

OVERVIEW ON ROMANIA'S SMALL BUSINESS ACT PROFILE IN 2015

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ABSTRACT: *The paper dwells upon the current position of SMEs in Romania's economy, starting with the implementation the new Small Business Act (SBA), concept made operational at the level of the European Committee. The main purpose which drove the decision to develop this tool, resides in making it easier to understand the newest trends in each member of the European Union, and based on these, to develop appropriate measures of public policies for SMEs. In 2015, Romania's SBA overall performance continues to be lower than the EU average. Still, the Romanians are proficient in entrepreneurship, where they have gained the lead amidst the EU countries. On the other hand, the weakest results displayed by the Romanian SMEs refer to the domain of skills and innovation. The paper also highlights several areas in which Romania achieves levels of performances comparative to their EU competitors: responsive administration, state & aid public procurement, access to finance and the attitude of the population with regard to granting of a "second chance" for entrepreneurs who have already registered a bankruptcy. Low - level ranks are obtained in the matter concern towards environment, the connection to the single market and the degree of internationalization.*

KEY WORDS: *Small Business Act (SBA), entrepreneurship, skills & innovation, the "second chance", "think small-scale first", responsive administration, state aids & public procurement, access to finance, "single market".*

JEL CLASSIFICATION: *L11, L16, M21.*

1. INTRODUCTION

Identifying the vital role of SMEs in the operation of the European economy is nowadays a reality, such as the need for development and implementation of policies that support SMEs from Member States of the European Union is recognized by the quasi-totality of decisional factors in the area. A remarkable initiative in this direction was achieved at the European Commission, in June 2008, by forwarding to the

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European Parliament, the Economic Committee and the Social European Committee and the Regional Committee the document *Small Business Act* (SBA) for Europe.

The Small Business Act or the *Law regarding Small Enterprises for Europe* represents a set of 10 principles drawn up by the European Commission and addressed to small businesses and public authorities in the region, in order to create a uniform legal and administrative framework that ensures fair operation of SMEs throughout the EU, as well as enhances their potential to create new jobs and support economic growth processes.

Our paper looks at the status of the implementation of the 10 principles in Romania in 2015 and identifies the main trends that guide the public measures embraced by the Romanian authorities in order to catch up with the rest of EU countries.

2. SMALL BUSINESS ACT PRINCIPLES

The 10 principles that should guide the design and the implementation of public policies for SMEs in the European Union are:

1. **Entrepreneurship**, for the evaluation of which a number of specific indicators are taken into account: entrepreneurship rate, the share of entrepreneurs motivated by opportunity, the perception of the society regarding entrepreneurship, public policy measures adopted to stimulate the business environment;

2. **The "Second chance"**, which is aimed at providing favourable conditions for honest entrepreneurs who are bankrupt and want to set up a new business. The indicators that assess the state of implementation of this principle are: the period required for closing the activity of an enterprise, the costs of this operation, peoples' attitudes toward granting second chances to entrepreneurs who have failed in business;

3. **"Think small-scale first"** that is quantifiable through the perception of entrepreneurs on obstacles induced in their work through existing administrative requirements regarding authorizations and reports and through the importance given to the measures which are meant to encourage SMEs' development, drawn by the policy-makers;

4. **Responsive administration**, evaluated by a set of indicators such as: the number of taxes to be paid, the costs for the implementation of contracts, the economic dispute settlements, conditions to financially support companies, the formalities required for the official registration of property, transfer procedures etc.;

5. **State aids and public procurement**, considering the measures to facilitate participation of SMEs in procurement and the degree of turning to account the opportunities offered to SMEs in order to qualify for state aids;

6. **Access to financial support**, which cover issues such as: the willingness of banks to grant loans for SMEs, the costs of these loans, the policies adopted by national authorities to improve access to various sources of financing in order to support small businesses;

7. **The single market**, a principle that takes into account the support offered to SMEs in order to benefit from opportunities provided by the single market as well as the import export activity carried out at European level;

