power in society;
- The SMEs are managed directly by the owners; that is why the decision making system is a very simple one and depends on their managerial skills and capabilities. The SMEs present great flexibility and strength in times of recession due to the ability to adapt to the market changes;
- The SMEs account for the potential future development of large enterprises due to the growth and development processes which they take part in;
- The SMEs are relatively easy to integrate into a regional economic network; they contribute to the development of the respective region and to the decrease of unemployment.

Micro, small and medium enterprises (SMMs) play a vital role in the European economy. They are a source of entrepreneurial skills, innovation and job creation. The SMEs constitute 99.8% of the EU enterprises (about 24 million of SMEs) and provide about 70% of the EU GDP. However, they generate two-thirds of the total employment number 66.9% in the 27 countries of the European Union (about 76 million jobs), many of which are in rural areas and generate 58.4% of the added value, with different weights in separate industrial sectors.

In Romania, the 600,000 SMEs have a contribution of 70% of the GDP. They also provide the occupation of 65.9% of the total employment in the private sector and generate 50.34% of the gross added value.

However, they are often confronted to the market imperfections. The SMEs often have difficulties in obtaining capital or credit, especially in the start-up phase. Their limited resources may also reduce access to new technologies or innovation. Various programmes of action have been taken to support the SMEs, the most recent of these, the Small Business Act (SBA), sums up all the programmes and aims to create a comprehensive policy framework.

3. The Effects of the Economic Crisis on the SME Sector in Romania

The impact of the global economic crisis was strongly felt in the Romanian economy as a whole, which was affected by a substantial slowdown in growth, and with immediate negative effects on people and businesses aiming mainly jobs and the sales' volume. Among the factors that caused the decline of the SMEs we may include: major difficulties in ensuring the necessary funding, liquidities and credit deadlock, the sharp drop in demand for products and services at national and international levels reflected in the decrease of exports sales on the domestic market, extremely high taxation, large increases in the prices of raw materials, energy and food, large variations in the exchange rate and inflation, financial blockage caused by late payments, cumbersome and costly court proceedings to resolve commercial disputes, unstable legislative framework, bureaucracy and numerous administrative barriers to the development of SME's activities; a very low level of absorption of the EU funds, insufficient measures to support the SMEs during the crisis, insufficient state aids and difficult access to them, excessive controls of the local and central public administration on SMEs, the steady increase of expenditures regarding the utility value and the lack of measures to facilitate the SME access to utility networks.

All these problems have affected all categories of companies that have been sudden confronted with late payments on the part of the customers (who in turn had cash flow

problems), the increasing of costs for the repayment of debts incurred in foreign currency due to the national currency depreciation, the lowering of the turnover due to the decrease of the demand for their products and services, the availability of funding streams difficulties, the lack of working capital for development, etc.

According to a study conducted by the National Council of Private, Small and Medium Enterprises in Romania (CNIPMMR), an employer's confederation which is representative for SMEs at national level, on a sample of 1723 SMEs between 2008-2011 almost half of the SMEs investigated (49.71%) reduced their workload, 42.99% of the enterprises operate at the same parameters and 7.30% of the organisations had an upward evolution (the entrepreneurs of the bankrupt companies could not be reached because the companies have either been closed or they have not been willing to provide information). The examination of the economic agents in terms of the field of activity they activate has mainly revealed the following elements: the enterprises in the construction field have recorded the lowest proportion of the organisations operating at the same parameters (31.94%) and of the SMEs on the rise (8.33%) as well as a higher percentage of companies that have reduced their activity (59.72%) due to the drastic decline of this sector, given the decrease in the purchasing power of the population and the lending restriction; the SMEs in the transportation field have recorded a higher share of firms that maintained their workload (51.18%); the industrial units have the highest percentage of SMEs that have increased their activity (19.34%), and the tourism entities are emphasized by the lower share of economic agents who have reduced their activity (35.29%).

