

Improving the Export Capacity of Small and Medium Enterprises by Adapting Financing

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Abstract: Our country has a relatively limited basis of exporting companies; among these, SMEs have a low percentage as compared to other EU countries. Romania has economic sectors with high potential for export, such as tourism, spa services, ecological farms, wine industry. Out of this point of view, it is important for the potential exporter to become a real and active one. Unfortunately, the banking sector is not adequately addressing the financing needs of existing exporters, not to mention the needs of aspiring and potential ones. This is a counterproductive situation, not favourable and encouraging for the development of SMEs and for the export activity.

Keywords: constraints, costs, financing, funds, export

1. Introduction

Small and Medium Enterprises (SMEs) are important not only from a social point of view, but also from an economic point of view. In Europe they represent 99% of the total number of companies and they offer around 65 million jobs, creating at the same time an innovative and entrepreneurial spirit.

2. SMEs as potential exporters

Our country has a relatively limited basis of exporting companies; among these, SMEs have a low percentage as compared to other EU countries. This fact generates issues regarding the ability of Romanian companies to face the challenges of globalization. For this particular reason, entrepreneurs need support for elaborating business plans on one hand, and, on the other hand, advice, training and border-in support for starting to export.

Romania has economic sectors with high potential for export, such as tourism, spa services, ecological farms, wine industry. Out of this point of view, it is important for the potential exporter to become a real and active one. The majority of constraints refer to the absence of know-how regarding international business, lack of knowledge regarding the advantages of exports, lack foreign language knowledge and a series of cultural barriers.

For this reason, increasing the number of companies by means of proper training and awareness raising campaigns in order to better reflect the advantages of exporting has become a major objective. Thus, it is necessary to cater to the needs of the potential exporters and to facilitate their access to activities meant to develop their competences. It is these potential exporters who need support and

encouragement in order to be prepared to access external markets; a minimum set of general support measures would include: commercial information about the opportunities of foreign markets; awareness raising campaigns and local meetings meant to encourage companies to become international, to expand outside the Romanian borders; identification of target markets and microeconomic assistance for entering these markets; general consultancy and evaluation of export capacity.

Moreover, in the case of potential exporters which might become active, some specialized services in specific sectors are necessary: clothing industry, furniture industry, wine industry, spa services, ecological farms. These producers need assistance in raising their production capacity and diversifying their products, and in encouraging business partnerships between producers and representatives of external markets. In addition, producers are in need of specific information on relevant topics such as international standards, industrial externalization, statistics regarding market conditions under the pressure of globalization and delocalization.

Furthermore, SMEs active in the IT domain have additional specific requirements: offering assistance to local enterprises in order to boost their ability to adapt to specific demands of clients, enhancing know-how and knowledge transfer between existing and potential exporters by means of sectorial associations, offering specific information regarding global opportunities for off-shore externalization.

As far as SMEs in the handicraft industry are concerned, the assistance needs refer to: enhancing business partnerships between existing and potential exporters, establishing a training institution for developing skills, especially for improving design skills, and adapting prices considering market conditions.

SMEs providing services require: awareness raising campaigns for identifying high potential services, dissemination of business success stories, offering specific information on the growth potential of these services and on market opportunities, supporting the establishment of export-oriented business associations.

3. Financial constraints for SMEs

Unfortunately, the banking sector is not adequately addressing the financing needs of existing exporters, not to mention the needs of aspiring and potential ones. This is a counterproductive situation, not favourable and encouraging for the development of SMEs and for the export activity.

Financially speaking, the following constraints for SMEs are to be mentioned: insufficient promotion of financial services offered to SMEs, such as mutual funds schemes, venture capital; inadequate access to financing for internal companies; relatively high transport costs due to insufficient infrastructure; insufficient foreign investments in this sector, a major source of management know-how, technology transfer and access to foreign markets; lack of high investments in the private sector; high costs for consultancy, business plan elaboration, risk management, financial management, export management; high financing costs of commercial banks, as opposed to the costs in other countries; low income level, leading to the population's preference for cheap, poor quality products.

Proper export financing requires a friendly financial sector, capable of contributing to a high national competitiveness. Therefore, a partnership, a balanced structural dialogue and correspondent initiatives are needed. These prerequisites can be met by applying relevant and realistic strategies, which have to bring together banks, exporters, banking associations, the public sector, companies and any other interested parties. A series of essential objectives can be drawn out: raising the ration of budgetary resources used to finance promotion and to support exports; facilitating the access to export loans; an

enhanced dialogue and better communication and cooperation between banks, insurance companies and exporters; improved ability of risk management.

4. Adapting SMEs financing

When choosing a financing source, SMEs have to consider the following aspects: the appropriate financing type for the business objectives; the amount of financing needed in order to meet the business requirements; a personal evaluation of the company in order to assess the business capacity for accessing and repaying financing.

In practice, the following factors are to be taken into account:

- Associated financing costs

Different types of financing imply different costs, such as financing service costs; such costs are interest rates, flat taxes, commissions, but also the anticipated cost including all costs due before the financing approval (e.g. asset evaluation, taxes for application processing, forms, authorization costs, approval costs, fiscal and judiciary taxes).

- Fund availability

The business requires funds according to its plans; therefore, when choosing a financing source, the availability of funds, the length of the approval period and the repayment type should be considered.