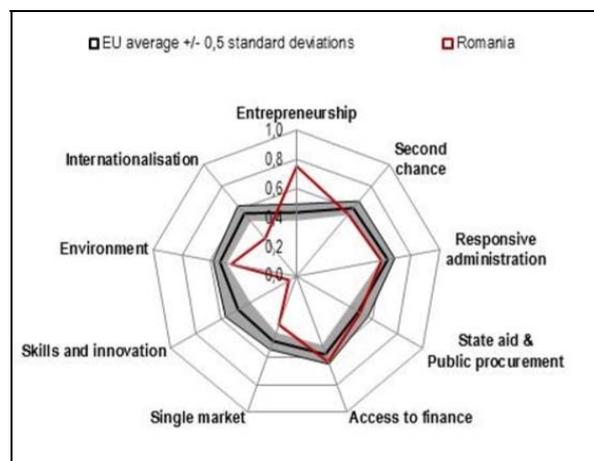
8. **Skills and innovation**, a principle that aims indicators such as: the share of SMEs inclined to innovate, to cooperate or to call for domestic resources in their innovations, the ability of SMEs to sell products online or to make virtual purchases, as well as the share of SMEs that provide employees with an opportunity to attend training and educational activities/courses;

9. **Turning environmental challenges into opportunities**, which has a single indicator available for measuring the performance of SMEs related to environmental problems, i.e. the share of companies the innovations of which contribute to environmental protection for the enterprise and/or for the end-user;

10. **Internationalization** takes into account the participation of SMEs in trade activities with countries outside the European Union. The results obtained with regard to this principle are assessed by the volume of imports, exports, costs and time consumption necessary for carrying out such operations, the number of documents required for import/export etc.

3. SBA PROFILE FOR ROMANIA IN 2015

In figure 3, there are presented the scores achieved by Romania in 2015 as regards the degree of assimilation of SBA principles. A comparative analysis between Romania and EU of the indicators mentioned, leads to defining a profile "*below average*" for our country.



Source: European Commission, Romania - SBA Fact Sheet, 2015

Figure 1. The diagram of SBA principles. A comparative analysis Romania - the European Union

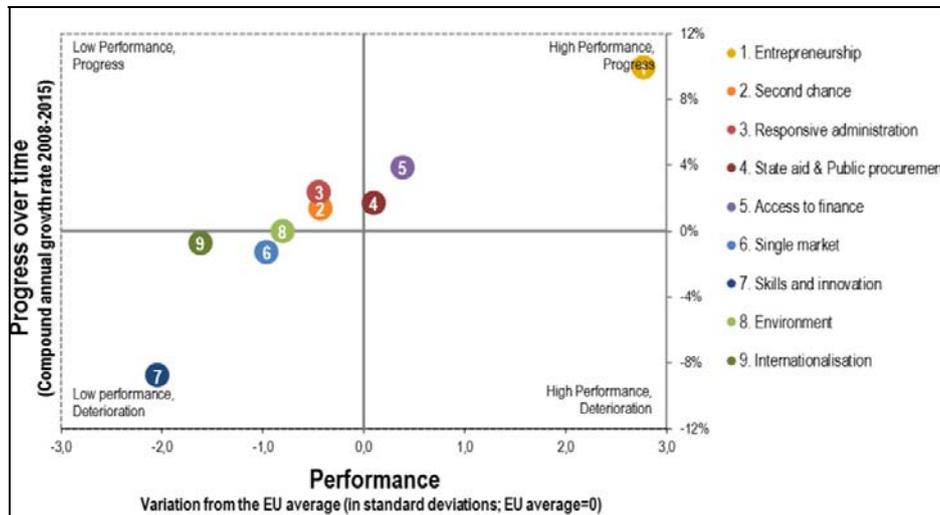
Thus, Figure 1 shows that the performance of Romania is lower than the average registered at EU level for four of the ten principles subject to analysis: *Skills & Innovation*, *Internationalization*, *Single Market*, and *Environment*. However, it is encouraging to see that there are another 5 principles stipulated by the Small Business Act for which Romania has acquired during this period, results that are higher or in

line with the average recorded at the European level. These principles are as follows: *Entrepreneurship, The Second Chance, State aid & Public procurement, Access to finance* and *Responsive Administration*.