Table no. 1 The Dynamics of the Activity of the Investigated SMEs during October 2008 - March 2011, in terms of the activity branches

Crt. No.	Industry	Construction	Commerce	Transportation	Tourism	Services
1. SMEs which have reduced their activity	41.04%	59.72%	47.13%	39.37%	35.29%	41.34%
2. SMEs which operate at the same parameters	39.62%	31.94%	42.89%	51.18%	48.04%	40.94%
3. SMEs which have increased their activity	19.34%	8.33%	9.98%	9.45%	16.67%	17.72%

Source: The Charter of the SMEs, 2011, CNIPMMR

Table no. 2 The Evolution of the SMEs recordings during 2007 – 2012

Period	2007	2008	2009	2010	2011	2012
Registrations	144,728	144,177	116,024	123,148	133,190	125,603
Cancellations	20,401	50,024	62,481	183,227	71,970	71,745
Suspensions	12,012	12,019	133,362	61,941	24,078	21,086

Source: The National Trade Register Office – Statistical Synthesis

The data presented in Table 2 show that in 2009 more than 133,000 SMEs have suspended their activity as compared to only 12,000 in 2007 and 2008, which represents an explosive growth of over 11 times as compared to previous years. This development has changed the ratio between the number of suspensions and cancellations, from a single sub-unit in the years 2007 and 2008 to one above-unit in 2009. International studies such as “Doing Business Report” (which examine “the ease of doing business” in all the countries of

the world) conducted by the World Bank highlight, in the case of Romania, administrative costs and procedures to get out of business, more burdensome than those which were of input. For this reason, the definitive cancellation procedure from the Trade Register was avoided, the owners preferring the procedure of the activity's suspension, perceived as being less bureaucratic and cheaper. The main category of SMEs that has come to suspension was represented by the companies with no activity, named by the statistics as "dormant enterprises" or inactive in 2009, that have not filed balance sheet (over 80% of the cancelled companies and about 1/3 of those suspended) as well as those with incomes below £ 10,000 (44% of the companies that have suspended their operations).

Since 2010 we have been witnessing a massive increase in the number of the cancelled companies. The expulsions of the SMEs from the economic system had as direct cause the policy of increasing the collection of revenues to the state budget by introducing the minimum tax as well as the differentiation in the VAT treatment, measures that have generated a protective response of firms on the part of the economic agents in the SMEs category which have already been in economic difficulty. The fact that in 2009 the establishment of new SMEs has not fallen dramatically (-20%) and in 2010 and 2011 has recorded increases (6% and 8%) demonstrates, on the one hand, the entrepreneurial potential of Romania and the need to support the development of the SME sector as a way out of the crisis and a modality to revive the economic growth, on the other. This is the manifestation of the so-called "process of creative destruction," as described by Joseph Schumpeter through the emergence of new enterprises that are able to cover new market niches, while the less competitive companies disappear from the economic environment.

In terms of net profitability, from the total of 590,033 active companies in 2011, a percentage of 42% of these has registered net losses (250,791 companies), 39% showed positive net profit (228,326 companies), while 19% of them (110,532 companies) have filed financial statements with 0 profit and 0 turnover .

The latter are companies which were not active in 2011 or declared their activity as "frozen" at the Tax Administrations in which they are distributed, or they act as inactive companies, but which have not yet been closed within the framework of a still difficult and bureaucratic procedure of closing a company in Romania. In 2011, the cumulative net profit result at national level registered by active companies in Romania was of 5,315 billion lei, that is to say, about 1,178 billion euros. This indicates an average net profitability of only 0.52% in 2011, and an average net profit of only £ 9,008, that is to say, about 2,000 euros per company for the entire year 2011, approximately equal to the annual minimum wage in the economy. This outcome, although modest, is superior to the performances in 2010, when overall companies recorded a loss of 5, 68 billion lei, that is to say, a net average loss of 9,309 lei/company. The weak net profitability in 2011 shows that, on the average, the Romanian companies still suffer and struggle on the border between profit and loss, and are still little competitive and efficient in terms of operational and financial performance.