- Terms of financing

This refers to taking into account several issues when applying for financing:

- eligibility conditions;
- size of financing, which has to meet the actual needs of the company;
- existence and type of required guarantees and the evaluation procedure; costs are lower for companies who have their own guarantees, as opposed to those companies who have to resort to the help of a guarantee fund;
- loan and grace periods should be checked for compatibility with the type and development of business and the possibility of repaying the loan;
- interest rate, which may be fixed or variable;
- currency; a loan in a foreign currency makes export more profitable for companies, as the risks and costs of currency exchange can be avoided;
- repayment flexibility; in the case of long term loans for companies with season activities, which might not have constant incomes, there is a possibility of difficulties in repaying the loan in monthly or quarterly instalments; such cases require flexibility of repayment, such as allowing for repayment at the end of the loan period.

- Personal evaluation of the company

This directly implies the size of the company and its ability to access financing, its dividend policy (external co-financing for the current activity if the stockholders reinvest the profit), the availability of the stockholders to allow for the lender's participation in the management of the company, the future plans and the development strategies of the company (e.g. investment plans, new market development, new product development).

- Utility of financing

When seeking financing, SMEs must be aware of the exact purpose of the investment and its effect on the growth of the company. Thus, the entrepreneur should evaluate the financing offer in relationship to the company's development and ability to repay the loan after a prefixed instalment plan (loan, leasing), to the company's financial forecast, i.e. the management policy regarding collecting money from clients and paying suppliers. These factors determine the company's ability to repay the loan or to access new financing resources, after the former have been repaid.

An aspect which is often omitted by borrowers and lenders alike is the fact that financing an SME is a sale activity for the lender. The entrepreneurs with new companies have to sell their business' potential and viability to the bankers. The better information and facts the entrepreneurs provide to prove the credibility of their business, the easier and faster it is for them to receive an approval for financing. Required information should be quickly provided in an easy to understand form. Moreover, a well prepared business plan and a solid base of company assets may be of interest to a lender, even in the case of new companies.

There are four money-related key questions each banker or lender wants to receive answers to: What is the money needed for?, How much money is there needed?, When and how will the loan be repaid?, What form of loan?.

In other words, the potential lender wants to know how the money will be used and if the use matches the needs of the company. Another area of interest for the lender is if the business is capable of generating enough revenue to repay the loan, even in case of unfavourable market conditions. Answering these questions helps determine the appropriate type of loan and the terms which cater to the specific needs of the SME.

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The lender's requirements are made visible by means of the evaluation process (based on the five features of a loan: character, capacity, assets, conditions, guarantees), analysis process, decision to lend, contract negotiation.

The basic principles of SME financing have been developed during the over 20-year experience, to which the most significant contributions was brought by International Financial Institutions (IFIs) and by SME financing programmes of commercial banks all over the world. During the last 20 years, Romania has benefited from such programmes organized by different government agencies and organizations of the private sector. The cornerstone of the financing principles is the set of objectives of SME financing:

- The business environment

The key to a successful SME is creating a favourable business environment with a low degree of bureaucracy for SMEs and with a tax structure based more on incentives, rather than on obstacles. A business environment which is favourable for the development of the sector would lead to a stable and solid legislation regarding SMEs.

- Access to assets

Obtaining reliable long-term financing sources based on reasonable terms and conditions represents an important condition for the development of SMEs. Access to assets should be as transparent as possible and should be brought to the attention of all possible SME applicants by advertising in various media of the public and private sectors.

- Information and technology

Gaining access to the Internet and to a world of business-related information may help SMEs located in small cities gain knowledge of the industry and identify potential business partners. This enables SMEs to develop and to defend their existing local markets against internal and external competitors.

- Gaining capacity

The growth of the SME sector relies heavily on working with local organizations to enhance the management and financial abilities and the capacity of financial institutions, consultancy companies, regional development agencies and other such institutions. The more efficient the institutional SME financing distribution system is, the higher success chances the SMEs have.

A counter-guarantee improves the chances of a SME of receiving a loan, while offering the banks the opportunity to develop their portfolio and instruments at a lower credit risk. To meet this requirement, the Romanian Counter-Guarantee Fund has been established in order to counter-guarantee the guarantees offered by guarantee funds, Romanian legal persons, for the loans and other types financing SMEs obtained from credit institutions. The role of the Fund is to improve SMEs' access to financing by taking over a part of the risk guarantee funds take, resulting in their gaining capacity to offer guarantees.

Simultaneously, there is the purpose of enhancing the confidence of banks and other lenders in the solidity and financial standing of guarantee funds in order to stimulate the financial market's potential of developing the SME sector and the business sector in general. This would lead to direct effects such as job stability, growing export rate, higher rate of European fund absorption, diminishing effects of the economic crisis and resuming economic growth.

5. Conclusions

SMEs have to make a thorough selection when choosing to work with a certain bank, to be aware of the bank's procedure of determining asset requirements and to know what indicators are used for the credit risk assessment.

The main function of a counter-guarantee is to support the sustainable functioning of the financial and banking market and of guarantee funds, and, by this means, to develop and ease the access of SMEs to financing, using methods specific for guarantee and counter-guarantee.

In order to adequately finance export, the financial sector must be user-friendly and prove a capacity of contributing to the growth of national competitiveness.

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