The diagram in Figure 2 shows SBA areas that are potentially generating problems because the values recorded in their case are lower than the EU average, and they present a descending trend along the years. These principles are the above-mentioned: *Skills and innovation, Internationalization, Single Market* and *Environment*.

As regards the degree of implementation of the principle of *Think small-scale first*, the experts highlighted several advantages at the level of 2014, and also a number of deficiencies which require special consideration from the decision-makers in the years to come. In terms of achievements, it is worth mentioning the following:

- a) the development and implementation as of 2014 of the law *No. 346 for SMEs*, a regulatory action founded on a package of measures aimed at creating an appropriate framework for setting up and developing SMEs, at stimulating entrepreneurial initiatives and at increasing competitiveness within this sector;
- b) designing and publishing, on 16 June 2014, *the Methodology of elaboration and implementation of the SME Test*, which introduces the mandatory ex-ante evaluation, by means of a survey undertaken by the initiator of any regulatory act regarding the activity of SMEs, the economic, social and environmental impact of the legislative proposal on enterprises within this category;



Source: European Commission, Romania - SBA Fact Sheet, 2015

Figure 2. Romania's SBA performance: Status quo and trend between 2008-2015

- c) the setting up of the Advisory Group, which will operate under the auspices of the Department for Small and Medium-sized Enterprises, of the Businesses and Tourism Environment, having as its main objective the evaluation of the economic impact of legislative initiatives upon SMEs.

Despite the existence of an adequate legal framework, experts from the European Commission consider that there are still a number of issues that need to be improved for the principle *Think small-scale first* to become fully operational within the SMEs sector in Romania. Thus, a better coordination and communication of policies for SMEs is necessary, alongside with increasing the involvement and empowerment of all bodies, stakeholders and entrepreneurs interested in implementing them (European Commission, Romania - SBA *Factsheet*, 2015).

The analysis of SBA indicators for Romania in 2015 highlights several **unfavourable developments** at the level of some of the 10 principles:

- **The innovation activity is insufficiently well developed in the SMEs sector in Romania.** Almost all indicators related to innovation, analysed by SBA, denote a considerable gap compared to the situation at European level. It refers to the following aspects: the willingness to introduce innovations or cooperate with other SMEs in this area, the orientation towards innovative products and processes, marketing and organizational innovations aperture, insufficient preparation for the use of information technology, limited access of employees to training activities or lifelong learning courses etc. A priority for the years to come is the need to increase the investments in the field of education and training, with special emphasis on the development of vocational training and on the harmonization of the education system with the needs of the labour market;

- **The degree of internationalization of SMEs from Romania is lower than the European average,** and the main cause seems to be the high costs of exporting and importing borne by the Romanian SMEs. There were analysed such indicators as costs, the time and number of documents necessary for carrying out import and export activities, as well as the volume of these trade flows. Despite a decreasing trend of internationalization which was maintained during the period 2008-2015, experts from the European Commission have highlighted a series of encouraging signals that reflected an improvement in the trade balance of SMEs in the years that followed the crisis. Thus, besides the fact that the volume of exports has recently reached its maximum value corresponding to the entire period that this indicator was monitored, the structure of these exports has suffered important changes such as rate significant increases in the food and agricultural sector, but also in that of vehicles, machinery and electrical equipment, reducing the traditional exports of textile products and footwear (European Commission, Romania - SBA *Fact Sheet*, 2015);