4. The Problems Perceived by the Romanian Entrepreneurs

The entrepreneurs' perceptions with regard to the impact of the crisis have been investigated by means of several opinion surveys conducted by private bodies or within regional projects.

The conclusions resulting from the Danis Consulting survey with regional coverage (2009) on the activity of SMEs are the following:

- 57.3% had major difficulties with the negative effects of the economic climate;
- 50.0% had difficulties with the insurance of financial resources;
- 44.3% had difficulties with the reducing of costs;

- 26.0% were facing pressure to increase sales;
- 16.7% were dissatisfied with the instability of legislation.

According to the Institute for International Economic Studies survey in Vienna (WIIW), 2010 the obstacles perceived by entrepreneurs concern:

- 88.8% excessive bureaucracy;
- 86.7% tax burden

The requirements of the entrepreneurs:

- 73.3% access to finance
- 71.6% stable political framework;
- 71.5% the increase of public support for investments

According to the CNIPMMR survey in 2012, in a top of the major difficulties that the SMEs had to surpass, we may find:

1. The decrease in domestic demand 60.55%
2. Bureaucracy 52.86%
3. Excessive taxation 51.69%
4. Inflation 49.59%
5. Corruption 41.14%
6. Hiring, training and retaining of the staff 24.94%
7. Competition of the imported products 22.90%
8. Difficult access to loans 20.22%
9. High costs of borrowings 19.17%
10. Relative instability of the national currency 19.00%.

The high taxation, burdensome bureaucracy, difficulties in obtaining financing and the excessive controls are major structural obstacles that have been faced by the Romanian SMEs both before and after the onset of the current economic crisis. They testify to the still weak reforming public administration apparatus, but also to the fiscal policy inconsistencies.

These surveys highlight the need for real action on the part of the decision makers in our country for the entrepreneurs to be able to maintain their activity and to develop themselves.

5. Measures that are designed to support the SMEs development

The main measures that the management of a SME should take to cope with the crisis and to be able to get the business on the rise are related to reducing costs as much as possible by eliminating expenses that are not absolutely necessary to current activities (especially with third party services expenses), boosting labour productivity translated into a more efficient use of available labor, selecting markets and customers purely on economic and cost criteria, and, in parallel, strengthening the portfolio of profitable and financially stable customers.

In supporting both the small and medium enterprises and the business environment, the Government has increased the state aid scheme for SMEs by 5 times and decided to defer the payment of the debts of the companies that are affected by the economic crisis during a period of six months with two conditions: the first condition is the current monthly debt payment by the state, the second condition is that they must prove, by a system of guarantees, that they can and have the means to pay their outstanding debts in the future.

At the same time, procedures for accessing the European funds have been simplified and the share of pre-financing European projects has been increased, from 15% to 20% and from 20% to 30%. The Senate unanimously adopted in September 2012 that Order by which the tax code is changed for the purposes of VAT payment for bills on collection, in the case of tax payers who recorded a turnover of less than 2,250,000 lei. The measure of VAT payment on collection applies from the 1st of January 2013.

The representatives of small and medium enterprises in Romania consider several directions that can help to develop this segment to be of priority:

- ✓ ensure a stable and predictable legal framework for the business environment by improving the aspects of reducing bureaucracy and taxation;

- ✓ adopt a new law for SMEs in order to ensure the full national implementation of the Small Business Act (SBA), implementation of the “First govern for SMEs” principle and the gradual increase from 0.4% to 1% of GDP of the funds allotted from the state budget to finance the development programmes, of the measures to support start-ups and sustaining the development of small and medium enterprises at national and local level for the period of 2013-2020;

- ✓ increase the amounts of money allotted to the programmes destined for the setting up and development of the SMEs, with priority allocation of 300 million euros for the financial support of the start-up programme between 2013-2014, which will ensure the creation of 300,000 new jobs and the increase of the GDP with 4.26% within the interval of 2013-2016;

