
Analysis of the Impact of the Cohesion Policy on the Competitiveness of SMEs in Romania Benefiting from Production/Services Financing

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Abstract

This paper aims to analyze the impact of all structural instruments related to EU Cohesion Policy in regards to the SMEs there are in Romania, respectively on active SMEs in the fields of production and services. The analysis of the evaluations carried out at the level of the programs through which the Cohesion Policy is implemented covered the period of time between 2007-2020 and was carried out in the form of a meta-evaluation of the impact on the private beneficiaries of SMEs in the fields of production and services. The purpose is to establish the extent to which the competitiveness of SMEs is influenced by the access to finance through the Cohesion Policy instruments.

Keywords: evaluation; operational programme; cohesion policy; impact; SMEs.

1. Introduction

The SMEs are the main source of economic development at both European and Member State levels. In accordance with the data published by the National Institute of Statistics, in the year of 2019, a number of 589,604 SMEs were registered in Romania. Although there is an upward tendency in the establishment of SMEs, in Romania the percentage is below the European average this being mainly due to political and economic factors at the national level.

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Thus, Romania registers a value of 29 SMEs / 1000 inhabitants compared to 58 SMEs / 1000 average inhabitants in the European Union. The main problem identified by SMEs in carrying out the activity is the lack of funds, respectively the lack of access to financing. Without resources, most SMEs fail to grow, and many close in the first 5 years of activity. In this context, after Romania's accession of to the EU, structural and cohesion instruments were one of the most important sources of financing for SMEs. Although Romania is at the end of the second financial year in the implementation of structural and cohesion instruments, there is no detailed impact analysis on the SMEs area in order to monitor the effects on their competitiveness. This type of analysis is necessary in the context in which the orientation at the level of cohesion policy is achieved towards results, and these results are translated into long-term development in the regional level.

2. Literature Review

According to the Tavistock Institute, the methodological approaches of the evaluation of socio-economic development programs are based on three philosophical currents of thought: *positivism*, which supports objective knowledge based on observation; *constructivism*, which rejects the idea of objective knowledge, the evaluator assuming an interactive role; *realism*, which seeks to establish the causal mechanisms that generate change [1: 21-23]. In the specialized literature multiple purposes have been identified in order to conduct an evaluation: for developing a public policy, for improving a program or how an organization works, for developing knowledge, for highlighting good practices [2:11]. The evaluation is the one that provides the feedback on the implementation of the program. Hansen proposed three criteria that we must take them into account when determining which evaluation model is used, respectively: the purpose of the evaluation, the object of the evaluation and the type of problem to be solved by intervention [3:451]. Recent studies in the field of the impact assessment highlight four types of impact assessments: global cost assessment, public policy integration, sectoral assessment and justification of the assessment [4:6]. The approach taken in the impact assessment seeks to answer the following questions:

1. What are the intentional and unintended effects of the intervention?
2. What worked and what didn't work in implementation?
3. To what extent have the expected results been achieved?
4. To what extent is progress attributed solely to intervention?
5. What are the factors that influenced the results?

In the case of the impact assessments we can discuss the establishment of the effects produced by the program / policy, respectively whether the purpose and objectives of the program have been achieved and in what proportion. At the same time, the impact assessment considers the establishment of the intended and unintended effects that the implementation of the policy / program has produced. In carrying out the impact assessment, the measurement of the effects produced exclusively by the intervention represents the main challenge in the conditions in which the produced effects can be associated with other external causes.

3. Materials and Methods

The purpose of the research approach is to answer the question: To what extent has obtaining a financing through Cohesion Policy led to the increase of the competitiveness of the SMEs benefiting from funds for production / services?

For this, the results obtained during two financial years related to the implementation of Cohesion Policy in Romania, in the period between 2007 to present date will be analysed for those lines addressed to SME beneficiaries. The research methodology aims at the selection and analysis of those relevant implementation documents, respectively: the impact assessments performed for the 2 financial years, the period between 2007-2013 (extended until 31.12.2015) and 2014-2020 (data available until 2019). The financing lines concerned are those related to Cohesion Policy, respectively the operational programs that finance investments for production or services. At the level of the Regional Operational Program there were realized impact assessments for the field of intervention addressed to SMEs with production / service activity, both for the period between 2007-2013 and for the current programming period. At the level of SOP IEC there was only one mid-term evaluation carried out in 2010 which does not synthesize much data from the beneficiaries taking into account that the projects were still under evaluation so that the data presented were collected 2017 from the Final Report of implementation of SOP IEC a monitoring document and not evaluation.