- **Connecting to the Single Market represents another area specific to the Small Business Act where Romania has registered poorer results compared with the average calculated at EU level.** The main cause of this state of affairs does not consist in the performance of the SMEs (which are, for the most part, quite close to those of the EU), but in the insufficient number of directives concerning the Single Market which have been implemented, and in the number of directives which have been delay. In fact, the only document in this category that is worth mentioning in this chapter is represented by the *National Export Strategy for the period 2014-2020* Within the framework of this *Strategy*, one should consider the importance of SMEs in Romanian exports, on the one hand due to the large number of exporting firms, while on the other hand due to the fact that larger integrating companies which carry out

foreign trade activities will often turn to local sub-suppliers (SMEs) in doing their exports. For these reasons, the authors of the document mentioned above consider that "... the development of a sustainable Romanian export depends on the results and performance of SMEs and on the ability of the company, in public-public or private-public partnership to support them efficiently." (National Export Strategy, 2014-2020);

- As far as **the interest in protecting the environment** is concerned, the *2015 SBA Fact Sheet for Romania* emphasizes the highly energy-intensive character of the Romanian economy, as compared to other EU states. This situation is caused mainly by the low-level of the efficiency of heating systems and industrial structures. On the other hand, one can identify several significant cases of responsible business, which emerged in Romania, after the EU integration, in the area of rural and eco-tourism, as well as in the field of producers in waste management and renewable energy fields (CSR for ALL, 2013; Anca et al., 2011). Nevertheless, only a percentage of 22% of the total number of Romanian SMEs is specialized in producing green goods and services.

Based on the evaluation of the ten Small Business Act principles, one can distinguish the following **favourable developments** registered by the SME sector in Romania during 2008-2015:

- **The rate of entrepreneurship in Romania is significantly higher than the EU average.** This trend was fuelled mainly by the occurrence of the economic crisis and the lack of other opportunities for professional achievement. Besides, the Romanian economic environment witnessed in recent years a **positive public perception regarding entrepreneurship**, amplified through school education. Other factors that contributed to the rise of the rate of entrepreneurship in Romania referred to the following: *early stage entrepreneurial activity; the high percentage of adults who plan to initiate a business within the next 3 years; entrepreneurship as a valuable career of choice; media attention given to entrepreneurship;*

- **The attitude of the population with regard to granting of a second chance for entrepreneurs who have already registered a bankruptcy reflects a level of performance in line with the main trend recorded at European level.** The overall performance assessed in this area is affected by the length of insolvency schemes which are still operating in Romania. These procedures are considered to be too expensive from the creditors' point of view and exert indirect counteractive influences on the evolution of investments;

- **"Responsive administration"** measures the degree of openness demonstrated by the public administration in terms of meeting SMEs' demands. The main indicators underlying this principle evolved in a positive manner to some degree, a single special case being represented by the cost involved in the process of starting a new business. Although Romania made significant progress in the area of renovating the tax collection procedures and schemes, there are many voices that underline the need to enhance the level of employment of e-government and other modern tools designed to ease the interaction between SMEs and public authorities;

- The score close to the EU average as regards **state aids and public procurement** is due to continuous developments in the area, which were performed over the last few years. However, there are many directions which require government's support, such as: improving the institutional framework for public

procurement; adopting further measures in order to reduce corruption phenomenon in the area; increasing the absorption EU rate in order to access funding projects for public procurement etc. (European Commission, *Romania - SBA Fact Sheet, 2015*);

• **Access to finance** represents another SBA principle, for which Romania registers scores in line with the EU trend. In spite of continuous progresses and measures implemented by the Romanian government in order to improve SMEs' access to financial resources since 2008, one can still identify several drawbacks that should be removed: interest rate for loans stays rather high; credit conditions remain rigid owing to excessive level of non-performing loans; the financing sources lacks in diversity; the absorption rate of EU structural funds remains low etc.

4. CONCLUSION

Small Business Act represents a common tool of policies implemented by the EU in the SMEs field, with a view to stimulate the development of the sector, to release administrative pressures and to increase competitiveness through innovation and internationalization.

Elaborated in 2008, the SBA has already become an extremely useful management tool at macroeconomic level and even European level, on the one hand, because it represents a real "dashboard" which allows the monitoring of relevant indicators for the SME sector within Member States, and on the other hand, because it is a frame of reference that makes it possible to harmonize the process of designing and implementing measures of public policy for the development of SMEs in the European Union.

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