- ✓ recover the investment process through: the diversification of services provided by the National Credit Guarantee Fund for SMEs and the Romanian Counter-Guarantee Fund (currently FNGCIMM warrants for 1.4 million Euro and can vouch for another 2.5 million Euro, through the modernisation of the services) in the view of the recovering of the SMEs financing;

- ✓ incentives for SMEs: gradual taxation of the start-up SMEs - tax exemption during the first year, 50% reduction of the income tax during the second year, with the obligation to ensure the functioning of the company for a period of minimum three years after the completion of facilities, improving the legal framework concerning the state aid schemes by modifying the criteria for granting in order to make them fully accessible to the SMEs;

- ✓ the development of the SMEs in Romania by supporting the distribution and marketing of their products through: the development of measures adopted by the Law no. 321/2009 on the marketing of food and protection against anti-competitive agreements and procedures and the acceleration of the traders’ payments to all the SMEs suppliers – within the light industry, furniture, chemicals, and so on, which will stimulate the growth of the domestic industrial production and reduce the imports; the development of a distribution network with the view of collecting traditional and local products made by SMEs, including small farmers and craftsmen, with the financial involvement of the EU funds; instituting coerciveness for the large chains of ensuring a minimum retail space (30%) for the presentation and marketing of the traditional and local products displayed by the SMEs; the development of the networks and information and advice centers for SMEs, of business support services, supporting the networks of cooperation between the SMEs, research centers and universities; ensuring complex services, adapted to small entrepreneurs’ domains in the view of accelerating the recovery gap between Romania and the EU (in Romania, there are 24 SMEs per 1,000 inhabitants, in the EU, there are 42 SMEs per 1,000 inhabitants);

- ✓ improving the SMEs’ access to financing through: the simplification of procedures in the view of increasing the absorption of the structural funds; the improvement of regulations regarding the exempting tax on reinvested profit; the increase of the SMEs’ access to public procurements; the establishment, according to the European practice, of the mediator of loans for the SMEs, in each county, after the French model, to ensure that the 3 goals are achieved: the increase of the SMEs’ lending, providing solutions for businesses, especially to the SMEs’ sector in order to obtain financing from banks and the government notification in the case of major unresolved problems; supporting the development of “CEC” as a bank to finance the SMEs and of the micro-financing programmes for micro-enterprises;

✓ the completion of a full inventory of the tax revenues and permits, authorizations and licenses in force, including the applicable procedures of obtaining them, which is accessible on-line and that is designed to support the reduction by at least 10% of them and the simplification of the administrative procedures regarding the setting up and operation of the enterprises and the reduction of fiscality and para-fiscality;

✓ the improvement of regulations regarding the enforcement for budgetary debts, with the release of SMEs' bank accounts and creating a re-scheduling amounts system by retaining more than 30% of the monthly income without affecting the payment of salaries and current activities.

6. Conclusions

The importance of the SMEs arises from their following features: they provide jobs, foster innovation and flexibility, they are practical constituted in places where the staff is improving and where they can then head to the large enterprises, they enhance competition, help the smooth functioning of the large businesses for which they provide various services or produce different sub-assemblies, they manufacture products and provide services in terms of efficiency.

The economic recovery in Romania is subject to SMEs' access to financing. Reducing banks' interest for small customers, of the higher costs of the credit as well as of the more stringent requirements and the creditworthiness of the applicants, the legislative instability, the sharp decline in demand for goods and services and the high taxes have led the SMEs to reduce investment, postpone or waive certain investment projects, renegotiate the contracts with suppliers, to restructure / reduce their activities and thus reduce the staff and wages. The SMEs create jobs in a more efficient way than the state investments by spending much less than the budget and on a much larger scale from the social point of view, because they involve family members and other people in the respective area.

Therefore, the authorities should take the necessary measures in order to support this sector: to increase the amounts allotted to the establishment and development programmes of the SMEs, simplify the procedures regarding their access to the funding sources and to create a debt re-scheduling system.

The development of small and medium enterprises represents Romania's chance to restart the engines of the economic growth.

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