The following documents were analyzed:

- Final implementation report of the Regional Operational Program 2007-2013 (March 2017).
- ROP impact assessment report 2007-2013, major area of intervention for SMEs (4.3.) Published in 2019.
- Final implementation report for the Operational Program Increasing Economic Competitiveness (2017).
- ROP evaluation report 2014-2020 Priority axis 2 (2019).

One of the most important constraint identified in the research is the lack of impact assessments carried out by the managing authorities of the operational programs, for each financing line addressed to the SME sector. At the same time, considering the positivist orientation of the evaluations carried out, especially those for the programming period 2007-2013, a limit of the research is given by the use of predominantly quantitative data, which can partially provide explanations on the effects of financing at the level of SMEs. Another limitation is related to the difficulty of separating the effects of financing from the effects generated by internal and external factors that act on the organization (market, changes in management, competition, legislation, etc.).

4. Results

4.1. Regional Operational Program 2007-2013

The Regional Operational Program 2007-2013 supported micro-enterprises (SMEs with 0-9 employees and a turnover of less than 2 million euros) for investments in equipment, technologies, IT equipment in order to increase competitiveness and productivity. The main results of the implementation of the program, at the level

of private beneficiaries aims:

- 5402 funding applications of which 2106 are signed contracts and 2101 are completed projects
- 9666 jobs created (an average of 4 jobs per project)
- 50-60% of the beneficiaries registered increases even 3 years after the end of the sustainability period
- 60% had an increase in turnover over 100% and gross profit by 54%, the largest increases being recorded by SMEs in the production and construction sector [5] (Savin, Strat, Perianu, Nănescu, 2019).

Most funding recipients come from less developed regions so we can conclude that the attractiveness of accessing funding is higher in regions where there are no other development opportunities. At the same time, a very small number of beneficiaries did not sign the financing contract or did not complete the implementation of the projects so we can consider that accessing the financing was represented mostly by the SMEs that received funding and reported a total increase in the number of jobs created after the sustainability period as a result the financing was an impetus for the development / expansion / growth of the activity. However, the increase in the number of employees is not correlated in the period of sustainability with an increase in financial level, as a result we can conclude that the income-expenditure ratio is still unbalanced entrepreneurs needing also new sources of financing. At the level of financial indicators, the micro-enterprises in the Bucharest-Ilfov region, the most developed region, has registered decreases, the conclusion being that obtaining the financing does not necessarily lead to the increase of competitiveness. At the level of the Bucharest-Ilfov region the concentration of a large number of micro-enterprises leads to increased competition as a result other internal conditions are needed to maintain competitiveness.

4.2. Operational Program Increasing Economic Competitiveness 2007-2013

The Operational Program Increasing Economic Competitiveness 2007-2013 (extended until December 31, 2015) provided support for SMEs for investments in production / services, internationalization, implementation of standards, information systems for business management, e-commerce systems.

The main results of the program at the level of the SME sector, aimed at:

- 6524 projects submitted, 2982 projects contracted and 22404 projects completed for investments in production / services
- 769 projects submitted for the implementation of international standards, of which 177 completed
- 281 projects submitted for internationalization, of which 55 completed
- 584 projects submitted for business management information systems, of which 483 completed
- 331 projects submitted for the implementation of e-commerce solutions, of which 272 completed.
- 14394 jobs created as a result of implementation
- The financing beneficiaries registered an average increase of the turnover by 959,243 lei annually [6].

Given that an impact assessment has not been carried out at the SOP IEC level no information is known on how to maintain the growth of financial indicators even after the sustainability period, when beneficiaries are no longer obliged to fulfil the contractual conditions (e.g. retention of employees, increase in turnover, etc.). Unlike

ROP funding, the large number of terminated contracts is mainly due to the lack of financial capacity to support co-financing of projects, as the amounts with which private beneficiaries had to contribute are significantly higher (between 30-50% of the total project value). Most of the projects were submitted by SMEs from regions with lower GDP, so that other local factors can intervene in maintaining long-term competitiveness, such as: lack of infrastructure, lack of skilled labor force, low purchasing power, etc. The jobs created did not contribute to reaching of the assumed indicator whose value was 23,000 new jobs created. This is due to the fact that most entrepreneurs have been cautious in reporting financial growth for the sustainability period.

4.3. Regional Operational Program 2014-2020

ROP 2014-2020 finances all investments related to improving the competitiveness of SMEs, respectively investments in infrastructure and facilities. Given the late launch of calls and the date of the last impact assessment, the results are partial and do not provide an overview of the impact.

The main results are aimed at:

- 395 projects contracted for micro-enterprises
- 1 contracted project for small and medium enterprises
- 1552 projects submitted by the end of 2018 [7:15].

The main indicators monitored at program level are the labor productivity measured as turnover / employee and the survival rate of micro-enterprises. The delayed launch of the financing lines has led to provisional results, the indicators will be reported towards the end financial year (including extensions), so that it will be difficult to launch additional measures or to allocate additional financial resources for the contracting of several projects. An important phenomenon is the "migration of funding demand": The SMEs from the developed region (without access to finance) are creating jobs in the less developed regions and thus obtain funding. Thus, the impact assessment must monitor the continuity of activity at local level and after the mandatory period of 3 years to determine whether the support measures have really led to increased regional competitiveness. Some of the SMEs that accessed financing in the period between 2014-2020 also benefited from financing in the previous financial year, as a result they have the necessary expertise for the successful implementation of projects, significantly reducing the risk of termination of financing contracts.

5. Conclusions

This paper aimed to examine the impact of financial instruments related to the Cohesion Policy in regards to the SMEs area in Romania. As a follow up of the documents analysis it can be concluded that there is no real interest at the level of the managing authorities in assessing the impact on private beneficiaries. In the period between 2007-2013 there were several operational programs for which no impact assessment was carried out so that the effects of funding can only be concluded on the basis of data available at the national level on the SMEs area. However, these data cannot be used to determine the impact of financial instruments related to Cohesion Policy. The indicators pursued at program / axis level focus on the jobs created, but it is not taken into account that at least in the productive sector the endowment is equivalent to automation and there is no real need to

create new jobs openings in order to operate the investment. Greater increases in financial indicators and the number of employees were recorded by micro enterprises (these being mostly established SMEs) as a natural consequence of the development of the activity. In contrast the older SMEs tend to maintain a slower growth rate with a stable staff structure. In regards to the national distribution of SMEs receiving funding, we can say that in the financial period between 2007-2013 the trend was for them to be predominant in the regions with lower GDP, while in the financial period between 2014-2020 they seem focused on regions with higher GDP (for example, the North West and West regions). This distribution is primarily due to co-financing quotas as well as the allocation of funds at regional level and does not necessarily reflect the development needs / opportunities identified at regional level. The orientation of SMEs is towards obtaining financing in infrastructure / equipment and less towards services that can become a competitive advantage such as the implementation of management systems, internationalization, digitalization of the activity. This trend was manifested in both funding periods, but the evaluations does not highlight the values of funding attracted for infrastructure / facilities, internationalization services, quality management services, etc., so that the impact on competitiveness can be estimated separately.

6. Recommendations

The highlighting of the financing effects on the SMEs from Romania can be achieved by implementing the following recommendations regarding the evaluation of the operational programs financed by the common policies of the European Union:

- Carrying out several ex-post evaluations, in order to highlight the effects generated at the level of beneficiaries, including after the end of the sustainability period;
- Clearer definition of program indicators and their monitoring after the sustainability period,
- The inclusion in the financing contract of some performance indicators that would provide information about the effects of the financing on the SME beneficiaries proving their effectiveness;
- Defining the indicators at the level of the operational program so that the impact generated by the financing can be separated from the one that would have been obtained by the SME through the current activity.

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